意科控股

eFORCE HOLDINGS LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

(STOCK CODE : 943)

2008

Annual Report

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Hu Xiao *(Chairman)*
Tam Lup Wai, Franky *(Deputy Chairman)*

Independent Non-executive Directors
Lam Bing Kwan
Yeung King Wah
Lau Kam Ying

COMPANY SECRETARY

Chan Tsz Leung

QUALIFIED ACCOUNTANT

Chan Tsz Leung

AUDITOR

RSM Nelson Wheeler

PRINCIPAL BANKERS

Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited

PRINCIPAL REGISTRAR

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

BRANCH REGISTRAR

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 3008 Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

STOCK CODE

943

EXECUTIVE DIRECTORS

Hu Xiao ("Mr. Hu")
(Chairman)
Aged 38, was appointed as Chairman and Executive Director of the Company on 3 November 2008. Mr. Hu has over 13 years of experience in the financial management and investment banking field and is actively engaged in direct investment in the People's Republic of China ("PRC"). He holds a Bachelor degree in Economics from the Southwestern University of Finance and Economics in the Sichuan Province of the PRC.

Tam Lup Wai, Franky ("Mr. Tam")
(Deputy Chairman)
Aged 60, was appointed as Executive Director and Deputy Chairman of the Company on 17 December 2001 and 11 December 2004 respectively. He was further appointed as member of the Remuneration Committee of the Company on 3 July 2007. Mr. Tam holds a BA in Applied Mathematics from the University of California at Berkeley, USA. He has diversified management experiences in the fields of property, retail and technology. He also specializes in formulating and executing business strategies for companies and has experience in the investment of technology startup. He was previously an administration director of a conglomerate comprises four listed companies in Hong Kong and directly oversaw the administration of the group and responsible in managing several subsidiaries' operations, including properties acquisition, strategic investments and hotel start-up project. Mr. Tam also served as executive director of a Hong Kong publicly listed fashion retail chain store with over 200 outlets in Hong Kong and China and was instrumental in setting up the franchise operation in the PRC before joining the Company in 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Bing Kwan ("Mr. Lam")

Aged 59, was appointed as an Independent Non-executive Director and member of the Audit Committee of the Company on 30 September 2004. He was further appointed as the Chairman of the Remuneration Committee on 1 August 2005. Mr. Lam graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. Mr. Lam has been in senior management positions in the banking and financial industry for more than 10 years. He is a non-executive director of Sino-i Technology Limited (formerly known as Sino-i.com Limited) and Nan Hai Corporation Limited (formerly known as South Sea Holdings Company Limited), and an independent non-executive director of Lai Fung Holdings Limited and Lai Sun Development Company Limited, all of which are companies listed on the Main board of the Hong Kong Stock Exchange (the "Stock Exchange").

Mr. Yeung King Wah ("Mr. Yeung")

Aged 50, was appointed as an Independent Non-executive Director, the chairman of the Audit Committee and member of the Remuneration Committee of the Company on 3 July 2007. Mr. Yeung is the founder of Yeung and Co Chartered Accountant (a firm of registered auditors based in the United Kingdom). Mr. Yeung is a fellow member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and also a member of the Chartered Institute of Taxation in the UK. Mr. Yeung has had over 20 years of experience in auditing, taxation, corporate finance, treasury, financial consulting and management gained from working in Europe and the Asia Pacific. He is the director of JP & M Asia Limited, EC Venture Ltd, Azure Management Consulting Ltd, ILS (Far East) Ltd, ILS (China) Ltd, K&M Nominees Ltd and Tendpress Ltd. He is currently an independent non-executive director of China Electric Power Technology Holdings Limited (Formerly known as A & K Educational Software Holdings Limited), which is listed on the GEM board of the Stock Exchange.

Mr. Lau Kam Ying ("Mr. Lau")
Aged 37, was appointed as an Independent Non-executive Director and member of the Audit Committee and Remuneration Committee of the Company on 5 October 2007. Mr. Lau is a solicitor practicing in Hong Kong. He obtained a bachelor degree from the University of Warwick in 1994, a PCLL from the University of Hong Kong in 1995 and a master degree in Chinese Law from the Peking University in 1998. Mr. Lau was also admitted as a solicitor in England and Wales. He has acted for various reputable clients in commercial, litigation and arbitration cases, particularly in the construction sector. He is currently an executive director of China Electric Power Technology Holdings Limited (Formerly known as A & K Educational Software Holdings Limited), whose shares are listed on the GEM board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Li Shiu Tong, Andrew ("Mr. Li")
Aged 46, is the Managing Director of Fairform Manufacturing Company Limited, a wholly-owned subsidiary of the Group. Mr. Li joined the Group on 1 February 2000 as the Deputy Chairman and Executive Director of the Company and subsequently transferred to supervise the operation of the Group's manufacturing business unit in 2002. Mr. Li is an AHKSA and FCCA in Hong Kong. He holds a Master's degree in business administration from the University of Wales, in the United Kingdom. He was the Group Chief Financial Officer of Guardforce Group and has extensive experience in financial management and asset acquisitions and management before joining the Group in 2000.

Mr. Chan Tsz Leung ("Mr. Chan")
Aged 42, is the Company Secretary and the Qualified Accountant of the Company. Mr. Chan is a qualified accountant and a member of CPA Australia. Mr. Chan holds a Bachelor degree in Commerce from the Murdoch University, Western Australia, Australia. Mr. Chan joined the Group in 2004 as Accountant and had working experience in Hong Kong, Singapore and the PRC.

CHAIRMAN'S STATEMENT

On behalf of eForce Holdings Limited (the "Company") and its subsidiaries (the "Group"), I am pleased to present the Annual Report of the Group for the year ended 31 December 2008.

