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

Annual Report **2007**

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive directors

Ms Cheung Yan, Priscilla, *Chairman*
Ms Cheung Man, Catherine
Mr Kung Ka Pang, *Chief Executive Officer*
Mr Ha Jimmy N. T.

Independent non-executive directors

Ms Cynthia Law
Mr Lam Chin Fung
Mr Tse Wei Kin

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18th Floor
Wing Wong Commercial Building
Nos. 557 and 559 Nathan Road
Kowloon
Hong Kong

COMPANY SECRETARY

Mr Chan Lee Tim, *CPA, FCCA*
Mr Ira Stuart Outerbridge III, *Assistant Secretary*

AUTHORISED REPRESENTATIVES

Ms Cheung Yan, Priscilla
Ms Cheung Man, Catherine

AUDITORS

Ernst & Young, *Certified Public Accountants*

AUDIT COMMITTEE MEMBERS

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

REMUNERATION COMMITTEE MEMBERS

Ms Cheung Man, Catherine, *Chairman*
Ms Cynthia Law
Mr Lam Chin Fung
Mr Tse Wei Kin

QUALIFIED ACCOUNTANT

Mr Chan Lee Tim, *CPA, FCCA*

STOCK CODE

209

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Fubon Bank (Hong Kong) Limited
Bank of Communications Zhong Shan Branch

WEBSITE

www.sewco.com.hk

CHAIRMAN'S STATEMENT

Dear shareholders

On behalf of the board of directors (the "Board") of Sewco International Holdings Limited (the "Company"), I hereby report the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

OVERVIEW

2007 was one of the most difficult years for toy manufacturers and exporters in recent years. Already hit by rapidly rising labour and material costs and higher export taxes, toymakers faced unprecedented uncertainty in the aftermath of the massive global toy recalls last summer. Meanwhile, the adoption of new labour law regulations in Mainland China will make it even more challenging for businesses in labour-intensive manufacturing in the years to come.

The Group incurred major losses in 2007 as margins were eroded by the appreciating Renminbi and skyrocketing commodity prices. The Group also took a major inventory writeoff due to disposal of stocks that no longer met new standards imposed in Europe. In the meantime, the Group also increased investment in its fledgling private label business.

Looking ahead, the Group remains confident that it can seize this unique opportunity to consolidate its position as a leading contract toy manufacturer as weaker players are being forced out. The Group remains confident in the prospects of the Pearl River Delta region as a key manufacturing hub due to its unparalleled supply chain efficiency and talent pool. To improve its margins, the Group will continue to control costs and improve productivity aggressively. Meanwhile, it will continue to invest in its facilities and people to ensure long-term competitiveness. Around HK$2 million has been earmarked for a new on-site chemical laboratory, and a new training fund has been set up to help talents prepare for future challenges.

ICAC INVESTIGATIONS

I am delighted to report that a legal case concerning three of the Group's former and current employees has been resolved. Subsequent to ICAC investigations initiated in 2005, a District Court judge in January 2008 ruled that the Group's founding Chairman, Mr Cheung Po Lun, Herbert; former Chief Executive Officer, Mr Hui Kwok Chu and current purchasing manager, Ms Jim Yin Ping, Cisor, were not guilty of theft and conspiracy to defraud the Group. On behalf of the Board, I wish to express the Group's deep regret of the incident and extend our sincerest apology to them for the personal losses that may have been incurred during the ordeal.

APPRECIATION

In September 2007, Mr Lam Yu Lung resigned as an independent non-executive director from the Board. On behalf of the Board, I would like to thank him for his contribution to the Group. I would also like to welcome Ms Cynthia Law who joined the Group as an independent non-executive director in November 2007.

I would also like to take this opportunity to express my deepest gratitude to our customers, shareholders, business partners and suppliers for their support and confidence in the Group. My thanks also go to our dedicated and talented staff, whose passion and commitment are vital to the continued success of the Group.

Cheung Yan, Priscilla
Chairman

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Ms Cheung Yan, Priscilla, aged 34, is an executive director and the Chairman of the Company, the chief operating officer of "Sewco Toys & Novelty Limited", an indirect wholly-owned subsidiary of the Company, and a director of certain subsidiaries of the Company. She joined the Group in October 2004. Prior to that, Ms Cheung was a journalist in Hong Kong and New York. She holds a Master of Public Administration degree from The University of Hong Kong and Bachelor of Arts degree in journalism from the University of Connecticut in the United States. She is the younger sister of Ms Cheung Man, Catherine, an executive director of the Company, and a daughter of Mr Cheung Po Lun, the controlling shareholder of the Company.

Ms Cheung Man, Catherine, aged 37, is an executive director and the Chairman of the Remuneration Committee of the Company and a director of certain subsidiaries of the Company. Ms Cheung joined the Group in November 1995. She is the director of business diversification of the Group and is primarily responsible for strategic planning and development and marketing management of the Group. Ms Cheung graduated from The University of Warwick in the United Kingdom in 1993 with a Bachelor of Science (Honours) degree in management science, and worked in the marketing field prior to joining the Group. She is the elder sister of Ms Cheung Yan, Priscilla, the Chairman of the Company, and a daughter of Mr Cheung Po Lun, the controlling shareholder of the Company.

Mr Kung Ka Pang, aged 41, is an executive director and the Chief Executive Officer of the Company and the general manager of the Group. Mr Kung joined the Group in 1991 as quality control manager, and was promoted to production manager in 1993, and was further promoted to factory manager in 1996. Mr Kung is primarily responsible for overseeing the day-to-day manufacturing operations of the Group. He has over 20 years of experience in the toy manufacturing industry, having worked in the quality department of an international toy company for five years prior to joining the Group.

Mr Ha Jimmy N. T., aged 44, is an executive director of the Company, a director of a subsidiary of the Company and the director of research and development of the Group. He joined the Group in July 2006. Mr Ha is primarily responsible for the development and management of the Group's R&D Center and strategic development and marketing of the Group's business. He has over 16 years of experience in toy and consumer electronics design, development and production, and has developed products using advanced electronics and robotic technologies for major international toy companies.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms Cynthia Law, aged 32, is an independent non-executive director, the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. She joined the Group in November 2007. Ms Law holds a Bachelor of Business awarded by the University of Technology, Sydney. She is also a Certified Practising Accountant of the Australian Society of Certified Practising Accountants. Ms Law is currently a Business Planning Manager for a leading multinational corporation. She has extensive experience in strategic planning and business analysis.

Mr Lam Chin Fung, aged 58, is an independent non-executive director and a member of both the Audit Committee and Remuneration Committee of the Company. He joined the Group in June 2005. Mr Lam has been in the financial field for over 20 years of experience in the business of securities dealing and margin financing.

Mr Tse Wei Kin, aged 55, is an independent non-executive director and a member of both the Audit Committee and Remuneration Committee of the Company. He joined the Group in March 2006. Mr Tse is currently a prototype and product development consultant. He has over 25 years of experience in the toy industry.

SENIOR MANAGEMENT

Mr Chau Man Cheong, Billy, aged 45, joined the Group in August 1999 and is the engineering manager of the Group. Mr Chau is primarily responsible for managing the engineering department and ensuring the smooth operation of the Group's production. Prior to joining the Group, Mr Chau worked for a number of toy manufacturing companies as project and research and development engineer and project manager for over 20 years.

Mr Wan Ka King, aged 42, joined the Group in July 1991 and is the costing manager of the Group. Mr Wan is primarily responsible for planning and controlling the Group's manufacturing and sub-contracting costs and pricing negotiation with clients. He graduated from The Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) with a higher certificate in mechanical engineering. Mr Wan has over 15 years of experience in the toy manufacturing industry.

Mr Chan Lee Tim, aged 45, joined the Group in May 2007 and is the qualified accountant, financial controller and company secretary of the Company. Mr Chan obtained a Bachelor's degree in Social Sciences from The University of Hong Kong in 1985 and a Master's degree in Commerce from The University of New South Wales in 1995. He has been a Certified Public Accountants of the Hong Kong Institute of Certified Public Accountants since 1989 and a fellow member of the Association of Chartered Certified Accountants since 1993. Mr Chan has nearly 20 years of financial and operations experience in the toy industry.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group's turnover for the year ended 31 December 2007 was HK$774,362,000, a 24.5% increase from HK$622,200,000 in 2006. Gross profit was HK$40,408,000 compared with HK$78,056,000 in 2006. The Group incurred a net loss of HK$55,773,000 in 2007 compared with a profit of HK$4,008,000 in 2006.

The Group's gross profit margins were severely eroded as the accelerating appreciation of the Renminbi ("RMB") against the United States dollar ("USD"), spikes in commodity prices and rising inflation in Mainland China pushed up labour and material costs and other manufacturing overheads. The Group's profitability was further hit when the Chinese government reduced the export tax refund to 11% from 13% in July 2007. The Group also made a significant provision against slow-moving, obsolete and defective inventories totalling HK$37,876,000 (2006: HK$14,550,000). Testing costs rose dramatically in the second half of 2007 in the aftermath of the global toy recalls announced in the summer as the Group sought to ensure its products meet all international safety standards. Administrative and selling costs also rose as the Group continued to invest in its direct marketing unit set up in late 2006 to sell consumer products in North America.

As at 31 December 2007, the Group's total assets and net assets were HK$547,008,000 (2006: HK$424,367,000) and HK$244,101,000 (2006: HK$278,485,000) respectively. The growth of total assets resulted from increased business volume, changes in the business environment and the Group's control issues. Net assets dropped mainly due to the loss incurred for the year.

