Sewco Toys

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 2010

* For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Director

Mr. Sue Ka Lok *(Chairman)*

Executive Directors

Mr. Lo Ming Chi, Charles
(Chief Executive Officer)
Ms. Chan Yuk Yee
Ms. Wang Jingyu

Independent Non-executive Directors

Mr. Kwok Ming Fai
Mr. Wong Kwok Tai
Ms. Leung Pik Har, Christine

AUDIT COMMITTEE

Mr. Wong Kwok Tai *(Chairman)*
Mr. Kwok Ming Fai
Ms. Leung Pik Har, Christine

REMUNERATION COMMITTEE

Mr. Lo Ming Chi, Charles *(Chairman)*
Mr. Kwok Ming Fai
Mr. Wong Kwok Tai
Ms. Leung Pik Har, Christine

COMPANY SECRETARY

Ms. Chan Yuk Yee

TRADING OF SHARES

The Stock Exchange of Hong Kong Limited
(Stock Code: 209)

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

PRINCIPAL BANKERS

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

AUDITORS

Ernst & Young
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (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

WEBSITE

www.sewco.com.hk

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
REVENUE	*4*	**119,218**	146,141
Cost of sales		**(104,840)**	(124,652)
Gross profit		**14,378**	21,489
Other income		**3,813**	4,461
Selling and distribution costs		**(4,780)**	(4,813)
Administrative expenses		**(22,997)**	(18,763)
Other operating (expenses)/income, net		**(82)**	350
Finance costs	*6*	**(2,261)**	(1,678)
(LOSS)/PROFIT BEFORE TAX	*5*	**(11,929)**	1,046
Income tax expenses	*7*	**(288)**	(228)
(LOSS)/PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**(12,217)**	818
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY – basic	*8*	**(HK1.24 cents)**	HK0.18 cent

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(LOSS)/PROFIT FOR THE PERIOD	**(12,217)**	818
Other comprehensive income:		
Exchange differences on translating foreign operations	**1,346**	59
Income tax effect	**–**	–
Other comprehensive income for the period, net of tax	**1,346**	59
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**(10,871)**	877

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2010 HK$'000 (Unaudited)	As at 31 December 2009 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**159,513**	158,037
Deposit for items of property, plant and equipment		**581**	1,646
Prepaid land premiums		**9,444**	9,541
Interests in associates	*9*	**–**	–
Other intangible asset		**450**	450
Loan receivable		**125**	215
Total non-current assets		**170,113**	169,889
CURRENT ASSETS			
Inventories	*10*	**92,339**	36,761
Property held for sale		**–**	4,400
Prepaid land premiums		**267**	266
Trade receivables	*11*	**36,464**	31,969
Prepayments, deposits and other receivables		**5,348**	5,773
Loan receivable		**180**	180
Cash and cash equivalents	*12*	**386,337**	62,207
Total current assets		**520,935**	141,556
CURRENT LIABILITIES			
Trade payables	*13*	**60,562**	33,801
Other payables and accruals		**32,145**	36,137
Interest-bearing bank loans		**61,386**	45,387
Tax payable		**1,596**	1,775
Total current liabilities		**155,689**	117,100
NET CURRENT ASSETS		**365,246**	24,456
TOTAL ASSETS LESS CURRENT LIABILITIES		**535,359**	194,345
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,735**	1,702
Total non-current liabilities		**1,735**	1,702
Net assets		**533,624**	192,643

	Note	**As at 30 June 2010 HK$'000 (Unaudited)**	As at 31 December 2009 HK$'000 (Audited)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued capital	*15*	**129,841**	53,451
Reserves		**403,783**	139,192
Total equity		**533,624**	192,643

