



**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 2009**

\* For identification purpose only

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

Ms. Cheung Yan, Priscilla, *Chairman*  
Ms. Cheung Man, Catherine  
Mr. Hui Kwok Chu, *Chief Executive Officer*  
Mr. Sham Lok Shing, Edward

**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

**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  
Wanchai, Hong Kong

**PRINCIPAL BANKERS**

Fubon Bank (Hong Kong) Limited  
Guangdong Development Bank  
Zhongshan Branch  
Agricultural Bank of China Zhongshan  
ShiQi Subbranch

**WEBSITE**

[www.sewco.com.hk](http://www.sewco.com.hk)

For the six months ended 30 June 2009 **CONDENSED CONSOLIDATED INCOME STATEMENT**

	Notes	For the six months ended 30 June	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
REVENUE	4	<b>146,141</b>	400,694
Cost of sales		<b>(124,652)</b>	(381,142)
Gross profit		<b>21,489</b>	19,552
Other income		<b>4,461</b>	3,641
Selling and distribution costs		<b>(4,813)</b>	(18,924)
Administrative expenses		<b>(18,763)</b>	(33,679)
Other operating income		<b>350</b>	3,812
Finance costs	6	<b>(1,678)</b>	(1,452)
Share of losses of associates		–	(3,997)
PROFIT/(LOSS) BEFORE TAX	5	<b>1,046</b>	(31,047)
Tax	7	<b>(228)</b>	31
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		<b>818</b>	(31,016)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic	8	<b>HK0.18 cent</b>	(HK6.96 cents)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** For the six months ended 30 June 2009

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	<b>818</b>	(31,016)
Other comprehensive income/(loss):		
Exchange differences on translating foreign operations	<b>59</b>	7,964
Cash flow hedges	–	(2,123)
Income tax relating to components of other comprehensive income	–	–
Other comprehensive income, net of tax	<b>59</b>	5,841
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	<b>877</b>	(25,175)

30 June 2009 **CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		<b>30 June 2009</b>	31 December 2008
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>164,291</b>	168,909
Deposit for items of property, plant and equipment		<b>2,232</b>	2,015
Prepaid land premiums		<b>9,667</b>	9,805
Interests in associates	9	–	–
Other intangible asset		<b>600</b>	600
Loan receivable		<b>305</b>	395
Total non-current assets		<b>177,095</b>	181,724
<b>CURRENT ASSETS</b>			
Inventories	10	<b>80,147</b>	103,706
Prepaid land premiums		<b>270</b>	265
Trade receivables	11	<b>36,492</b>	60,034
Prepayments, deposits and other receivables		<b>5,599</b>	16,617
Loan receivable		<b>180</b>	180
Cash and cash equivalents	12	<b>32,291</b>	21,447
Total current assets		<b>154,979</b>	202,249
<b>CURRENT LIABILITIES</b>			
Trade payables	13	<b>50,640</b>	97,673
Other payables and accruals		<b>28,729</b>	35,937
Derivative financial instruments	14	–	349
Interest-bearing bank loans		<b>81,827</b>	79,412
Tax payable		<b>887</b>	1,512
Total current liabilities		<b>162,083</b>	214,883
<b>NET CURRENT LIABILITIES</b>		<b>(7,104)</b>	(12,634)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>169,991</b>	169,090
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>1,843</b>	1,819
Total non-current liabilities		<b>1,843</b>	1,819
<b>Net assets</b>		<b>168,148</b>	167,271

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** 30 June 2009

		<b>30 June 2009</b>	31 December 2008
	<i>Note</i>	<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Audited)
EQUITY ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Issued capital	15	<b>44,543</b>	44,543
Reserves		<b>123,605</b>	122,728
Total equity		<b>168,148</b>	167,271

**Cheung Yan, Priscilla***Director***Cheung Man, Catherine***Director*

For the six months ended 30 June 2009 **CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium account	Asset revaluation reserve	Statutory reserve fund*	Exchange fluctuation reserve	Hedging reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)								
At 1 January 2009	44,543	20,912	48,765	5,664	24,453	-	22,934	167,271
Total comprehensive income/(loss) for the period	-	-	-	-	59	-	818	877
Transfer to retained profits	-	-	(682)	-	-	-	682	-
At 30 June 2009	44,543	20,912	48,083	5,664	24,512	-	24,434	168,148
(Unaudited)								
At 1 January 2008	44,543	20,912	51,062	5,654	15,817	-	106,113	244,101
Total comprehensive income/(loss) for the period	-	-	-	-	7,964	(2,123)	(31,016)	(25,175)
Transfer to retained profits	-	-	(388)	-	-	-	388	-
At 30 June 2008	44,543	20,912	50,674	5,654	23,781	(2,123)	75,485	218,926

\* 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.