BUSINESS REVIEW

2007 was one of the most difficult years for toy manufacturers in recent memory. The toy recalls in the summer cast a pall on an industry already hit hard by the adverse conditions for manufacturers in the Pearl River Delta region. Although the Group was not directly affected by the recalls, testing and associated administrative costs rose dramatically as the Chinese government and customers required more stringent controls and rigorous third-party testing to ensure product safety.

In general, the Group saw its profit margins severely eroded because of the accelerating appreciation in RMB and rising labour and material costs. The cost of doing business in Mainland China will continue to rise with the implementation of new labour law regulations in the Mainland requiring companies to offer lifelong employment to employees.

Despite the adversities, the Group believes that the Pearl River Delta region will continue to be the most efficient hub for large-scale toy manufacturing due to its unmatched supply chain and labour efficiency and availability of technical expertise. There have been encouraging signs that the labour shortages seen in recent years have eased as smaller manufacturers are forced out of business or move further inland. To control costs, the Group has launched an aggressive program to improve productivity through improved production engineering and automation.

To diversify its business and improve its profit margins, the Group set up a subsidiary in late 2006 to design and market self-branded consumer products. The subsidiary began working with a major United States drug store chain in 2007 and made its first shipments in the fourth quarter of 2007. Business is expected to grow in 2008 as the Group expands its product line and markets.

The Group's turnover by product segments for the year 2007 comprised 85.8% hard toys, 13.2% stuffed toys and 1.0% consumer products (2006: 87.4%, 12.6% and 0% respectively). There was no significant change from last year. Geographically, the United States and Canada remained the Group's major markets, where 79.2% (2006: 73.1%) of the Group's turnover was generated.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group finances its operations from internally generated resources and external bank financing. As at 31 December 2007, cash and cash equivalents held by the Group, mainly in HKD, USD and RMB, was HK$31,796,000 (2006: HK$26,623,000). The Group uses short term trade financing from banks to fund its working capital requirements and will consider longer term bank financing for capital investments and under favourable market conditions. Bank borrowing at 31 December 2007, mainly in HKD and RMB, maturing within one year and over one year was HK$34,281,000 (2006: HK$7,963,000) and HK$5,485,000 (2006: nil) respectively.

Current assets increased by 45% to HK$351,549,000 at 31 December 2007 (2006: HK$242,215,000). The increase in current assets was a result of increased inventory due to longer supply chain lead time after the imposition of stricter safety and testing requirement and seasonal fluctuation, and increased trade receivables. Current liabilities increased by 105% to HK$295,869,000 at 31 December 2007 (2006: HK$144,401,000) due to the built up of inventory and trade receivables. Accordingly, current ratio (current assets/current liabilities) dropped to 1.19 at 31 December 2007 (2006: 1.68).

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. The Group's policy is to maintain the gearing ratio below 75% to ensure its liquidity and business continuity. Net debt includes interest-bearing bank loans, trade and other payables, accruals, less cash and cash equivalents. Capital includes the total equity of the Group. The gearing ratio as at 31 December 2007 was 52% (2006: 27%).

Financial Risk Management Policies

Other than liquidity risk, the main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk.

Interest rate risk arises from the Group's floating interest rate borrowing which is mainly related to its seasonal working capital requirements. The Group will only try to hedge its interest rate risk when there is a significant long term funding requirement.

Foreign currency risk arises from sales or costs incurred by the Group in other than HKD. All of the Group's sales are denominated in HKD or USD, while its costs are approximately 50% (2006: 54%) denominated in HKD or USD, and approximately 50% (2006: 46%) denominated in RMB. As HKD is pegged to the USD, the Group is mainly exposed to the currency fluctuation of RMB and will closely monitor its exposures through entering into forward contracts and financial derivatives.

Credit risk arises from payment defaults from customers. The Group manages its credit risk by mainly trading with recognised and creditworthy third parties and closely monitoring customer concentration and payments.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

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$706,000 as at 31 December 2007 (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.

At the balance sheet date, the Company had provided corporate guarantees of HK$115,100,000 (2006: HK$95,100,000) to a bank in respect of banking facilities granted to its subsidiaries. As at the balance sheet date, an amount of HK$23,747,000 was utilised by the subsidiaries (2006: nil).

As at 31 December 2007, the Company had provided a corporate guarantee of HK$500,000 (2006: HK$500,000) to a bank in respect of banking facilities granted to one of its associates. As at the balance sheet date, such banking facilities were fully utilised by this associate (2006: HK$500,000). This corporate guarantee was released after year end.

Charges on Assets

As at 31 December 2007, certain of the Group's leasehold land and buildings in Mainland China and Hong Kong with an aggregate carrying value of approximately HK$29,415,000 (2006: HK$27,313,000) and HK$16,640,000 (2006: nil) respectively were pledged to secure general banking facilities granted to the Group.

EMPLOYEES

As at 31 December 2007, the Group had a total of approximately 11,400 (2006: 10,600) 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.

OUTLOOK

The adverse conditions for manufacturers in the Pearl River Delta region are expected to worsen in 2008 as the appreciation of RMB continues to accelerate and skyrocketing commodity prices drive up material costs. An 11% increase in the government-mandated minimum wage in the Mainland took effect in April 2008, and general inflation in Mainland China also pushed up staff and administrative costs. Nevertheless, the Group continues to be confident that it can ride out the storm and regain profitability.

Profit margins are expected to improve in the second half of 2008 as the Group has renegotiated pricing with some key customers. To control manufacturing costs, the Group has set up a team of experienced industrial engineers to improve productivity and automate certain manufacturing processes.

To strengthen its position as a contract manufacturer of choice for premium brands, the Group has continued to upgrade its quality and safety systems. The Group last year installed equipment that uses X-Ray to detect heavy metals in materials and finished goods, and has earmarked another HK$2 million to build an on-site chemical lab in the second quarter of 2008.

The Group will continue to invest in its direct marketing subsidiary by acquiring new licences and tooling. Despite the weak U.S. economy, business is expected to grow this year as more products will be launched in the third quarter of 2008.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group is OEM toys manufacturing and private label consumer products trading.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 83.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 2 June 2008 to Thursday, 5 June 2008, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on 5 June 2008 (the "forthcoming AGM"), unregistered holders of shares of the Company should ensure that all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 30 May 2008.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 84. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the Bermuda Act 1981, amounted to HK$141,600,000. In addition, the Company's share premium account, in the amount of HK$20,912,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 93.8% of the total sales for the year and sales to the largest customer included therein accounted for 38.6%. Purchases from the Group's five largest suppliers accounted for 20.8% of the total purchases for the year and the purchases from the largest supplier included therein accounted for 6.8%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year 2007 were:

Executive Directors:

Ms Cheung Yan, Priscilla	
Ms Cheung Man, Catherine	
Mr Kung Ka Pang	
Mr Ha Jimmy N. T.	(appointed on 6 March 2007)

Independent Non-executive Directors:

Mr Lam Chin Fung	
Mr Tse Wei Kin	
Ms Cynthia Law	(appointed on 1 November 2007)
Mr Lam Yu Lung	(resigned on 17 September 2007)

In accordance with clause 86(2)(b) of the Bye-laws of the Company, Ms Cynthia Law, a newly appointed director of the Company, will retire at the forthcoming AGM. In addition, pursuant to clause 87 of the Bye-laws of the Company, Mr Lam Chin Fung and Mr Tse Wei Kin will also retire by rotation at the forthcoming AGM. All of the above retiring directors, being eligible, will offer themselves for re-election at the forthcoming AGM.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 4 to 5 of the annual report.

DIRECTORS' SERVICE CONTRACTS

On 28 June 2007, Ms Cheung Yan, Priscilla entered into a director's service contract with the Company for an initial term of 2 years commencing on 28 June 2007, unless terminated by either party giving not less than three months' prior notice in writing.

On 12 April 2007, Ms Cheung Man, Catherine and Mr Kung Ka Pang entered into directors' service contracts with the Company which ratified that the term of their offices commenced on 5 February 2007 with an initial term of 2 years, unless terminated by either party giving not less than three months' prior notice in writing.

On 6 March 2007, Mr Ha Jimmy N. T. entered into a director's service contract with the Company for an initial term of 2 years commencing on 6 March 2007, unless terminated by either party giving not less than three months' prior notice in writing.

Apart from the foregoing, no director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, none of the directors or the chief executive of the Company had, under Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), nor were they taken to or deemed to have under such provisions of the SFO, an interest or a short position in the shares or underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interest 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 Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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 and 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 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 by the Company under the Scheme up to the date of this report.

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or to their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

At 31 December 2007, the following interests of 5% or more of the shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in ordinary shares of the Company

Name of substantial shareholders	Capacity	Number of ordinary shares in the Company	*Notes*	Percentage of the Company's issued share capital
Great Victory International Inc.	Beneficial owner	300,000,000	*1*	67.35%
Mr Cheung Po Lun	Interest held by controlled corporation	300,000,000	*1*	67.35%
Ms Fung Wai Chi	Interest of spouse	300,000,000	*2*	67.35%

Notes:

1. Mr Cheung Po Lun was deemed to be interested in 300,000,000 ordinary shares of the Company which were held by Great Victory International Inc., a controlled corporation of Mr Cheung pursuant to the SFO.

2. Ms Fung Wai Chi was deemed to be interested in 300,000,000 ordinary shares of the Company through the interest of her spouse, Mr Cheung Po Lun.

CONNECTED TRANSACTIONS

Details of the connected transactions for the year are set out in note 33 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on 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.

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Cheung Yan, Priscilla
Chairman

Hong Kong
18 April 2008

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2007.

CORPORATE GOVERNANCE PRACTICES

The Company commits to maintaining a high standard of corporate governance with a view to safeguarding the interests of shareholders and enhancing corporate value.

The Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules sets out the principles of good corporate governance and two levels of corporate governance practices, being (i) the code provisions which listed issuers are expected to comply with or to give considered reasons for any deviation; and (ii) the recommended best practices, for guidance only, which listed issuers are encouraged to comply with.

The Company has complied with all the code provisions set out in the CG Code throughout the year ended 31 December 2007.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory and CG Code and align with the latest developments.

The key corporate governance principles and practices of the Company are summarised as follows:

A. BOARD OF DIRECTORS

(1) Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors take decisions objectively in the interests of the Company.

The day-to-day management, administration and operations of the Group are delegated to the Executive Committee and senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

Every director carries out his/her duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

A. BOARD OF DIRECTORS (Continued)

(2) Board Composition

The Board comprises the following directors:

Executive directors:

Ms Cheung Yan, Priscilla	*(Chairman of the Board and the Executive Committee)*
Ms Cheung Man, Catherine	*(Chairman of the Remuneration Committee and member of the Executive Committee)*
Mr Kung Ka Pang	*(Chief Executive Officer and member of the Executive Committee)*
Mr Ha Jimmy N. T.	*(Member of the Executive Committee)*

Independent non-executive directors:

Ms Cynthia Law	*(Chairman of the Audit Committee and member of the Remuneration Committee)*
Mr Lam Chin Fung	*(Member of the Audit Committee and the Remuneration Committee)*
Mr Tse Wei Kin	*(Member of the Audit Committee and the Remuneration Committee)*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Coming from diverse business and professional backgrounds, the Board members possess a balance of skills and expertise appropriate for the requirements of the business of the Group and for the exercise of independent judgement. The biographical details of the directors of the Company as well as the relationships among them, if any, are set out under "Directors and Senior Management Profile" in this annual report.

Rules 3.10(1) and 3.10(2) of the Listing Rules require that every listed issuer must have a minimum of three independent non-executive directors and at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise. Rule 3.21 of the Listing Rules requires that the audit committee of every listed issuer must comprise a minimum of three members who should all be non-executive directors with a majority thereof being independent non-executive directors and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

A. BOARD OF DIRECTORS (Continued)

(2) Board Composition (Continued)

During the year ended 31 December 2007, the Company has not complied with the above provisions of Rules 3.10(1), 3.10(2) and 3.21 from 17 September 2007 to 31 October 2007 due to the resignation of Mr Lam Yu Lung, the then independent non-executive director, chairman of the Audit Committee and member of the Remuneration Committee of the Company on 17 September 2007. After the foregoing resignation, the Company had only two independent non-executive directors and two Audit Committee members, namely Mr Lam Chin Fung and Mr Tse Wei Kin, both of whom do not have the requisite professional qualifications or accounting or related financial management expertise as set out in Rule 3.10(2) of the Listing Rules. The Company has subsequently on 1 November 2007 fully complied with the aforementioned Listing Rules provisions upon its appointment of Ms Cynthia Law, who has the requisite professional qualifications stated in Rule 3.10(2) of the Listing Rules, as an independent non-executive director, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Details of the abovementioned resignation and appointment of director are set out in the Company's announcements dated 17 September 2007 and 1 November 2007 respectively.

The Company has received written annual confirmation from all of its independent non-executive directors in respect of their independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

(3) Chairman and Chief Executive Officer

The roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.

The Chairman of the Board is Ms Cheung Yan, Priscilla, who provides leadership for the Board and is also responsible for chairing the meetings and managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. The Chief Executive Officer is Mr Kung Ka Pang, who is responsible for running the Company's businesses and implementing the Group's strategic plans and business goals.

A. BOARD OF DIRECTORS (Continued)

(4) Appointment and Re-election of Directors

Each of the executive directors of the Company is engaged on a service contract for a term of 2 years. The appointment may be terminated by either party by not less than 3 months' written notice. Each of the independent non-executive directors of the Company is appointed for a term of 1 year.

In accordance with the Bye-laws of the Company, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Pursuant to the aforesaid, Ms Cynthia Law, having been appointed as an independent non-executive director of the Company during the year, shall retire and, being eligible, offer herself for re-election at the forthcoming AGM of the Company. In addition, Mr Lam Chin Fung and Mr Tse Wei Kin shall retire by rotation and, being eligible, offer themselves for re-election at the said annual general meeting. The Board recommended the re-appointment of these three retiring directors standing for re-election at the forthcoming AGM. The Company's circular, sent together with this annual report, contains detailed information of such directors.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment, re-appointment and succession planning of directors and assessing the independence of independent non-executive directors.

During the year ended 31 December 2007, the Board, through its meeting held on 5 February 2007 (with the attendance of Ms Cheung Yan, Priscilla, Ms Cheung Man, Catherine, Mr Kung Ka Pang, Mr Lam Chin Fung and Mr Tse Wei Kin) and written resolutions passed on 25 October 2007, performed the following work regarding matters relating to nomination of directors:

(a) nomination of Mr Ha Jimmy N. T. (as an additional director) and Ms Cynthia Law (as a director filling the vacancy arising from the resignation of Mr Lam Yu Lung) as the Company's directors pursuant to the Directors' Nomination Procedures adopted by the Company after carrying out the relevant selection process with reference to their skills, experience, professional knowledge, personal integrity and time commitments, the Company's needs and other relevant statutory requirements and regulations; and

(b) review of the structure, size and composition of the Board to see if it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company; recommendation of the re-election of the retiring directors at the 2007 annual general meeting and assessment of the independence of all the Company's independent non-executive directors.

A. BOARD OF DIRECTORS (Continued)

(5) Induction and Continuing Development for Directors

Each newly appointed director will receive induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Continuing briefings and professional development to directors will be arranged whenever necessary.

Besides, the Company has taken the recommendation of the Hong Kong Companies Registry to send the "Non-statutory Guidelines on Directors' Duties" issued by the Registry to the Company's directors to provide them with more information on the required standard of care, skill and diligence in the performance of his/her functions and exercise of his/her powers as directors.

(6) Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer, Qualified Accountant and Company Secretary normally attend regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The Company's Bye-laws contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

A. BOARD OF DIRECTORS (Continued)

(6) Board Meetings (Continued)

Directors' Attendance Records

During the year ended 31 December 2007, four regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at the meetings of the Board, Remuneration Committee and Audit Committee during the year ended 31 December 2007 are set out below:

	Attendance/Number of Meetings		
Name of Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive directors			
Ms Cheung Yan, Priscilla	4/4	N/A	N/A
Ms Cheung Man, Catherine	4/4	1/1	N/A
Mr Kung Ka Pang	2/4	N/A	N/A
Mr Ha Jimmy N. T. *(Note 1)*	3/3	N/A	N/A
Independent non-executive directors			
Mr Lam Chin Fung	4/4	1/1	2/2
Mr Tse Wei Kin	4/4	1/1	2/2
Mr Lam Yu Lung *(Note 2)*	2/4	1/1	1/2
Ms Cynthia Law *(Note 3)*	0/0	0/0	0/0

Notes:

1. Mr Ha Jimmy N. T. was appointed as an executive director of the Company with effect from 6 March 2007. Subsequent to his appointment, there were a total of 3 Board meetings held during the year ended 31 December 2007.

2. Mr Lam Yu Lung resigned as an independent non-executive director, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company with effect from 17 September 2007. Before his resignation, there were a total of 4 Board meetings, 1 Remuneration Committee meeting and 2 Audit Committee meetings held during the year ended 31 December 2007.

3. Ms Cynthia Law was appointed as an independent non-executive director, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company with effect from 1 November 2007. Subsequent to her appointment and up to 31 December 2007, there was no Board meeting, Remuneration Committee meeting or Audit Committee meeting held.

A. BOARD OF DIRECTORS (Continued)

(7) 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 Model Code set out in the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2007.

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 or its securities.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

B. DELEGATION BY THE BOARD

The Board reserves for its decisions all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions, financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

In order to increase the efficiency for the business decision, the Board established an Executive Committee with written terms of reference. The Executive Committee comprises all the executive directors of the Company. The principal duties of the Executive Committee include monitoring the execution of the Group's strategic plans and operations of all business units of the Group and discussing and making decisions on matters relating to the day-to-day management and operations of the Group.

The Board has also delegated a schedule of responsibilities to the senior management of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Group in accordance with the management strategies and plans approved by the Board, formulating and monitoring the production and operating plans and budgets, and supervising and monitoring the control systems.

The Board has the full support of the senior management to discharge its responsibilities.

The Board has established 3 committees, namely, Executive Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of the directors and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2007 are set out in note 9 to the financial statements.

Remuneration Committee

The Remuneration Committee comprises one executive director, namely Ms Cheung Man, Catherine (Chairman) and three independent non-executive directors, namely Mr Lam Chin Fung, Mr Tse Wei Kin and Ms Cynthia Law.

The duties of the Remuneration Committee are mainly to (i) make recommendations to the Board on the policy and structure of all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) make recommendations on the terms of the specific remuneration packages of the executive directors and the senior management; and (iii) review and approve the performance-based remuneration tied to corporate goals and objectives achieved by the directors from time to time.

The Remuneration Committee shall consult the Chairman/Chief Executive Officer of the Company about its recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee met once during the year ended 31 December 2007 and has generally reviewed the remuneration policy and structure of the Company, and the general salary increase for Hong Kong and Mainland China staff. The attendance record is set out under "Directors' Attendance Records" on page 20.