	Attributable to equity holders of the Company							
	Issued capital	Share premium account	Asset revaluation reserve	Statutory reserve fund*	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Equity component of convertible bonds	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
(Unaudited)								
At 1 January 2010	53,451	54,590	46,640	6,408	24,740	6,814	–	192,643
Total comprehensive loss for the period	–	–	–	–	1,346	(12,217)	–	(10,871)
Issue of shares (Note 15)	10,600	95,400	–	–	–	–	–	106,000
Issue of convertible bonds (Note 14)	–	–	–	–	–	–	10,545	10,545
Conversion of convertible bonds (Notes 14 and 15)	65,790	182,192	–	–	–	–	(10,545)	237,437
Share issue expenses (Note 15)	–	(2,130)	–	–	–	–	–	(2,130)
Revaluation released	–	–	(615)	–	–	615	–	–
At 30 June 2010	129,841	330,052	46,025	6,408	26,086	(4,788)	–	533,624
(Unaudited)								
At 1 January 2009	44,543	20,912	48,765	5,664	24,453	22,934	–	167,271
Total comprehensive income for the period	–	–	–	–	59	818	–	877
Revaluation released	–	–	(682)	–	–	682	–	–
At 30 June 2009	44,543	20,912	48,083	5,664	24,512	24,434	–	168,148

* 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 2010

		For the six months ended 30 June	
		2010	2009
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		**(45,110)**	9,404
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		**1,855**	(970)
NET CASH INFLOW FROM FINANCING ACTIVITIES		**367,269**	2,400
NET INCREASE IN CASH AND CASH EQUIVALENTS		**324,014**	10,834
Exchange gain from re-translating cash and cash equivalents		**116**	10
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**62,207**	21,447
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**386,337**	32,291
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*12*	**386,337**	32,291
		386,337	32,291

1. CORPORATE INFORMATION

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

During the period under review, the Company and its subsidiaries (the "Group") were engaged in the manufacturing and trading of hard and stuffed toys.

As at 30 June 2010, the holding company of the Company is Right Perfect Limited ("Right Perfect"), a company incorporated in the British Virgin Islands. In the opinion of the directors, as at 30 June 2010, the ultimate holding company of the Company was Smart Legend Holdings Limited, a company incorporated in the British Virgin Islands, which owns the entire equity interest in Right Perfect.

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 of Hong Kong Limited (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 2009 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 2009.

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 2010:

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendments	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary
HK Interpretation 4 (Revised in December 2009)	Lease – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of these new and revised HKFRSs has had no significant financial effect on these condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective in these financial statements. 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. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable segment, which is the manufacturing and trading of toys. Revenue and operating results are the two key indicators provided to the Group's chief operating decision maker to make decisions about resource allocation and assess performance.

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The United States of America and Canada	**100,538**	100,843
Japan	**13,995**	43,939
Hong Kong and Mainland China	**4,685**	1,359
	119,218	146,141

The revenue information above is based on the location of the customers.

(b) Non-current assets

	30 June	31 December
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Hong Kong	**16,053**	18,952
Mainland China	**154,060**	150,937
	170,113	169,889

The non-current asset information above is based on the location of assets.

4. OPERATING SEGMENT INFORMATION (continued)

Information about major customers

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The largest customer	**87,517**	62,524
Second largest customer	**13,416**	43,871
Third largest customer	**6,957**	35,393
Other*	**11,328**	4,353
Total	**119,218**	146,141

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

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	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**104,088**	117,115
Provision for obsolete inventories	**752**	7,537
Depreciation*	**5,244**	5,562
Recognition of prepaid land premiums	**135**	135
Loss on disposal of items of property, plant and equipment, net	**82**	55
Gain on disposal of property held for sale	**1,654**	–
Interest income	**(280)**	(28)
Fair value gain:		
Derivative instruments – transactions not qualifying as hedges**	**–**	(349)

* Depreciation of HK$1,824,000 (2009: HK$2,271,000) was also included in "Cost of inventories sold".