**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS** For the six months ended 30 June 2009

	<b>For the six months ended</b>	
	<b>30 June</b>	
<i>Note</i>	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	<b>9,404</b>	(40,619)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(970)</b>	(2,778)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<b>2,400</b>	24,190
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>10,834</b>	(19,207)
Exchange gain from re-translating cash and cash equivalents	<b>10</b>	1,240
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>21,447</b>	31,796
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>32,291</b>	13,829
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>32,291</b>	13,829
	<b>32,291</b>	13,829

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****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 under review, the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) were engaged in the manufacture and trading of toys.

In the opinion of the directors, the ultimate holding company of the Company as at 30 June 2009 was Great Victory International Inc., a company incorporated in the British Virgin Islands.

On 13 August 2009, Great Victory International Inc. entered into an agreement (the “S&P Agreement”) with Right Perfect Limited, a company incorporated in the British Virgin Islands, for the sale and purchase of 300,000,000 shares of the Company (representing 67.35% of the total issued share capital of the Company as at the date of the S&P Agreement) for a consideration of HK\$120,000,000, subject to fulfilment of certain conditions disclosed in the Company’s announcement dated 24 August 2009. The S&P Agreement was completed on 26 August 2009 and Right Perfect Limited became the holding company of the Company. In the opinion of the directors, the ultimate holding company of the Company as at the date of this report is Smart Legend Holdings Limited, a company incorporated in the British Virgin Islands and owns all the issued share capital in Right Perfect Limited.

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**

These 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 to 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 these 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 2008 except as described in note 3 below.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2008.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**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 2009:

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC) – Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC) – Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC) – Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

The adoption of the new HKFRSs has no material impact on these condensed consolidated financial statements except that the adoption of HKFRS 8 and HKAS 1 (Revised) resulted in new or amended disclosures. 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.

**4. SEGMENT INFORMATION****(a) Revenue by Operating Segments**

The Group has only one reportable segment engaged in the manufacture and trading of toys. Revenue and profit before tax are the two key indicators provided to the Group's chief operating decision maker to make decisions about resources allocation and assess performance. The following table presents the Group's revenue regarding the reportable segment for the six months ended 30 June 2009 and 2008.

	<b>Consolidated</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Revenue from the manufacture and trading of toys:		
Sales to external customers	<b>146,141</b>	400,694

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 4. SEGMENT INFORMATION (continued)

## (b) Revenue by Geographical Locations

The Group attributed its revenue to the location of its customers. The following table presents the Group's revenue information regarding geographical segments for the six months ended 30 June 2009 and 2008.

	USA and Canada		Japan and others		Hong Kong and Mainland China		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from the manufacture and trading of toys:								
Sales to external customers	100,843	324,453	43,939	67,525	1,359	8,716	146,141	400,694

## (c) Revenue by Major Customers

The following table presents the Group's revenue information by major customers for the six months ended 30 June 2009 and 2008.

	Consolidated	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
First largest customer	62,524	163,735
Second largest customer	43,871	134,283
Third largest customer	35,393	65,703
Other**	4,353	36,973
Total	146,141	400,694

\*\* These include sum of all other customers who accounted for less than 10% of total revenue individually.

## (d) Non-current Assets by Geographical Locations

The Group's non-current assets of HK\$177,095,000 at 30 June 2009 and HK\$181,724,000 at 31 December 2008 were both situated in the Hong Kong and Mainland China region.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 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	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	117,115	376,912
Provision for obsolete inventories	7,537	4,230
Depreciation***	5,562	5,853
Recognition of prepaid land premiums	135	134
Loss on disposal of items of property, plant and equipment, net	55	–
Interest income	(28)	(118)
Fair value gain (net) on derivative financial instruments	(349)	(2,195)

\*\*\* Depreciation of HK\$2,271,000 (2008: HK\$2,566,000) was also included in "Cost of inventories sold".