D. ACCOUNTABILITY AND AUDIT

(1) Directors' Responsibilities for Financial Reporting

The directors have acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management provides explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

D. ACCOUNTABILITY AND AUDIT (Continued)

(2) Internal Controls

The Board has overall responsibility for the internal control system of the Company and for reviewing its effectiveness. The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

The Board has conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 December 2007. The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

(3) Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Ms Cynthia Law (Chairman), Mr Lam Chin Fung and Mr Tse Wei Kin. As stated before, Ms Cynthia Law has the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The duties of the Audit Committee are mainly to (i) review the material investment, capital operation and material financial systems of the Group; (ii) review the accounting policy, financial position and financial reporting procedures of the Group; (iii) communicate with external auditors; and (iv) assess the internal control of the Group.

The Audit Committee met twice during the year ended 31 December 2007 and has reviewed the Group's annual results and annual report for the year ended 31 December 2006, interim results and interim report for the six months ended 30 June 2007, the financial reporting and compliance procedures and the Company's internal control matters and considering the re-appointment of the external auditors. The attendance record is set out under "Directors' Attendance Records" on page 20.

D. ACCOUNTABILITY AND AUDIT (Continued)

(4) External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out under "Independent Auditors' Report" in this annual report.

The fees paid/payable to the Company's external auditors in respect of audit services and non-audit services are analysed below:

Type of services provided by the external auditors	Fees paid/payable
Audit services	
– Underprovision of audit fee for the year ended 31 December 2006	HK$120,000
– Audit fee for the year ended 31 December 2007	HK$1,000,000
Non-audit services	
– Taxation service provided in the year 2007	HK$61,200
TOTAL:	HK$1,181,200

E. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information, which enables shareholders and investors to make the best investment decision.

Shareholders' meetings provide an opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as the chairmen of the Remuneration Committee and Audit Committee or, in their absence, other members of the respective Committees normally attend shareholders' meetings of the Company to answer shareholders' questions. During the year ended 31 December 2007, the Company held one shareholders' meeting, which is the Annual General Meeting held on 1 June 2007. All the members of the Board were present at this meeting to address to shareholders' enquiries.

As a channel to promote effective communication, the Group maintains a website where information on the Company's announcements, business developments and operations, financial information and other information are posted. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

F. SHAREHOLDERS' RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Bye-laws of the Company. Details of such rights to demand a poll are included in all circulars sent to shareholders and will be explained during the proceedings of meetings.

Where poll voting is conducted at a shareholders' meeting, the poll voting results will be published on the websites of the Stock Exchange and the Company after the meeting.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

安永會計師事務所
香港中環金融街8號
國際金融中心2期18樓
電話：+852 2846 9888
傳真：+852 2868 4432

To the shareholders of Sewco International Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Sewco International Holdings Limited set out on pages 28 to 83, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
18 April 2008

CONSOLIDATED INCOME STATEMENT Year ended 31 December 2007

	Notes	**2007 HK$'000**	2006 HK$'000
REVENUE	*6*	**774,362**	622,200
Cost of sales		**(733,954)**	(544,144)
Gross profit		**40,408**	78,056
Other income	*6*	**4,577**	2,962
Selling and distribution costs		**(37,271)**	(22,562)
Administrative expenses		**(64,948)**	(49,940)
Other operating income/(expenses)		**3,584**	(3,228)
Finance costs	*8*	**(1,322)**	(207)
Share of profits of associates		**325**	5,214
PROFIT/(LOSS) BEFORE TAX	*7*	**(54,647)**	10,295
Tax	*11*	**(1,126)**	(6,287)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	*12*	**(55,773)**	4,008
DIVIDEND			
Proposed final	*13*	**–**	2,227
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	*14*	**(HK12.52 cents)**	HK0.90 cent

31 December 2007 **CONSOLIDATED BALANCE SHEET**

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	**175,084**	161,392
Deposit for items of property, plant and equipment		**2,015**	1,085
Prepaid land premiums	*16*	**9,819**	9,779
Interests in associates	*18*	**7,366**	8,541
Other intangible asset	*19*	**600**	600
Loan receivable	*20*	**575**	755
Total non-current assets		**195,459**	182,152
CURRENT ASSETS			
Inventories	*21*	**155,412**	115,871
Prepaid land premiums	*16*	**259**	247
Dividend receivable from an associate	*18*	**–**	800
Trade receivables	*22*	**154,292**	78,599
Prepayments, deposits and other receivables		**9,610**	19,874
Loan receivable	*20*	**180**	180
Tax recoverable		**–**	21
Cash and cash equivalents	*23*	**31,796**	26,623
Total current assets		**351,549**	242,215
CURRENT LIABILITIES			
Trade payables	*24*	**214,855**	95,753
Other payables and accruals		**39,260**	25,002
Derivative financial instruments	*25*	**2,195**	3,169
Interest-bearing bank loans	*26*	**34,281**	7,963
Tax payable		**5,278**	12,514
Total current liabilities		**295,869**	144,401
NET CURRENT ASSETS		**55,680**	97,814
TOTAL ASSETS LESS CURRENT LIABILITIES		**251,139**	279,966
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	*26*	**5,485**	–
Deferred tax liabilities	*27*	**1,553**	1,481
Total non-current liabilities		**7,038**	1,481
Net assets		**244,101**	278,485

CONSOLIDATED BALANCE SHEET 31 December 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued capital	*28*	**44,543**	44,543
Reserves	*29(a)*	**199,558**	231,715
Proposed final dividend	*13*	**–**	2,227
Total equity		**244,101**	278,485

Cheung Yan, Priscilla
Director

Cheung Man, Catherine
Director

Year ended 31 December 2007 **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

		Attributable to equity holders of the Company							
		Issued capital	**Share premium account**	**Asset revaluation reserve**	**Statutory reserve fund**	**Exchange fluctuation reserve**	**Retained profits**	**Proposed final dividend**	**Total equity**
	Notes	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006		44,543	20,912	33,460	3,912	2,371	160,118	2,227	267,543
Surplus on revaluation	15	–	–	1,219	–	–	–	–	1,219
Net reversal of deferred tax liability on revaluation of properties	27	–	–	3,745	–	–	–	–	3,745
Exchange realignment		–	–	–	–	4,197	–	–	4,197
Total income and expense (including gains and losses) for the year recognised directly in equity		–	–	4,964	–	4,197	–	–	9,161
Final 2005 dividend declared		–	–	–	–	–	–	(2,227)	(2,227)
Revaluation reserve released		–	–	(953)	–	–	953	–	–
Appropriation to statutory reserve fund		–	–	–	746	–	(746)	–	–
Profit for the year		–	–	–	–	–	4,008	–	4,008
Proposed final 2006 dividend	13	–	–	–	–	–	(2,227)	2,227	–
At 31 December 2006		44,543	20,912*	37,471*	4,658*	6,568*	162,106*	2,227	278,485
At 1 January 2007		44,543	20,912	37,471	4,658	6,568	162,106	2,227	278,485
Surplus on revaluation	15	–	–	14,695	–	–	–	–	14,695
Deferred tax liability on revaluation of properties	27	–	–	(328)	–	–	–	–	(328)
Exchange realignment		–	–	–	–	9,249	–	–	9,249
Total income and expense (including gains and losses) for the year recognised directly in equity		–	–	14,367	–	9,249	–	–	23,616
Final 2006 dividend declared		–	–	–	–	–	–	(2,227)	(2,227)
Revaluation reserve released		–	–	(776)	–	–	776	–	–
Appropriation to statutory reserve fund		–	–	–	996	–	(996)	–	–
Loss for the year		–	–	–	–	–	(55,773)	–	(55,773)
At 31 December 2007		44,543	20,912*	51,062*	5,654*	15,817*	106,113*	–	244,101

* *These reserve accounts comprise the consolidated reserves of HK$199,558,000 (2006: HK$231,715,000) in the consolidated balance sheet.*

CONSOLIDATED CASH FLOW STATEMENT Year ended 31 December 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(54,647)**	10,295
Adjustments for:			
Finance costs	*8*	**1,322**	207
Interest income	*6*	**(510)**	(644)
Share of profits of associates		**(325)**	(5,214)
Depreciation	*7*	**10,965**	10,644
Recognition of prepaid land premiums	*7*	**259**	254
Loss on disposal of items of property, plant and equipment	*7*	**21**	59
Provision against slow-moving, obsolete and defective inventories	*7*	**37,876**	14,550
Fair value losses/(gains), net:			
Derivative instruments – transactions not qualifying as hedges	*7*	**(3,604)**	3,169
		(8,643)	33,320
Increase in a deposit for items of property, plant and equipment		**(930)**	(1,085)
Increase in inventories		**(70,185)**	(38,799)
Increase in trade receivables		**(75,693)**	(45,300)
Decrease/(increase) in prepayments, deposits and other receivables		**8,411**	(4,792)
Decrease in loan receivable		**180**	180
Increase in trade payables		**118,629**	40,042
Increase in other payables and accruals		**14,258**	6,136
Increase in derivative financial liabilities		**2,630**	–
Cash used in operations		**(11,343)**	(10,298)
Interest received		**510**	644
Interest paid		**(1,322)**	(207)
Hong Kong profits tax paid		**(5,464)**	(42)
Overseas taxes paid		**(1,318)**	(1,176)
Net cash outflow from operating activities		**(18,937)**	(11,079)

CONSOLIDATED CASH FLOW STATEMENT

	Notes	**2007** **HK$'000**	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	*15*	**(7,687)**	(4,013)
Purchases of equity interests in associates		**–**	(1,560)
Dividends received from an associate		**2,300**	3,440
Proceeds from disposal of items of property, plant and equipment		***25***	–
Net cash outflow from investing activities		**(5,362)**	(2,133)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**74,247**	23,889
Repayment of bank loans		**(43,024)**	(15,926)
Dividend paid		**(2,227)**	(2,227)
Net cash inflow from financing activities		**28,996**	5,736
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**4,697**	(7,476)
Cash and cash equivalents at beginning of year		**26,623**	34,057
Effect of foreign exchange rate changes, net		**476**	42
CASH AND CASH EQUIVALENTS AT END OF YEAR		**31,796**	26,623
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*23*	**31,796**	26,623

BALANCE SHEET 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*17*	**207,046**	217,503
CURRENT ASSETS			
Prepayments, deposits and other receivables		**7**	151
Due from a subsidiary	*17*	**–**	3,810
Cash and cash equivalents	*23*	**3**	3
Total current assets		**10**	3,964
CURRENT LIABILITIES			
Other accruals		**1**	243
NET CURRENT ASSETS		**9**	3,721
Net assets		**207,055**	221,224
EQUITY			
Issued capital	*28*	**44,543**	44,543
Reserves	*29(b)*	**162,512**	174,454
Proposed final dividend	*13*	**–**	2,227
Total equity		**207,055**	221,224

Cheung Yan, Priscilla
Director

Cheung Man, Catherine
Director

1. CORPORATE INFORMATION

Sewco International Holdings Limited 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 year, the Group was engaged in the manufacture and trading of hard and stuffed toys and private label consumer products.

