# SEWCO INTERNATIONAL HOLDINGS LIMITED
# 崇高國際控股有限公司*

*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 209)**

## ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

### UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Sewco International Holdings Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended 30 June 2007 together with the comparative figures for the corresponding period in 2006 as follows. The said interim results have been reviewed by the Company's audit committee.

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

| | | For the six months ended 30 June | |
|---|---|---|---|
| | | **2007** | 2006 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| REVENUE | *2* | **303,011** | 234,349 |
| Cost of sales | | **(281,066)** | (201,330) |
| Gross profit | | **21,945** | 33,019 |
| Other income and gain | | **5,590** | 1,245 |
| Selling and distribution costs | | **(15,330)** | (8,959) |
| Administrative expenses | | **(31,765)** | (23,798) |
| Finance costs | | **(275)** | (1) |
| Share of (losses) and profits of associates | | **(729)** | 425 |
| (LOSS)/PROFIT BEFORE TAX | *3* | **(20,564)** | 1,931 |
| Tax | *4* | **(496)** | (468) |
| (LOSS)/PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | **(21,060)** | 1,463 |
| (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic | *5* | **(HK4.73 cents)** | HK0.33 cent |

**CONDENSED CONSOLIDATED BALANCE SHEET**
*30 June 2007*

| | Notes | **30 June 2007 HK$'000 (Unaudited)** | 31 December 2006 HK$'000 (Audited) |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **159,795** | 161,392 |
| Deposit for items of property, plant and equipment | | **–** | 1,085 |
| Prepaid land premiums | | **9,656** | 9,779 |
| Interests in associates | | **7,812** | 8,541 |
| Other intangible asset | | **600** | 600 |
| Loan receivable | | **665** | 755 |
| Total non-current assets | | **178,528** | 182,152 |
| CURRENT ASSETS | | | |
| Prepaid land premiums | | **247** | 247 |
| Dividend receivable from an associate | | **800** | 800 |
| Inventories | | **152,664** | 115,871 |
| Trade receivables | *6* | **88,575** | 78,599 |
| Prepayments, deposits and other receivables | | **7,417** | 19,874 |
| Loan receivable | | **180** | 180 |
| Tax recoverable | | **21** | 21 |
| Cash and cash equivalents | | **7,541** | 26,623 |
| Total current assets | | **257,445** | 242,215 |
| CURRENT LIABILITIES | | | |
| Trade payables | *7* | **121,993** | 95,753 |
| Other payables and accruals | | **25,748** | 25,002 |
| Derivative financial instruments | *8* | **628** | 3,169 |
| Interest bearing bank loans | | **17,245** | 7,963 |
| Tax payable | | **8,439** | 12,514 |
| Dividend payable | | **2,227** | – |
| Total current liabilities | | **176,280** | 144,401 |
| NET CURRENT ASSETS | | **81,165** | 97,814 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **259,693** | 279,966 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | **1,472** | 1,481 |
| Total non-current liabilities | | **1,472** | 1,481 |
| Net assets | | **258,221** | 278,485 |

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

*Notes:*

**1. ACCOUNTING POLICIES**

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

The basis of preparation and accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2006.

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

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

**2. SEGMENT INFORMATION**

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

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

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the Group's markets and customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

### (a) Business segments

The following table presents the Group's revenue and profit/(loss) information regarding business segments for the six months ended 30 June 2007 and 2006.

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

### (b) Geographical segments

The following table presents the Group's revenue information regarding geographical segments for the six months ended 30 June 2007 and 2006.

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

## 3. (LOSS)/PROFIT BEFORE TAX

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

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

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

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

## 4. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

The provision for income tax of a subsidiary operating in Mainland China has been calculated at the applicable rate of tax prevailing in the areas in which that subsidiary operates, based on existing legislation, interpretations and practices in respect thereof, during the period.

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

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

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

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

## 6. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, and the credit periods generally range from 14 to 90 days. Trade receivables are non-interest-bearing.

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

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

## 7. TRADE PAYABLES

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

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

The trade payables are non-interest-bearing.

## 8. DERIVATIVE FINANCIAL INSTRUMENTS

| | **30 June 2007** | 31 December 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Forward currency contracts | **628** | 3,169 |

The Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK$2,541,000 (note 3) were credited to the consolidated income statement during the period (six months ended 30 June 2006: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

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

Other income and gain for the six months ended 30 June 2007 increased to HK$5,590,000. This was mainly a result of fair value gain on derivative financial instruments of HK$2,541,000 (note 8).

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

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

### Interim Dividend

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

### Liquidity and Financial Resources

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

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

### Business Review and Prospects

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

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

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

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

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

**Contingent Liabilities**

(a) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$797,000 as at 30 June 2007 (31 December 2006: HK$1,054,000). The contingent liability has arisen at the balance sheet date as a number of current employees have achieved the required number of years of service to the Group, and will be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

(b) At the balance sheet date, the Company had provided corporate guarantee of HK$95,100,000 (31 December 2006: HK$95,100,000) to a bank in respect of banking facilities granted to its subsidiaries. As at 30 June 2007, banking facilities amounting to HK$5,000,000 were utilized by the subsidiaries (31 December 2006: Nil).

(c) At the balance sheet date, the Company had provided corporate guarantee of HK$500,000 (31 December 2006: HK$500,000) to a bank in respect of banking facilities granted to one of its associates. As at 30 June 2007, such banking facilities were fully utilized by the associate (31 December 2006: HK$500,000).

**Charge on Assets**

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

## Exchange Risk

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

## Employees

As at 30 June 2007, the Group had a total of approximately 11,800 (31 December 2006: 10,600) employees in Hong Kong and Mainland China. The Group provides remuneration packages to employees largely based on industry practice, individual performance, qualification and experience. In addition, discretionary bonuses and share options under the Company's share option scheme may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides subsidies to staff for external training in order to enhance the Group's competitiveness.

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

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

# CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

# DIRECTORS OF THE COMPANY

As at the date of this announcement, Ms Cheung Yan, Priscilla, Ms Cheung Man, Catherine, Mr Kung Ka Pang and Mr Ha Jimmy N.T. are the executive directors of the Company and Mr Lam Yu Lung, Mr Lam Chin Fung and Mr Tse Wei Kin are the independent non-executive directors of the Company.

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

Hong Kong, 14 September 2007

* *For identification purposes only*