## 6. FINANCE COSTS

	For the six months ended	
	30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expense on bank overdraft and bank loans wholly repayable within five years	1,678	1,418
Other interest expenses	–	34
	1,678	1,452

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**7. TAX**

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Current income tax		
– Hong Kong	<b>15</b>	17
– Mainland China	<b>189</b>	922
Overprovision in prior years – Hong Kong	–	(1,087)
	<b>204</b>	(148)
Deferred income tax		
– Mainland China	<b>24</b>	117
Total tax charge/(credit) for the period	<b>228</b>	(31)

**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 2009 is based on the profit attributable to ordinary equity holders of the parent for the period of HK\$818,000 (2008: loss attributable to ordinary equity holders of the parent of HK\$31,016,000) and the weighted average of 445,430,000 ordinary shares in issue during the period (2008: 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

## 9. INTERESTS IN ASSOCIATES

	<b>30 June</b>	31 December
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Share of net (liabilities)/assets	–	–
Goodwill on acquisition	<b>4,964</b>	4,964
	<b>4,964</b>	4,964
Provision for impairment	<b>(4,964)</b>	(4,964)
	–	–

The Group's trade receivable from the associates are disclosed in note 11 to the financial statements.

The Group has discontinued the recognition of its share of losses of its associates because the share of losses of these associates exceeded the Group's interests in these associates. Full impairment had been made as these associates were in financial difficulty. The associates have been in the process of creditors' voluntary liquidation since 28 April 2009.

## 10. INVENTORIES

	<b>30 June</b>	31 December
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Raw materials	<b>31,621</b>	47,737
Work in progress	<b>33,271</b>	36,948
Finished goods	<b>15,255</b>	19,021
	<b>80,147</b>	103,706

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 11. TRADE RECEIVABLES

	<b>30 June 2009 HK\$'000 (Unaudited)</b>	31 December 2008 HK\$'000 (Audited)
Trade receivables	<b>51,476</b>	75,018
Impairment	<b>(14,984)</b>	(14,984)
	<b>36,492</b>	60,034

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.

Included in the Group's trade receivables is an amount due from an associate of HK\$14,984,000 (31 December 2008: HK\$14,984,000), which is repayable on similar credit terms to those offered to the major customers of the Group. The amount due from the associate is not expected to be recovered and provision for impairment of HK\$14,984,000 (31 December 2008: HK\$14,984,000) has been made. The associate has been in the process of creditors' voluntary liquidation since 28 April 2009.

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

	<b>30 June 2009 HK\$'000 (Unaudited)</b>	31 December 2008 HK\$'000 (Audited)
Current to 30 days	<b>26,714</b>	41,328
31 to 90 days	<b>6,461</b>	16,163
Over 90 days	<b>3,317</b>	2,543
	<b>36,492</b>	60,034

## 12. CASH AND CASH EQUIVALENTS

	<b>30 June 2009 HK\$'000 (Unaudited)</b>	31 December 2008 HK\$'000 (Audited)
Cash and bank balances	<b>32,291</b>	21,447



## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 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 2009 HK\$'000 (Unaudited)</b>	31 December 2008 HK\$'000 (Audited)
Current to 30 days	<b>24,503</b>	34,466
31 to 90 days	<b>16,387</b>	39,210
Over 90 days	<b>9,750</b>	23,997
	<b>50,640</b>	97,673

The trade payables are non-interest-bearing.

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>30 June 2009 HK\$'000 (Unaudited)</b>	31 December 2008 HK\$'000 (Audited)
Forward currency contracts – held for trading	–	349

## 15. SHARE CAPITAL

	<b>30 June 2009 HK\$'000 (Unaudited)</b>	31 December 2008 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 (2008: 445,430,000) ordinary shares of HK\$0.10 each	<b>44,543</b>	44,543

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****15. 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.

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

**16. CONTINGENT LIABILITIES**

At the balance sheet date, the Company had provided corporate guarantee of HK\$22,700,000 (31 December 2008: HK\$115,100,000) to a bank in respect of banking facilities granted to its subsidiaries. As at 30 June 2009, banking facilities amounting to HK\$13,220,000 (31 December 2008: HK\$19,696,000) were utilized by the subsidiaries.

**17. COMMITMENTS**

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

	<b>30 June 2009 HK\$'000 (Unaudited)</b>	31 December 2008 HK\$'000 (Audited)
Contracted for:		
Office equipment	<b>868</b>	1,085

## 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:

		For the six months ended 30 June	
		2009	2008
	Notes	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)	–	7,080

## 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, the controlling shareholder and consultant of the Company as at the end of this interim period, 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 constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules and are fully exempt from all the reporting, announcement and independent shareholders' approval requirements pursuant to the Listing Rules.

(b) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	2,126	1,855
Post-employment benefits	75	67
Total compensation paid to key management personnel	2,201	1,922

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 18. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties

	Notes	Due from related parties		Due to related parties	
		30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Associate	(i)	14,984	14,984	-	-
A company in which the Company's controlling shareholder (as at 30 June 2009) 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. The amount due from the associate is not expected to be recovered and full provision for impairment has been made as the associate is in the process of winding up.
- (ii) Mr. Cheung Po Lun, the controlling shareholder and consultant of the Company as at the end of this interim period, 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.