In the opinion of the directors, the holding company and the ultimate holding company of the Group is Great Victory International Inc., which is incorporated in the British Virgin Islands.

2. PROCEEDINGS BY THE INDEPENDENT COMMISSION AGAINST CORRUPTION

As previously disclosed in the 2005 and 2006 financial statements, in June 2005, a senior executive and two directors of the Group (the "Defendants"), including the then Chairman of the board of directors of the Company (the "Board") and a then executive director of the Company, were arrested by the Independent Commission Against Corruption (the "ICAC") and were alleged to have solicited illegal rebates from certain suppliers for purchase orders placed with them between the years 2002 and 2004 (the "Incident"). In December 2006, the above individuals were charged by the ICAC for defrauding and embezzling funds (the "Charge"). Further details of the Charge were included in the ICAC's press release dated 6 December 2006.

The final hearing for the Charge was held on 4 January 2008 before the District Court (the "Court"), which acquitted the Defendants of the Charge. The Board has conducted its assessment and review of the Court's judgement, and is of the opinion that there is no resulting adverse implication to the Group's operations and financial position. The Board has also continued to execute the measures it adopted in prior years to minimise any uncertainties during the year due to the Incident and has concluded that such measures continued to be sufficient and effective and no material internal control weaknesses exist. At the date of approval of these financial statements, the Board is not aware of any circumstances that will lead them to believe that there will be further implication to the Group as a result of the Incident.

3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for leasehold land and buildings and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$" or "HKD") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 35 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[5]
HKFRS 2 Amendment	*Share-based Payments*[1]
HKFRS 3 (Revised)	*Business Combinations*[5]
HKFRS 8	*Operating Segments*[1]
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2009

The revised HKAS 1 separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expenses recognised in profit or loss, together with all other items of recognised income and expenses, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group has no such arrangements, the standard is unlikely to have any financial impact on the Group.

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised HKAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

The amendment to HKFRS 2 restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by the revised HKFRS 3 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on the acquisition of associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for associates is included in the Group's share of the associates' profits or losses in the period in which the investments are acquired.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its holding company;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the lease terms
Leasehold improvements	10%
Plant and machinery	10% to 15%
Furniture, fixtures and office equipment	15% to 20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terMs When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on these financial assets are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing bank loans)

Financial liabilities, including trade and other payables, and interest-bearing bank loans, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments, such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes related to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) mould income from the manufacture of moulds for customers, upon completion of the production; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. 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.

Pension schemes

The Group operates defined contribution retirement benefits schemes in Hong Kong, including a Mandatory Provident Fund scheme, for those employees who are eligible and have elected to participate in the schemes. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the schemes, with the exception of the Mandatory Provident Fund scheme, prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of any forfeited contributions. In respect of the Mandatory Provident Fund scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain amounts for the employees in Mainland China, pursuant to the local municipal government regulations. The contributions are charged to the income statement, as they become payable in accordance with the rules of the central pension scheme.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of a subsidiary in Mainland China is a currency other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of the entity are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, its income statement is translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of the subsidiary in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the subsidiary in Mainland China which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. An investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill on the acquisition of associates at 31 December 2007 was HK$4,964,000 (2006: HK$4,964,000). Further details are set out in note 18 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicator of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

5. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the hard toys segment manufactures and trades hard toy products;

(b) the stuffed toys segment manufactures and trades stuffed toy products; and

(c) the consumer products segment manufactures and trades private label consumer products; and

(d) the corporate segment comprises general corporate income and expense items.

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.

5. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

Group

	Hard toys		Stuffed toys		Consumer products		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
Segment revenue:												
Sales to external customers	**664,757**	543,815	**102,558**	78,385	**7,047**	–	**–**	–	**–**	–	**774,362**	622,200
Other revenue from external sources	**3,621**	2,246	**446**	72	**–**	–	**–**	–	**–**	–	**4,067**	2,318
Intersegment other revenue	**1,231**	1,231	**–**	–	**–**	–	**–**	–	**(1,231)**	(1,231)	**–**	–
Total	**669,609**	547,292	**103,004**	78,457	**7,047**	–	**–**	–	**(1,231)**	(1,231)	**778,429**	624,518
Segment results	**(38,388)**	5,865	**(8,316)**	5,031	**(8,788)**	–	**1,332**	(6,252)	**–**	–	**(54,160)**	4,644
Interest income											**510**	644
Finance costs											**(1,322)**	(207)
Share of profits of associates											**325**	5,214
Profit/(loss) before tax											**(54,647)**	10,295
Tax											**(1,126)**	(6,287)
Profit/(loss) for the year											**(55,773)**	4,008
Assets and liabilities:												
Segment assets	**491,303**	391,879	**38,209**	22,188	**8,767**	–	**608**	824	**–**	–	**538,887**	414,891
Interests in associates											**7,366**	8,541
Unallocated assets											**755**	935
Total assets											**547,008**	424,367
Segment liabilities	**246,782**	116,043	**5,643**	5,271	**690**	–	**3,195**	4,489	**–**	–	**256,310**	125,803
Unallocated liabilities											**46,597**	20,079
Total liabilities											**302,907**	145,882
Other segment information:												
Capital expenditure	**7,687**	4,013	**–**	–	**–**	–	**–**	–	**–**	–	**7,687**	4,013
Surplus on revaluation of land and buildings	**14,695**	1,219	**–**	–	**–**	–	**–**	–	**–**	–	**14,695**	1,219
Recognition of prepaid land premiums	**259**	254	**–**	–	**–**	–	**–**	–	**–**	–	**259**	254
Depreciation	**10,207**	9,919	**742**	725	**16**	–	**–**	–	**–**	–	**10,965**	10,644
Other non-cash expenses	**36,805**	15,466	**4,875**	470	**–**	–	**(974)**	3,169	**–**	–	**40,706**	19,105

5. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

Group

	USA and Canada		Japan and others		Hong Kong and Mainland China		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**613,556**	454,801	**132,398**	134,789	**28,408**	32,610	**774,362**	622,200
Other revenue	**644**	173	**833**	536	**2,590**	1,609	**4,067**	2,318
Total	**614,200**	454,974	**133,231**	135,325	**30,998**	34,219	**778,429**	624,518
Other segment information:								
Segment assets	**1,139**	–	**–**	–	**545,869**	424,367	**547,008**	424,367
Capital expenditure	**167**	–	**–**	–	**7,520**	4,013	**7,687**	4,013

6. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue and other income is as follows:

	2007	2006
	HK$'000	HK$'000
Revenue		
Sale of goods	**774,362**	622,200
Other income		
Mould income	**1,102**	691
Bank interest income	**490**	623
Interest income from loan receivable	**20**	21
Sundry income	**2,965**	1,627
	4,577	2,962

7. PROFIT/(LOSS) BEFORE TAX

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

	2007 HK$'000	2006 HK$'000
Cost of inventories sold	**696,078**	529,594
Provision against slow-moving, obsolete and defective inventories	**37,876**	14,550
Depreciation*	**10,965**	10,644
Recognition of prepaid land premiums	**259**	254
Minimum lease payments under operating leases in respect of land and buildings	**3,117**	2,710
Auditors' remuneration:		
Current year	**1,000**	950
Underprovision in the prior year	**120**	–
	1,120	950
Employee benefits expense (excluding directors' remuneration – Note 9)**:		
Wages and salaries	**202,799**	130,069
Other employee benefits	**137**	367
Pension scheme contributions	**4,741**	4,228
	207,677	134,664
Loss on disposal of items of property, plant and equipment	**21**	59
Gross rental income	**–**	(4)
Foreign exchange differences, net	**2,263**	1,400
Fair value losses/(gains), net:		
Derivative instruments – transactions not qualifying as hedges	**(3,604)**	3,169

* *Depreciation of HK$6,977,000 (2006: HK$6,901,000) is also included in "Cost of inventories sold" above.*

** *Employee benefits expense of HK$145,310,000 (2006: HK$100,604,000) is also included in "Cost of inventories sold" above.*

8. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**1,322**	207

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Fees	**150**	150
Other emoluments:		
Salaries, allowances and benefits in kind	**3,921**	3,769
Pension scheme contributions	**132**	124
	4,053	3,893
	4,203	4,043

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007	2006
	HK$'000	HK$'000
Mr Lam Chin Fung	**50**	50
Mr Tse Wei Kin	**50**	50
Ms Cynthia Law	**50**	–
Mr Lam Yu Lung (resigned on 17 September 2007)	**–**	50
	150	150

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000
2007				
Ms Cheung Yan, Priscilla	**–**	**1,368**	**50**	**1,418**
Ms Cheung Man, Catherine	**–**	**767**	**12**	**779**
Mr Kung Ka Pang	**–**	**809**	**34**	**843**
Mr Ha Jimmy N. T.	**–**	**977**	**36**	**1,013**
	–	**3,921**	**132**	**4,053**
2006				
Ms Cheung Yan, Priscilla	–	1,368	50	1,418
Ms Cheung Man, Catherine	–	777	12	789
Mr Kung Ka Pang	–	799	34	833
Mr Hui Kwok Chu (resigned on 4 December 2006)	–	825	28	853
	–	3,769	124	3,893

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were four (2006: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2006: one) non-director, highest paid employee for the year is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,886**	671
Pension scheme contributions	**–**	22
	1,886	693

11. 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 year.