** This item is included in "Other operating income" in the consolidated income statement.

6. FINANCE COSTS

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank loans and overdrafts wholly repayable within five years	**878**	1,678
Convertible bond interest expenses (Note 14)	**1,326**	–
Others	**57**	–
	2,261	1,678

7. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current – Hong Kong	**20**	15
Current – Mainland China	**236**	189
Deferred tax	**32**	24
Total tax charge for the period	**288**	228

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

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the Company of HK$12,217,000 (2009: profit attributable to ordinary equity holders of the Company of HK$818,000) and the weighted average number of ordinary shares of 982,322,080 (2009: 445,430,000) in issue during the period, as adjusted to reflect the shares issued during the year.

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the periods ended 30 June 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

9. INTERESTS IN ASSOCIATES

	30 June 2010 HK$'000 (Unaudited)	31 December 2009 HK$'000 (Audited)
Share of net assets	–	–
Goodwill on acquisition	4,964	4,964
	4,964	4,964
Provision for impairment	(4,964)	(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

	30 June 2010 HK$'000 (Unaudited)	31 December 2009 HK$'000 (Audited)
Raw materials	37,527	12,908
Work in progress	42,288	15,158
Finished goods	12,524	8,695
	92,339	36,761

11. TRADE RECEIVABLES

	30 June 2010 HK$'000 (Unaudited)	31 December 2009 HK$'000 (Audited)
Trade receivables	**51,411**	46,953
Impairment	**(14,947)**	(14,984)
	36,464	31,969

The Group's trading terms with its customers are mainly on credit with credit periods generally ranging from 14 to 60 days. The Group seeks to maintain strict control over its outstanding receivables, and overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables is an amount due from an associate of HK$14,947,000 (31 December 2009: 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$14,947,000 (31 December 2009: 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 as at the end of the reporting period, based on invoice date and net of provision, is as follows:

	30 June 2010 HK$'000 (Unaudited)	31 December 2009 HK$'000 (Audited)
Within 30 days	**32,914**	22,631
31 to 90 days	**2,653**	9,338
Over 90 days	**897**	–
	36,464	31,969

12. CASH AND CASH EQUIVALENTS

	30 June 2010 HK$'000 (Unaudited)	31 December 2009 HK$'000 (Audited)
Cash and bank balances	**386,337**	62,207

13. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on invoice date, is as follows:

	30 June 2010	31 December 2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current to 30 days	**38,982**	14,842
31 to 90 days	**17,361**	9,857
Over 90 days	**4,219**	9,102
	60,562	33,801

The trade payables are non-interest-bearing and normally offered with 30 to 60 days' credit terms.

14. CONVERTIBLE BONDS

On 9 February 2010, a convertible bond in principal amount of HK$120,000,000 was issued to Right Perfect and convertible bonds in aggregate principal amount of HK$130,000,000 were issued to not less than six independent placees.

Right Perfect and the independent placees have the right to convert the outstanding principal amount of the convertible bonds into shares of the Company at any time from the date of issue up to 7 days prior to the maturity date, being 9 February 2012, at the conversion price of HK$0.38 per conversion share. The convertible bonds carry interest at a rate of 3% per annum, which is payable semi-annually in arrears on 30 June and 31 December.

During the period from 23 February 2010 to 30 June 2010, all the convertible bonds in aggregate principal amount of HK$250,000,000 were converted by Right Perfect and the independent placees, which resulted in a total number of 657,894,729 ordinary shares of HK$0.10 each being issued by the Company (note 15). After the conversions, there were no outstanding convertible bonds.

The fair value of liability component of the convertible bonds was estimated at the issuance date using an equivalent market interest rate for a similar liability without a conversion option. The effective interest rate of the liability component on initial recognition is 5.346% per annum. The residual amount is assigned as the equity component of the convertible bonds and is included in shareholder's equity.

14. CONVERTIBLE BONDS (continued)

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the maturity period of the convertible bonds using the effective interest method.