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****19. POST BALANCE SHEET EVENTS**

On 20 August 2009, the Company entered into (i) a placing agreement with Taifook Securities Company Limited and (ii) a subscription agreement with Right Perfect Limited for the proposed issue of convertible bonds in an aggregate principal amount of up to HK\$250,000,000, convertible into up to 657,894,736 shares of HK\$0.10 each of the Company at the initial conversion price of HK\$0.38 per share. As a condition precedent to the issue of such convertible bonds, it is proposed to increase the authorised share capital of the Company from HK\$100,000,000 divided into 1,000,000,000 shares of HK\$0.10 each to HK\$700,000,000 divided into 7,000,000,000 shares of HK\$0.10 each. A special general meeting will be held to seek shareholders' approval on, among other things, the proposed issue of the convertible bonds and increase in authorised share capital.

On 26 August 2009, Right Perfect Limited became the controlling shareholder of the Company as a result of its acquisition of 300,000,000 shares of the Company. Taifook Securities Company Limited is making a mandatory unconditional cash offer on behalf of Right Perfect Limited for all the issued share capital of the Company (including the new shares issued on 11 September 2009) other than those already owned or agreed to be acquired by Right Perfect Limited and parties acting in concert with it, pursuant to Rule 26.1 of the Code on Takeovers and Mergers. The offer document, together with the form of acceptance, have been despatched to the shareholders of the Company. The board of directors of the Company (the "Board") is preparing an offeree board circular in response to the offer document, which is expected to be despatched to the Company's shareholders on or before 28 September 2009.

On 11 September 2009, the Company issued 89,084,000 shares of HK\$0.10 each pursuant to a placing agreement dated 1 September 2009 entered into between the Company and Get Nice Securities Limited, raising net proceeds of approximately HK\$42.6 million. The Company plans to use such net proceeds for general working capital and opportunistic investments if suitable opportunities to do so arise in the future.

**20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS**

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 21 September 2009.

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

The Group's turnover for the six months ended 30 June 2009 dropped by 64% to HK\$146,141,000. Gross profit for the same period increased to HK\$21,489,000 (2008: HK\$19,552,000). Despite a significant drop in turnover, the Group was able to maintain a healthy gross profit margin due to better control of overheads, drop in raw material prices and the increase in export tax refund rate in Mainland China from 11% to 14% since November 2008.

For the six months ended 30 June 2009, selling and distribution costs dropped to HK\$4,813,000 (2008: HK\$18,924,000) and administrative expenses dropped to HK\$18,763,000 (2008: HK\$33,679,000). The drop in expenses was the result of a drop in turnover and significant reduction of costs at the end of 2008.

The Group's associated companies are in the process of creditors' voluntary liquidation and the Group's investments in the associated companies had been fully impaired in 2008. Therefore there was no share of losses of associates this year.

As a result, the Group achieved a profit attributable to ordinary equity holders of HK\$818,000 for the six months ended 30 June 2009 (2008: loss of HK\$31,016,000).

As at 30 June 2009, cash and cash equivalents amounted to HK\$32,291,000 (31 December 2008: HK\$21,447,000) and bank borrowings amounted to HK\$81,827,000 (31 December 2008: HK\$79,412,000). As at 30 June 2009, the Group's net current liabilities amounted to HK\$7,104,000 (31 December 2008: HK\$12,634,000), comprising current assets of HK\$154,979,000 (31 December 2008: HK\$202,249,000) and current liabilities of HK\$162,083,000 (31 December 2008: HK\$214,883,000), and representing a current ratio of 0.96 (31 December 2008: 0.94). The drop in current assets and current liabilities mainly resulted from the drop in business activities in the first half of 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group finances its operations through a combination of bank financing and shareholders' equity. 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 2009 was calculated as follows:

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Interest-bearing bank loans	<b>81,827</b>	79,412
Trade payables	<b>50,640</b>	97,673
Other payables and accruals	<b>28,729</b>	35,937
Less: Cash and cash equivalents	<b>(32,291)</b>	(21,447)
Net debt	<b>128,905</b>	191,575
Equity attributable to ordinary equity holders	<b>168,148</b>	167,271
Capital and net debt	<b>297,053</b>	358,846
Gearing ratio	<b>43%</b>	53%

The Group faces significant risk from exchange fluctuations of Renminbi ("RMB") and will begin to hedge its exposure through forward exchange contracts when the fluctuations are expected to be significant. 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 2009 (2008: Nil).