The provision for income tax of the subsidiary operating in Mainland China has been calculated at the applicable rate of tax, based on existing legislation, interpretations and practices in respect thereof, during the year.

	Group	
	2007	2006
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**42**	1,113
Underprovision in prior years	**21**	6,509
Current – Mainland China	**1,319**	1,358
Deferred (Note 27)	**(256)**	(2,693)
Total tax charge for the year	**1,126**	6,287

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax using the statutory rates for the regions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2007

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit/(loss) before tax	**(63,673)**		**9,026**		**(54,647)**	
Tax at the statutory tax rates	**(11,143)**	**(17.5)**	**2,166**	**24.0**	**(8,977)**	**(16.4)**
Lower tax rate for specific provinces or local authority	**–**	**–**	**(1,083)**	**(12.0)**	**(1,083)**	**(2.0)**
Adjustment in respect of current tax of previous periods	**21**	**–**	**–**	**–**	**21**	**–**
Tax losses not recognised	**6,753**	**10.6**	**–**	**–**	**6,753**	**12.4**
Profits attributable to associates	**(57)**	**(0.1)**	**–**	**–**	**(57)**	**(0.1)**
Income not subject to tax	**(362)**	**(0.5)**	**–**	**–**	**(362)**	**(0.7)**
Expenses not deductible for tax	**4,595**	**7.2**	**236**	**2.6**	**4,831**	**8.9**
Tax charge/(credit) at the Group's effective rate	**(193)**	**(0.3)**	**1,319**	**14.6**	**1,126**	**2.1**

11. TAX (Continued)

Group – 2006

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	1,848		8,447		10,295	
Tax at the statutory tax rates	323	17.5	2,027	24.0	2,350	22.8
Lower tax rate for specific provinces or local authority	–	–	(1,013)	(12.0)	(1,013)	(9.9)
Adjustment in respect of current tax of previous periods	6,509	352.2	–	–	6,509	63.3
Reversal of temporary differences recognised in previous years as a result of change in tax assessment	(2,693)	(145.7)	–	–	(2,693)	(26.1)
Profits attributable to associates	(912)	(49.4)	–	–	(912)	(8.9)
Income not subject to tax	(294)	(15.9)	–	–	(294)	(2.9)
Expenses not deductible for tax	1,996	108.0	344	4.1	2,340	22.8
Tax charge at the Group's effective rate	4,929	266.7	1,358	16.1	6,287	61.1

The share of tax attributable to associates amounting to HK$42,000 (2006: HK$1,080,000) is included in "Share of profits of associates" on the face of the consolidated income statement.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") which is effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic-invested and foreign-invested enterprises from 1 January 2008 will be unified to 25%. This change in the income tax rate will directly increase the Group's effective tax rate prospectively from 2008. According to HKAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The change in the corporate income tax rate has had no material impact on the results and financial position of the Group for the year ended 31 December 2007.

12. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity holders of the Company for the year ended 31 December 2007 includes a loss of HK$11,942,000 (2006: profit of HK$2,314,000) which has been dealt with in the financial statements of the Company (note 29(b)).

13. DIVIDEND

	2007	2006
	HK$'000	HK$'000
Proposed final – Nil (2006: HK0.5 cent) per ordinary share	**–**	2,227

14. EARNINGS/LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share for the year ended 31 December 2007 is based on the loss for the year attributable to ordinary equity holders of the Company of HK$55,773,000 and 445,430,000 ordinary shares in issue during the year. The calculation of basic earnings per share for the year ended 31 December 2006 is based on the profit for the year attributable to ordinary equity holders of the Company of HK$4,008,000 and 445,430,000 ordinary shares in issue during that year.

Since the Company's warrants expired on 31 December 2006 and the exercise price of the Company's warrants was higher than the average market price of the Company's shares during the year ended 31 December 2006, there were no dilutive potential ordinary shares outstanding during that year. Therefore, no diluted earnings/(loss) per share have been presented for both years ended 31 December 2006 and 2007.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2007						
At 31 December 2006 and at 1 January 2007:						
Cost or valuation	125,100	1,480	64,272	14,097	6,975	211,924
Accumulated depreciation	–	(683)	(36,950)	(7,615)	(5,284)	(50,532)
Net carrying amount	125,100	797	27,322	6,482	1,691	161,392
At 1 January 2007, net of accumulated depreciation	125,100	797	27,322	6,482	1,691	161,392
Additions	–	–	4,161	3,146	380	7,687
Disposals	–	–	(14)	(31)	(1)	(46)
Surplus on revaluation	14,695	–	–	–	–	14,695
Depreciation provided during the year	(3,103)	(128)	(5,031)	(2,192)	(511)	(10,965)
Exchange realignment	748	–	1,130	409	34	2,321
At 31 December 2007, net of accumulated depreciation	137,440	669	27,568	7,814	1,593	175,084
At 31 December 2007:						
Cost or valuation	137,440	1,480	71,388	17,937	7,225	235,470
Accumulated depreciation	–	(811)	(43,820)	(10,123)	(5,632)	(60,386)
Net carrying amount	137,440	669	27,568	7,814	1,593	175,084
Analysis of cost or valuation:						
At cost	–	1,480	71,388	17,937	7,225	98,030
At 31 December 2007 valuation	137,440	–	–	–	–	137,440
	137,440	1,480	71,388	17,937	7,225	235,470

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2006						
At 1 January 2006:						
Cost or valuation	126,585	1,438	61,321	11,837	6,847	208,028
Accumulated depreciation	–	(557)	(31,125)	(5,923)	(4,626)	(42,231)
Net carrying amount	126,585	881	30,196	5,914	2,221	165,797
At 1 January 2006, net of accumulated depreciation	126,585	881	30,196	5,914	2,221	165,797
Additions	–	42	1,738	2,233	–	4,013
Disposals	–	–	(17)	(42)	–	(59)
Surplus on revaluation	1,219	–	–	–	–	1,219
Depreciation provided during the year	(3,079)	(126)	(5,117)	(1,772)	(550)	(10,644)
Exchange realignment	375	–	522	149	20	1,066
At 31 December 2006, net of accumulated depreciation	125,100	797	27,322	6,482	1,691	161,392
At 31 December 2006:						
Cost or valuation	125,100	1,480	64,272	14,097	6,975	211,924
Accumulated depreciation	–	(683)	(36,950)	(7,615)	(5,284)	(50,532)
Net carrying amount	125,100	797	27,322	6,482	1,691	161,392
Analysis of cost or valuation:						
At cost	–	1,480	64,272	14,097	6,975	86,824
At 31 December 2006 valuation	125,100	–	–	–	–	125,100
	125,100	1,480	64,272	14,097	6,975	211,924

At the balance sheet date, the Group's leasehold land and buildings situated in Hong Kong and buildings situated in Mainland China were revalued individually by RHL Appraisal Limited, independent professionally qualified valuers, at an aggregate open market value of HK$137,440,000 based on their existing use. A revaluation surplus of HK$14,695,000, resulting from the above valuations, has been credited to the asset revaluation reserve.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been HK$84,287,000 (2006: HK$85,702,000).

At 31 December 2007, certain of the Group's leasehold land and buildings in Mainland China and in Hong Kong with aggregate net book values of approximately HK$29,415,000 (2006: HK$27,313,000) and HK$16,640,000 (2006: Nil), respectively, were pledged to secure general banking facilities granted to the Group (note 26).

The leasehold land and buildings situated in Hong Kong are held under long-term leases.

16. PREPAID LAND PREMIUMS

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount at 1 January	**10,026**	10,138
Recognised during the year	**(259)**	(254)
Exchange realignment	**311**	142
Carrying amount at 31 December	**10,078**	10,026
Current portion	**(259)**	(247)
Non-current portion	**9,819**	9,779

The leasehold land is held under a medium-term lease and is situated in Mainland China.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**156,726**	156,726
Advance to subsidiaries (note (a))	**61,126**	60,777
	217,852	217,503
Impairment (note (b))	**(10,806)**	–
	207,046	217,503
Due from a subsidiary (note (c))	**–**	3,810

17. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

(a) The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and not repayable within the next financial year. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

(b) An impairment was recognised for an amount due from a subsidiary with a carrying amount of HK$10,806,000 (before deducting the impairment loss) (2006: Nil) because the subsidiary has been loss-making.

(c) The amount due from a subsidiary included in the Company's current assets was unsecured, interest-free, and had no fixed terms of repayment.