The movements of the liability and equity components of the convertible bonds during the period from the issue date to the end of the reporting period are as follows:

	Liability component of convertible bonds	**Equity component of convertible bonds**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Principal amount of convertible bonds issued	239,344	10,656	250,000
Direct transaction costs attributable	(2,489)	(111)	(2,600)
Interest expenses (note 6)	1,326	–	1,326
Interest paid for the period	(744)	–	(744)
Conversion of convertible bonds (note 15)	(237,437)	(10,545)	(247,982)
Liability component at 30 June 2010	**–**	**–**	**–**

15. SHARE CAPITAL

Shares	**30 June 2010** *HK$'000* **(Unaudited)**	31 December 2009 *HK$'000* (Audited)
Authorised:		
7,000,000,000 ordinary shares of HK$0.10 each	**700,000**	700,000
Issued and fully paid:		
1,298,408,729 (2009: 534,514,000) ordinary shares of HK$0.10 each (2009: HK$0.10)	**129,841**	53,451

During the reporting period, the movements in share capital were as follows:

(a) On 8 March 2010, the Company entered into a placing agreement with a placing agent in respect of the placing of 106,000,000 new shares at an issue price of HK$1.00 per share. On 15 March 2010, the placing was completed and 106,000,000 new shares were placed by the placing agent to not less than six independent placees at an issue price of HK$1.00 per share resulting in raising proceeds, before expenses, of HK$106,000,000.

15. SHARE CAPITAL (continued)

(b) During the period from 23 February 2010 to 30 June 2010, all the convertible bonds in aggregate principal amount of HK$250,000,000 were converted by Right Perfect and independent placees at conversion price of HK$0.38 per share, resulting in 657,894,729 ordinary shares of HK$0.1 each being issued by the Company (note 14). The conversion resulted in an increase in share capital and share premium account by approximately HK$65,790,000 and HK$182,192,000 respectively.

A summary of the transactions during the reporting period with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	**Issued share capital**	**Share premium account**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2010	534,514,000	53,451	54,590	108,041
Issue of shares (a)	106,000,000	10,600	95,400	106,000
Issue of shares upon conversion of convertible bonds (b)	657,894,729	65,790	182,192	247,982
	1,298,408,729	129,841	332,182	462,023
Share issue expenses (a)	–	–	(2,130)	(2,130)
At 30 June 2010	1,298,408,729	129,841	330,052	459,893

16. 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 under the Scheme since its adoption.

17. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liability. At 31 December 2009, the Company provided corporate guarantee of HK$22,700,000 to a bank in respect of banking facilities granted to its subsidiaries, the amount utilised by the subsidiaries was approximately HK$2,310,000 at 31 December 2009.

18. COMMITMENTS

The Group had the following capital commitment at the end of the reporting period:

	30 June 2010	31 December 2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Contracted for:		
Plant, machinery and equipment	**976**	388

19. RELATED PARTY TRANSACTIONS

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

		For the six months ended 30 June	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Rental expenses to a director of subsidiaries	*(i)*	**102**	102
Rental expenses paid to a related company	*(ii)*	**30**	30

Notes:

(i) The rental expenses were paid by the Group to Ms. Cheung Man, Catherine, a director of several subsidiaries of the Company, for leasing a property as staff quarters during the period. The rental was agreed by both parties with reference to the prevailing market conditions.

(ii) The rental expenses were paid to a company owned by Mr. Cheung Po Lun, the father of Ms. Cheung Yan, Priscilla and Ms. Cheung Man, Catherine, directors of several subsidiaries 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.

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.

19. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Short-term employee benefits	**660**	2,126
Post-employment benefits	**21**	75
Total compensation paid to key management personnel	**681**	2,201

The above amounts represent remuneration paid to directors during the period.

(c) Outstanding balances with related parties

		Due from related parties		Due to related parties	
		30 June	31 December	**30 June**	31 December
		2010	2009	**2010**	2009
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Associate	*(i)*	**14,984**	14,984	**–**	–

Note:

(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 creditors' voluntary liquidation.