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

The Group was successful in turning the business around following two years of heavy losses, thanks to aggressive efforts that began in late 2008 to control costs, reduce inventories and improve operational efficiency. The Group's margins were also helped by significantly lower material costs and a freeze in the increase in labour costs and the appreciation of RMB against the US dollar amid the global economic downturn. Even though turnover dropped significantly, the Group swung from a full-year loss of HK\$84,274,000 in 2008 to a modest profit of HK\$818,000 for the six months ended 30 June 2009.

Looking ahead, turnover is expected to rise in the third quarter but slow down in the fourth quarter and the first half of 2010 as retailers remain cautious over consumer confidence and the pace of economic recovery. The Group is optimistic that sales will rise in 2010 as economic recovery gathers pace.

The Group sees unique opportunities to consolidate its position as a premier toy manufacturer as the toy industry continues to evolve in the aftermath of the Mattel Inc.'s global toy recalls in 2007. The global industry has become more regulated than ever following the recalls, with the US government and major retailers imposing ever-more stringent quality standards. These developments favour larger, reputable manufacturers as the new requirements, coupled with the financial downturn that dried up credit and sales, wiped out smaller manufacturers in Mainland China and buyers seek to reduce risk by consolidating their vendor base.

With this in mind, the Group will continue to invest in quality and plan to expand its internal laboratory to test for heavy and toxic elements due to continuous demands from new and enhanced regulations. It has applied for certification by the Chinese government safety agency. Meanwhile, the Group will continue to upgrade its equipment and facilities to improve efficiency and ensure compliance with current safety and environmental standards.

It is the Group's belief that continuous investment in facilities is key to success and sustainability in the manufacturing industry. The Group is evaluating the options of rebuilding a section of its manufacturing site in Zhongshan into modern multi-storey production facilities, or finding a new location outside the Guangdong province that can offer more competitive labour costs.

In relation to the above, the Company entered into the placing and subscription agreements of convertible bonds and placed new shares, as described in note 19 to the unaudited condensed consolidated interim financial statements headed "Post Balance Sheet Events", to improve its working capital, finance its capacity expansion and other assets replacements, and any opportunistic investments that may arise in the future.



**MANAGEMENT DISCUSSION AND ANALYSIS****CONTINGENT LIABILITIES**

Details of the contingent liabilities of the Company and the Group as at 30 June 2009 are disclosed in note 16 to these interim financial statements.

**CHARGE ON ASSETS**

As at 30 June 2009, certain of the Group's leasehold land and buildings with a net book value of HK\$141,294,000 (31 December 2008: HK\$143,220,000) were pledged to secure general banking facilities granted to the Group.

**EMPLOYEES**

As at 30 June 2009, the Group had a total of approximately 5,900 (31 December 2008: 8,500) 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 2009, 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").

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

As at 30 June 2009, the following parties had interests of 5% or more in the shares of the Company according to the register of interests 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 <sup>#</sup> of the Company's issued share capital
Great Victory International Inc. ("Great Victory")	Long	Beneficial owner	300,000,000	1	67.35%
Mr. Cheung Po Lun	Long	Interest held by a controlled corporation	300,000,000	2	67.35%
Ms. Fung Wai Chi	Long	Interest of spouse	300,000,000	3	67.35%

*Notes:*

- Subsequent to the end of this interim period, Great Victory entered into an agreement dated 13 August 2009 with Right Perfect Limited ("Right Perfect"), pursuant to which Great Victory agreed to sell and Right Perfect agreed to acquire all these 300,000,000 ordinary shares of the Company and such transaction was completed on 26 August 2009. Accordingly, Great Victory ceased to be interested in these shares and Right Perfect became interested in these shares on 26 August 2009.
- As at 30 June 2009, Mr. Cheung Po Lun was deemed to be interested in 300,000,000 ordinary shares of the Company which were held by Great Victory, a controlled corporation of Mr. Cheung pursuant to the SFO.
- As at 30 June 2009, 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.

<sup>#</sup> The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2009.

Save as disclosed above, as at 30 June 2009, 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.

### UPDATE ON DIRECTORS' INFORMATION

The followings are updated information of directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

- Mr. Cheung Po Lun, the father of Ms. Cheung Yan, Priscilla and Ms. Cheung Man, Catherine, executive directors of the Company, has ceased to be the controlling shareholder of the Company with effect from 26 August 2009.
- Mr. Lam Chin Fung, an independent non-executive director of the Company, has ceased to be the sales director of a company in the business of securities dealing and margin financing since April 2009.

### 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 to 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 confirmed their compliance 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 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 2009.

### 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 2009.

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

Hong Kong, 21 September 2009