The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Sewco (B.V.I.) Limited*	British Virgin Islands	Ordinary US$401	100	–	Investment holding
Sewco Toys & Novelty Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$420,000	–	100	Investment holding and trading of toy products
Pearl Delta Toys Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$2,000,000	–	100	Provision of agency services
Zhongshan Sewco Toys & Novelty Limited#*	The People's Republic of China/ Mainland China	Paid-up registered HK$122,503,125	–	100	Manufacture of toy and consumer products
Huge Returns Enterprises Inc.*	British Virgin Islands	Ordinary US$10	–	100	Investment holding

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Gee Wiz Limited*	Hong Kong	Ordinary HK$51	–	100	Design and trading of consumer products
Gee Wiz Entertainment Limited Liability Company*	The United States of America	Ordinary US$1	–	100	Provision of agency services

A wholly-foreign-owned enterprise registered in the People's Republic of China

* *Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

18. INTERESTS IN ASSOCIATES

	Group 2007 HK$'000	2006 HK$'000
Share of net assets	**2,402**	3,577
Goodwill on acquisition, net carrying amount (note)	**4,964**	4,964
	7,366	8,541
Dividend receivable from an associate	**–**	800

The Group's trade receivable from an associate is disclosed in note 22 to the financial statements.

Note: Impairment of interests in associates

The goodwill arising on acquisition of associates has been included in the carrying amount of interests in associates for impairment testing. The recoverable amount of the associates is determined based on a value in use calculation using cash flow projections based on the financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10.5% (2006: 10.5%).

The key assumptions used in the value in use calculation of the associates for 31 December 2007 and 31 December 2006 are as follows:

Budgeted turnover – The basis used to determine the value assigned to the budgeted turnover is the expected sales orders that will be obtained during the forecast years and the expected product and market development.

Discount rates – The discount rates used are before tax and reflect the specific risks relating to the associates.

18. INTERESTS IN ASSOCIATES (Continued)

Particulars of the associates are as follows:

Name	Particulars of issued shares/common stocks held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group 2007	2006	Principal activities
Jasman Asia Limited	Ordinary shares of HK$10 each	Hong Kong	**40**	40	Design and trading of toy products
Jasman Inc.	Common shares of no par value	The United States of America	**40**	40	Dormant
Jasman USA Inc.	Common stocks of US$0.01 each	The United States of America	**40**	40	Dormant

The above associates are not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2007 HK$'000	2006 HK$'000
Assets	**30,505**	29,801
Liabilities	**22,645**	19,003
Revenues	**159,859**	172,874
Profit	**812**	12,472

19. OTHER INTANGIBLE ASSET

The balance represents cost, less impairment loss, of a club membership. No amortisation has been made over the useful economic life as, in the opinion of directors, the amount is not significant to the overall operating results of the Group.

20. LOAN RECEIVABLE

The balance represents an advance made by a subsidiary of the Company to an employee of the Group. The loan interest rate is charged at 2% (2006: 2%) per annum. The outstanding loan balance is repayable by monthly instalments of HK$15,000 by the borrower.

The instalments receivable in the next 12 months are included under current assets and the balance of HK$575,000 (2006: HK$755,000) is included under non-current assets as at 31 December 2007.

The carrying amount of the loan receivable approximates to its fair value.

21. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**70,553**	51,338
Work in progress	**55,829**	42,970
Finished goods	**29,030**	21,563
	155,412	115,871

22. TRADE RECEIVABLES

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.

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

	Group	
	2007	2006
	HK$'000	HK$'000
Current to 30 days	**78,724**	50,408
31 to 90 days	**60,799**	26,179
Over 90 days	**14,769**	2,012
	154,292	78,599

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**70,303**	45,500
Less than 1 month past due	**45,203**	24,494
1 to 3 months past due	**29,934**	7,854
Over 3 months	**8,852**	751
	154,292	78,599

Receivables that were neither past due nor impaired relate to diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's trade receivables is an amount due from an associate of HK$6,279,000 (2006: HK$6,726,000), which is repayable on similar credit terms to those offered to the major customers of the Group.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**31,796**	26,623	**3**	3

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$19,067,000 (2006: HK$7,559,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and one week, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

24. TRADE PAYABLES

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

	Group	
	2007	2006
	HK$'000	HK$'000
Current to 30 days	**103,060**	52,438
31 to 90 days	**88,260**	40,747
Over 90 days	**23,535**	2,568
	214,855	95,753

The trade payables are non-interest-bearing and normally settled on 30 to 60 days terms.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Forward currency contracts	**2,195**	3,169

The Group had entered into various forward currency contracts during the year 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$3,604,000 (note 7) were credited to the consolidated income statement during the year (2006: HK$3,169,000 debited).

The carrying amounts of forward currency contracts are the same as their fair values. The above transactions involving derivative financial instruments are with Fubon bank of A2 short-term and BBB+ long-term credit ratings by Standard & Poor's.

26. INTEREST-BEARING BANK LOANS

Group

	2007			2006		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	**Fixed rates of 0.60-0.65 per month**	**February 2008 – April 2008**	**16,019**	Fixed rate of 0.51 per month	September 2007	7,963
Bank loans – secured	**Prime – 1.5%**	**January 2008 – March 2008**	**14,780**	–	–	–
Current portion of an instalment loan – secured	**Prime – 2.5%**	**2008**	**3,482**	–	–	–
			34,281			7,963
Non-current						
Instalment loan – secured	**Prime – 2.5%**	**2009 – 2010**	**5,485**			–
			39,766			7,963

26. INTEREST-BEARING BANK LOANS (Continued)

	Group	
	2007	2006
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**34,281**	7,963
In the second year	**3,407**	–
In the third to fifth years, inclusive	**2,078**	–
	39,766	7,963

Notes:

(a) Certain of the Group's bank and instalment loans are secured by:

(i) the pledge of certain of the Group's leasehold land and buildings in Mainland China, which had an aggregate carrying value at the balance sheet date of approximately HK$29,415,000 (2006: HK$27,313,000); and

(ii) the pledge of the Group's leasehold land and buildings situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$16,640,000 (2006: Nil).

(b) Except for secured bank loans of HK$16,019,000 (2006: HK$7,963,000) which are denominated in RMB, all bank and instalment loans are in Hong Kong dollars.

(c) The instalment loan is secured, bears interest at 2.5% below the Hong Kong dollar prime rate per annum and are repayable by 36 monthly instalments commencing on 16 September 2007.

The carrying amounts of the Group's bank and instalment loans approximate to their fair values.

27. DEFERRED TAX

The movements in the Group's deferred tax liabilities/(assets) during the year are as follows:

	Accelerated tax depreciation	Revaluation of properties	Losses available for offset against future taxable profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000
2007				
At 1 January 2007	**256**	**1,225**	**–**	**1,481**
Deferred tax charged/(credited) to the income statement during the year (note 11)	**193**	**–**	**(449)**	**(256)**
Deferred tax charged to the asset revaluation reserve during the year	**–**	**328**	**–**	**328**
At 31 December 2007	**449**	**1,553**	**(449)**	**1,553**
2006				
At 1 January 2006	2,949	4,970	–	7,919
Deferred tax credited to the income statement during the year (note 11)	(2,693)	–	–	(2,693)
Deferred tax credited to the asset revaluation reserve during the year	–	(3,745)	–	(3,745)
At 31 December 2006	256	1,225	–	1,481

At 31 December 2007, the Group had tax losses arising in Hong Kong of HK$41,154,000 (2006: Nil) that were available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses of HK$38,589,000 (2006: Nil) as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2007, there was no unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. SHARE CAPITAL

Shares

	Company	
	2007	2006
	HK$'000	HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
445,430,000 ordinary shares of HK$0.10 each	**44,543**	44,543

Share options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any full-time employee or executive of the Company or any of its subsidiaries, including any executive or non-executive director, 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.

The total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 40,000,000 shares, representing 10% of the ordinary shares of the Company in issue on 6 March 2002 (the commencement date of dealings of the Company's shares on the Stock Exchange) and approximately 8.98% of the issued share capital of the Company as at the date of this annual report. The Company may seek approval of its shareholders in a general meeting to refresh the 10% limit, provided that the total number of ordinary shares which may be issued upon exercise of all options to be granted under the Scheme and under any other share option schemes of the Company under the limit as "refreshed" must not exceed 10% of the ordinary shares in issue at the date of approval of the limit. The maximum number of ordinary shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the issued share capital of the Company at any time. The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in the 12-month period up to and including the date of such further grant in excess of this limit is subject to shareholders' approval in a general meeting.

28. SHARE CAPITAL (Continued)

Shares options (Continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors, other than an independent non-executive director who is proposed to be a grantee. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in aggregrated over 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period up to and including the date of such grant, is subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences at any time on or after the date upon which the option is deemed to be granted and accepted, and expires not later than the 10th anniversary of that date. There is no specific requirement that an option must be held for any minimum period before it can be exercised.

The exercise price of the share options is determinable by the directors, but shall not be less than the higher of:

(i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of the share options which must be a trading day;

(ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; and

(iii) the norminal value of the Company's shares.

No share options have been granted under the Scheme since its adoption.

Warrants

On 5 February 2002, warrants were authorised to be issued by the Company by way of a bonus issue to the successful subscribers and places of the Company's shares in connection with the Company's initial public offering, resulting in 80,000,000 warrants being issued on 6 March 2002. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.10 at a subscription price of HK$0.70 per share, payable in cash and subject to adjustment, from the date of issue to 31 December 2006.

No warrants were exercised during the prior year.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

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.

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus# HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2006		20,912	152,762	693	174,367
Profit for the year	*12*	–	–	2,314	2,314
Proposed final 2006 dividend	*13*	–	–	(2,227)	(2,227)
At 31 December 2006 and 1 January 2007		20,912	152,762	780	174,454
Loss for the year	*12*	–	–	(11,942)	(11,942)
At 31 December 2007		20,912	152,762	(11,162)	162,512

\# *The contributed surplus of the Company arose as a result of the reorganisation of the Group and represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the reorganisation, over the nominal value of the Company's shares issued in exchange therefor.*

Under the Bermuda Companies Act 1981, the Company's contributed surplus is available for cash distribution and/or distribution in specie under certain circumstances.