20. EVENTS AFTER THE REPORTING PERIOD

(a) On 15 July 2010, Alliance Winner Limited ("Alliance Winner"), an indirect wholly-owned subsidiary of the Company, entered into a conditional acquisition agreement (the "Acquisition Agreement") with Charter Metro Limited ("Charter Metro"), a company which is legally beneficially owned as to 100% by Mr. Huang Xinzhi ("Mr. Huang"), and Mr. Huang as the warrantor. Pursuant to the Acquisition Agreement, Alliance Winner has conditionally agreed to acquire for and Charter Metro has conditionally agreed to dispose of its 82.3% equity interest in Tycoon Beverage Group Co. Ltd. ("Tycoon Beverage") at a consideration of HK$390 million. Tycoon Beverage indirectly holds 100% equity interest in Daheng (Tianjin) Foods Industry Company Limited ("Daheng Foods"), a company incorporated in the People's Republic of China (the"PRC") with limited liability. The principal assets of Daheng Foods included a production plant located in the PRC and the trademark of "大亨" (Daheng). Daheng Foods is currently engaged in trading and distribution of drink products under the brand of "大亨" (Daheng) in the PRC.

Details of the acquisition are set out in the Company's circular dated 5 August 2010. The Acquisition Agreement, among others, was approved by the shareholders at the Company's special general meeting held on 23 August 2010. Completion shall take place on the third business day after the fulfilment or waiver of all conditions precedent stated in the Acquisition Agreement or such other date as the parties to the Acquisition Agreement shall agree in writing, which will be on or before 31 December 2010.

(b) On 24 August 2010, Right Perfect entered into a placing agreement with the Company, UBS AG, Hong Kong Branch and Guotai Junan Securities (Hong Kong) Limited (the "Placing Agents"), and a subscription agreement with the Company, pursuant to the said placing agreement and the subscription agreement (i) Right Perfect agreed to sell up to 238,000,000 placing shares at a price of HK$1.00 per placing share, to not less than six independent, professional institutional and/or individual investors to be procured by the Placing Agents on a best commercial effort basis; and (ii) Right Perfect has conditionally agreed to subscribe for an aggregate of 238,000,000 shares of the Company at a subscription price of HK$1.00 per share.

21. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 25 August 2010.

FINANCIAL REVIEW

The Group's turnover for the six months ended 30 June 2010 dropped by 18.4% to HK$119,218,000 (2009: HK$146,141,000). The decline in the Group's revenue was mainly due to the lowered demand from a major customer in Japan during the first half of 2010. Gross profit dropped by 33.1% to HK$14,378,000 (2009: HK$21,489,000) whereas gross profit margin dropped from 14.7% to 12.1% on sales. The decrease in the Group's gross profit margin was primarily due to increase in direct labour costs as a result of the increase of the government mandated minimum monthly wages in the PRC. The Group's selling and distribution costs decreased slightly by 0.7% to HK$4,780,000 (2009: HK$4,813,000) whilst administrative expenses increased by 22.6% to HK$22,997,000 (2009: HK$18,763,000). Such increase was mainly due to additional employees hired to cope with the Group's business expansion and diversification plan. As a whole, the Group incurred a loss attributable to ordinary equity holders of HK$12,217,000 for the six months ended 30 June 2010 (2009: profit of HK$818,000), representing a loss per share of HK1.24 cents (2009: earnings per share of HK0.18 cent).

As at 30 June 2010, cash and cash equivalents amounted to HK$386,337,000 (31 December 2009: HK$62,207,000) and bank borrowings amounted to HK$61,386,000 (31 December 2009: HK$45,387,000). As at 30 June 2010, the Group's net current assets amounted to HK$365,246,000 (31 December 2009: HK$24,456,000), comprising current assets of HK$520,935,000 (31 December 2009: HK$141,556,000) and current liabilities of HK$155,689,000 (31 December 2009: HK$117,100,000), and representing a current ratio of 3.35 (31 December 2009: 1.21). The improvement in current ratio was mainly resulted from the issuance of 106,000,000 new shares in March 2010, which resulted in gross proceeds of approximately HK$106 million being raised, and issuance and conversion of convertible bonds with aggregate principal amount of HK$250 million (which resulted in issuance 657,894,729 new shares) during the six months ended 30 June 2010.