30. 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$706,000 as at 31 December 2007 (2006: HK$1,054,000), as further explained under the heading "Employee benefits" in note 3.4 to the financial statements. 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 guarantees of HK$115,100,000 (2006: HK$95,100,000) to a bank in respect of banking facilities granted to its subsidiaries. As at the balance sheet date, HK$23,747,000 was utilised by the subsidiaries (2006: Nil).

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

31. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its properties under operating lease arrangements. Leases for these properties are negotiated for a term of two years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**1,982**	2,681
In the second to fifth years, inclusive	**237**	1,616
	2,219	4,297

At the balance sheet date, the Company had no operating lease arrangements.

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted for:		
Office equipment	**1,085**	765
Construction costs	**–**	96
	1,085	861

At the balance sheet date, the Company had no significant commitments.

33. RELATED PARTY TRANSACTIONS

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

	Notes	**2007 HK$'000**	2006 HK$'000
Rental expenses to a director	*(i)*	**204**	204
Rental income from an ex-director	*(ii)*	**–**	(4)
Sales to an associate	*(iii)*	**(24,748)**	(24,862)
Consultancy fee to a related company	*(iv)*	**1,282**	–
Reimbursement of expenses to a related company	*(iv)*	**316**	–

Notes:

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

(ii) The rental income was received from a related company, in which Mr Cheung Po Lun, an ex-director of the Company and a substantial shareholder of the Company, has beneficial interests, for leasing an insignificant portion of the Group's office premises. The rental was agreed by both parties with reference to the then prevailing market conditions. Starting from February 2006, the above-mentioned office premises were occupied by Mr Cheung for no consideration.

(iii) Sales of goods to the Group's associate were made according to the published prices and conditions offered to major customers of the Group.

(iv) Consultancy fee and reimbursement of expenses to a related company, of which one of its shareholders is a member of the key management personnel of the Group, were made according to mutually agreed prices between the parties and at actual costs incurred, respectively.

33. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties:

Details of the Group's trade balances with an associate as at the balance sheet date are disclosed in note 22 to the financial statements.

(c) Compensation of key management personnel of the Group are disclosed in notes 9 and 10 to the financial statements.

The related party transactions in respect of items (a)(i) and (ii) also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007

Financial assets

	Notes	**Group Loans and receivable HK$'000**
Trade receivables	*22*	**154,292**
Loan receivable	*20*	**755**
Financial assets included in prepayments, deposits and other receivables		**6,574**
Cash and cash equivalents	*23*	**31,796**
		193,417

2007

Financial liabilities

		Group		
	Notes	**Financial liabilities at fair value through profit or loss – held for trading HK$'000**	**Financial liabilities at amortised cost HK$'000**	**Total HK$'000**
Trade payables	*24*	**–**	**214,855**	**214,855**
Financial liabilities included in other payables and accruals		**–**	**37,154**	**37,154**
Derivative financial instruments	*25*	**2,195**	**–**	**2,195**
Interest-bearing bank loans	*26*	**–**	**39,766**	**39,766**
		2,195	**291,775**	**293,970**

34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (Continued)

2006

Financial assets

		Group
	Notes	Loans and receivables HK$'000
Dividend receivable from an associate	*18*	800
Trade receivables	*22*	78,599
Loan receivable	*20*	935
Financial assets included in prepayments, deposits and other receivables		11,800
Cash and cash equivalents	*23*	26,623
		118,757

2006

Financial liabilities

		Group		
	Notes	Financial liabilities at fair value through profit or loss – held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade payables	*24*	–	95,753	95,753
Financial liabilities included in other payables and accruals		–	24,614	24,614
Derivative financial instruments	*25*	3,169	–	3,169
Interest-bearing bank loans	*26*	–	7,963	7,963
		3,169	128,330	131,499

Financial assets

		Company	
		2007	2006
	Notes	**Loans and receivables HK$'000**	Loans and receivables HK$'000
Due from a subsidiary	*17*	–	3,810
Cash and cash equivalents	*23*	**3**	3
		3	3,813

At 31 December 2007 and 2006, the Company had no financial liability.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 3.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short and long term interest-bearing debt obligations with a floating interest rate.

The Group's funding policy uses short-term interest-bearing debts to finance its working capital requirements and interest-bearing debts over one year or internal generated resources to finance its capital investments. The Group borrows mainly at floating interest rates and the use of fixed rate interest-bearing debts over one year will only be considered for capital investments and favourable market conditions.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/loss before tax (through the impact on floating rate borrowings).

		Group	
		2007	2006
	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax**	Increase/ (decrease) in profit before tax
	%	**HK$'000**	HK$'000
Hong Kong dollar	1%	**122**	–
Renminbi	1%	**107**	(45)
Hong Kong dollar	(1%)	**(122)**	–
Renminbi	(1%)	**(107)**	45

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or costs incurred by operating units in currencies other than the Hong Kong dollar which is the Group's functional reporting currency. All of the Group's sales are denominated in HKD or United States dollars ("USD"), while approximately 50% (2006: 54%) of costs are denominated in HKD or USD, and approximately 50% (2006: 46%) of which are denominated in RMB.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit/loss before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in RMB rate %	**2007** Increase/ (decrease) in loss before tax HK$'000	2006 Increase/ (decrease) in profit before tax HK$'000
If Hong Kong dollar weakens against RMB	5	**4,016**	(1,674)
If Hong Kong dollar strengthens against RMB	(5)	**(4,016)**	1,674

Credit risk

The Group's sales are made to several major customers and there is concentration of credit risks. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, trade and loan receivables, other receivables and an amount due from an associate, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in notes 30(b) and 30(c) to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. At the balance sheet date, the Group has certain concentrations of credit risk as 38.6% (2006: 46.2%) and 93.8% (2006: 97.8%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the financial statements.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its own operating cash reserve and bank loans. The Group's policy is to ensure matching of maturity of its financial liabilities against its financial assets, and maintenance of a current ratio, defined as current assets over current liabilities, at above one so as to enhance a stable liquidity.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

			2007		
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to less than 12 months HK$'000**	**1 to 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank loans	**–**	**9,337**	**24,944**	**5,485**	**39,766**
Trade payables	**35,049**	**172,090**	**7,716**	**–**	**214,855**
Other payables	**18,529**	**11,504**	**7,121**	**–**	**37,154**
Derivative financial instruments	**–**	**–**	**2,195**	**–**	**2,195**
	53,578	**192,931**	**41,976**	**5,485**	**293,970**

			2006		
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Interest-bearing bank loans	–	3,981	3,982	–	7,963
Trade payables	9,043	83,163	3,547	–	95,753
Other payables	18,906	4,825	883	–	24,614
Derivative financial instruments	–	–	3,169	–	3,169
	27,949	91,969	11,581	–	131,499

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. The Group's policy is to maintain the gearing ratio less than 75%. Net debt includes interest-bearing bank loans, trade and other payables, accruals, less cash and cash equivalents. Capital includes total equity. The gearing ratios as at the balance sheet dates were as follows:

Group

	Notes	**2007 HK$'000**	2006 HK$'000
Interest-bearing bank loans	*26*	**39,766**	7,963
Trade payables	*24*	**214,855**	95,753
Other payables and accruals		**39,260**	25,002
Less: Cash and cash equivalents	*23*	**(31,796)**	(26,623)
Net debt		**262,085**	102,095
Equity attributable to equity holders		**244,101**	278,485
Capital and net debt		**506,186**	380,580
Gearing ratio		**52%**	27%

36. COMPARATIVE AMOUNTS

HK$2,413,000 in respect of subcontracting related expenses and HK$3,169,000 in respect of fair value losses, net on derivative instruments – transactions not qualifying for hedges for the year ended 31 December 2006 have been reclassified from administrative expenses to costs of sales and other operating income/expenses, respectively, as in the opinion of the directors, such reclassifications would produce a more appropriate presentation of the Group's operating results and financial position.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 18 April 2008.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**774,362**	622,200	565,741	449,643	479,069
Cost of sales	**(733,954)**	(544,144)	(500,241)	(383,106)	(409,298)
Gross profit	**40,408**	78,056	65,500	66,537	69,771
Other income and gain	**4,577**	2,962	4,078	4,392	4,613
Selling and distribution costs	**(37,271)**	(22,562)	(19,568)	(15,827)	(19,506)
Administrative expenses	**(64,948)**	(49,940)	(43,753)	(35,642)	(35,516)
Other operating income/(expenses)	**3,584**	(3,228)	236	(262)	60
Finance costs	**(1,322)**	(207)	(610)	(490)	(263)
Share of profits and losses of associates	**325**	5,214	675	(307)	675
Amortisation of goodwill on acquisition of associates	**–**	–	–	(805)	(671)
Profit/(loss) before tax	**(54,647)**	10,295	6,558	17,596	19,163
Tax	**(1,126)**	(6,287)	(3,122)	(5,053)	631
Profit/(loss) for the year	**(55,773)**	4,008	3,436	12,543	19,794
Attributable to:					
Equity holders of the Company	**(55,773)**	4,008	3,436	12,543	19,794
ASSETS AND LIABILITIES					
TOTAL ASSETS	**547,008**	424,367	353,203	354,431	321,732
TOTAL LIABILITIES	**(302,907)**	(145,882)	(85,660)	(114,819)	(90,255)
	244,101	278,485	267,543	239,612	231,477