As at 30 June 2010, the Group's inventories increased by 1.5 times to HK$92,339,000 as compared to the balance at last year end due to seasonal factors (31 December 2009: HK$36,761,000), which when compared to the Group's inventories at 30 June 2009 of HK$80,147,000, the Group's inventories level was only increased by 15.2%.

The Group finances its operations through a combination of bank financing and shareholders' equity. The Group aims 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 2010 is calculated as follows:

	As at 30 June 2010	As at 31 December 2009
	HK$'000	*HK$'000*
Interest-bearing bank loans	**61,386**	45,387
Trade payables	**60,562**	33,801
Other payables and accruals	**32,145**	36,137
Less: Cash and cash equivalents	**(386,337)**	(62,207)
Net (cash)/debt	**(232,244)**	53,118
Equity attributable to equity holders of the Company	**533,624**	192,643
Capital and net debt	**N/A**	245,761
Gearing ratio	**N/A**	22%

The gearing ratio of the Group as at 30 June 2010 is not presented as the Group was in net cash position. The Group's total equity was HK$533,624,000 at 30 June 2010, increased by 1.8 times when compared to last year end (31 December 2009: HK$192,643,000) which was mainly a result of proceeds raised by issuance of about 763.8 million new shares through shares placing and conversion of convertible bonds issued.

As at 30 June 2010, the Group's bank loans were all repayable within one year or on demand. All of the bank loans were denominated in Hong Kong dollars and bore variable interest rate. The Group has secured general banking facilities granted by banks amounted to HK$115,500,000 as at the end of the reporting period.

The Group faces risk from exchange fluctuations of Renminbi and had hedged its exposures partially through forward exchange contracts. As at 30 June 2010, values of these forward exchange contracts were not significant and therefore not stated in the balance sheet. The Group will also consider hedging its exposures to fluctuations in interest rates when there is a need to raise significant debts.

BUSINESS REVIEW AND PROSPECTS

The Group recorded losses for the six months ended 30 June 2010 was mainly a result of (i) the decline in the Group's revenue mainly due to lowered demand from a major customer in Japan for the first half of 2010; (ii) the decrease of the Group's gross profit margin primarily due to increase in direct labour costs as a result of the increase of the government mandated minimum monthly wages in the Guangdong Province; and (iii) the increase in the Group's administrative expenses mainly due to additional employees hired to cope with the business expansion and diversification plan of the Group.

Notwithstanding of the lowered demand from a major customer in Japan during the period under review, the Group has entered into business with several new customers, including two that are among the world's top 10 by sales. After a rather slow start for the first six months, turnover is expected to increase in the second half of 2010.

In May 2010, government authorities in Guangdong Province announced an approximately 20% increase on government mandated minimum monthly wages. As labor costs are key elements of the Group's production costs, such higher than expected increase of minimum monthly wages has dragged down the Group's gross margin in the first half of 2010. Moreover, in order to maintain the Group's gross margin which has been eroded by sharp increase in labor costs, the sales team of the Group has been taking active action to negotiate with major customers for corresponding increases in products selling price.

With the mindset to position the Group as a premier toy manufacturer and backed by proceeds raised by fund raising exercises conducted by the Group during the review period, the Group has made considerable investments in order to strengthen its competitive position in the industry. A key investment made was the expansion of the Group's on-site chemical laboratory completed in July 2010. The expansion of the laboratory has significantly increased the Group's testing capabilities, strengthened its market competitiveness and helped to cut down external laboratory testing expenses. In addition, the Group has also expanded its injection molding facilities and refurbished some of the aging production facilities.

Despite the loss incurred by the Group during the review period, the Group's financial position remains sound and that the Group has sufficient financial resources to meet its ongoing operational requirements. In addition, the Board considers that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify its existing business portfolio and to broaden its source of income. In view of (i) the increase in urban population and disposable income in the PRC; (ii) rapid development of chain stores in the PRC which made the juice products more affordable and accessible; and (iii) that the Board is optimistic about the outlook of the beverage industry in the PRC, accordingly, on 15 July 2010, Alliance Winner Limited, an indirect wholly-owned subsidiary of the Company, entered into a conditional acquisition agreement (the "Acquisition Agreement") with Charter Metro Limited to acquire 82.3% equity interest in Tycoon Beverage Group Co. Ltd. ("Tycoon Beverage") at a consideration of HK$390 million. Tycoon Beverage indirectly holds 100% equity interest in Daheng (Tianjin) Foods Industry Company Limited which is currently engaged in trading and distribution of drink products under the brand of "大亨" (Daheng) in the PRC.

On 23 August 2010, a special general meeting was held and an ordinary resolution to approve the Acquisition Agreement and transactions contemplated thereunder was passed. Completion shall take place on the third business day after the fulfilment or waiver of all conditions precedent stated in the Acquisition Agreement or such other date as the parties to the Acquisition Agreement shall agree in writing, which will be on or before 31 December 2010. Details of the acquisition are contained in announcement of the Company dated 15 July 2010 and circular of the Company dated 5 August 2010.

The Board considers that the acquisition of Tycoon Beverage will provide an opportunity for the Group to gain access to the beverage industry in the PRC with an aim to broaden the income base of the Group, and thereby enhancing the Group's future financial performance and profitability. It is also the intention of the Company to continue its existing businesses depending on the then business environment and prospects.

On 24 August 2010, the Company announced a top-up placing of 238 million shares at a placing price of HK$1.00 per share. The Company presently intends to use the proceeds from the top-up placing to replenish the working capital of the Group and for opportunistic investments if suitable opportunities do so arise in the future, as most of the Group's existing working capital is intended to be used to finance the future operation of Tycoon Beverage.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group as at 30 June 2010 are disclosed in note 17 to these condensed interim financial statements.

CHARGE ON ASSETS

As at 30 June 2010, certain of the Group's leasehold land and buildings in Mainland China and Hong Kong (including the prepaid land premiums) with aggregate net book values of approximately HK$120,237,000 (31 December 2009: 122,107,000) and HK$13,467,000 (31 December 2009: HK$11,010,000), respectively, and part of the inventories of one of the Group's subsidiaries located in Mainland China with costs of HK$9,202,000 (31 December 2009: Nil), were pledged to secure general banking facilities granted to the Group.

EMPLOYEES

As at 30 June 2010, the Group had a total of approximately 6,500 (31 December 2009: 4,300) employees in both 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.

INTERIM DIVIDEND

The Board of Directors (the "Board") does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, 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 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 of the Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in the Listing Rules.

INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At 30 June 2010, the following party had interest of 5% or more in the shares and underlying shares of the Company according to the register of interests kept by the Company pursuant to section 336 of the SFO.

Long position in ordinary shares of the Company

Name of shareholder	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital
Right Perfect Limited	Beneficial owner	615,791,472	47.43%

Note:

Right Perfect Limited, a company incorporated in the British Virgin Islands with limited liability, is a wholly owned subsidiary of Smart Legend Holdings Limited, which in turn is wholly owned by Mr. Suen Cho Hung, Paul.

Save as disclosed above, the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at 30 June 2010 as required pursuant to section 336 of the SFO.

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

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Board, 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 recognises 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 own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Company's directors and they have confirmed their compliance with the Own Code and the Model Code throughout the six months ended 30 June 2010.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price sensitive information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company. In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

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 financial reporting matters including the review of the Company's interim report for the six months ended 30 June 2010.

REVIEW OF INTERIM RESULTS

The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2010 has not been audited, but has been reviewed by the Audit Committee of the Company.

On behalf of the Board
Lo Ming Chi, Charles
Chief Executive Officer

Hong Kong, 25 August 2010