The business and market conditions were very challenging throughout 2008. On one hand, the escalating raw materials and labor cost in China had added an enormous upward pressure to our manufacturing cost. On the other hand, the uncertainties in the global economy, which was brought about by the sub-prime mortgage crisis in the United States, had resulted severe price competition amongst different manufacturers and had made us unable to pass the added cost to our customers. As a result, gross margin was decreased from 21% in 2007 to 14% in 2008 and the gross profit was decreased by HK$11 million to HK$23 million. This coupled with the decrease of net foreign exchange gain of HK$3 million and the interest income of HK$0.8 million and the increase of administrative expenses of HK$2.8 million had made the net loss for the year increased to HK$23.5 million when compared to HK$5.5 million in 2007.

With uncertainties looming in the global economies, we believe it is better to consolidate and streamline our existing operation for more effective management and utilization of resources. In addition we will continue to exercise due care and diligence to explore other suitable investment, merger and acquisition opportunities. We believe that opportunities are still present even in time of difficulty and will adopt a proactive approach to position ourselves in 2009.

This is the first chairman's statement I have made since my appointment in 3 November 2008. On behalf of the Board of Directors, I thank our management and staffs for their dedication and perseverance in a difficult year. In addition, I would like to thank all of our customers, shareholders, business associates, partners and suppliers for their continuing support.

Hu Xiao
Chairman and Executive Director
20 April 2009

FINANCIAL REVIEW

Turnover for the year ended 31 December 2008 amounted to HK$163 million, which represented an increase of 1.9% as compared to last year (2007: HK$160 million).

The consolidated result of the Group for the financial year ended 31 December 2008, which amounted to a loss of HK$23.5 million (2007: HK$5.5 million). This represented an increase of approximately HK$18 million or 327% as compared to the loss of previous financial year. The increase in loss noted mainly due to the following:

(i) The gross profit was decreased by HK$11 million (2008: HK$23 million and 2007: HK$34 million).

(ii) The net foreign exchange gain was decreased by HK$3 million (2008: HK$0.9 million and 2007: HK$3.9 million).

(iii) The interest income was decreased by HK$0.8 million (2008: HK$0.8 million and 2007: HK$1.6 million).

(iv) The administrative expenses were increased by HK$2.8 million (2008: HK$45.8 million and 2007: HK$43 million).

At the balance sheet date, the Group's net assets were HK$61 million (2007: Net assets of HK$85 million). The decrease in net assets of approximately HK$24 million as compared to 2007 is mainly due to the loss incurred for the year.

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: HK$ Nil).

THE GROUP'S LIQUIDITY AND FINANCIAL RESOURCES

At the balance sheet date, the Group had cash and bank deposits of HK$ 80.7 million (2007: HK$105.7 million) which included a pledged bank deposits of HK$1.5 million (2007: HK$1.5 million) and a foreign currency deposits denominated in Renminbi ("RMB") amounted to HK$1 million (2007: HK$2.7 million).

The Group's consolidated net borrowings decreased to HK$13.3 million (2007: HK$14.7 million). The Group's gearing ratio, which is expressed as a percentage of the Group's net borrowings over total assets value of HK$141 million as at 31 December 2008 (2007: HK$166 million), has increased to 9.4% (2007: 8.8%).

The table below shows the type, maturity, currency and interest rate profiles of the Group's bank and other borrowings at the balance sheet date.

	2008	2007
	HK$'000	*HK$'000*
DEBT MATURITY PROFILE		
Less than 1 year	**10,835**	10,573
Between 2 to 5 years	**2,460**	4,161
	13,295	14,734
INTEREST RATE PROFILE		
Unhedged floating	**6,795**	8,234
Fixed	**6,500**	6,500
	13,295	14,734
NATURE OF DEBT		
Secured	**6,415**	7,854
Unsecured	**6,880**	6,880
	13,295	14,734
CURRENCY PROFILE		
Hong Kong Dollars ("HKD")	**6,880**	6,880
US Dollars ("USD")	**1,998**	2,011
RMB	**4,417**	5,843
	13,295	14,734

The secured loans are secured over the Group's leasehold land and buildings held for own use situated outside Hong Kong with a carrying amount of approximately HK$16 million (2007: HK$16 million), a fixed deposit of HK$1.5 million (2007: HK$1.5 million), the Company's guarantee and certain trade receivables of a subsidiary.

Despite that the Group sustained recurrent losses, the directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES, INTEREST RATES AND RELATED HEDGES

To manage the risk associated with an uncertain market environment, the Group pursues a funding strategy, using equity as far as possible to finance long-term investments.

The Group's borrowings and cash and cash equivalents are primarily denominated in HKD, RMB and USD. The Group does not hedged against foreign exchange risk associated with the USD, as the management believe that the HKD will remain pegged to the USD in the foreseeable future. The management will monitor closely to ensure measures are taken against any adverse impacts on the exchange risk associated with the appreciating RMB.

The interest rates profile of the Group's borrowings comprises a mixture of fixed and floating rates. The Group does not hedged against interest rate risk, as the management does not expect the impact of any fluctuation in interest rates to be material to the Group.

BUSINESS REVIEW

The turnover of the Group for the financial year ended 31 December 2008 increased to HK$163 million (2007: HK$160 million) or by HK$3 million. The increase in turnover was mainly due to the launch of new models by our customers from China and markets other than North America and Europe. Combined sales to these customers increased to HK$56 million (2007: HK$46 million) or by HK$10 million. Sales to North America increased by slightly less than HK$1 million. Sales to the Europe market decreased to HK$52 million (2007: HK$59 million) or by HK$7 million due to severe competition for promotional orders.

As gross margin decreased to 14% (2007: 21%) and the gross profit decreased to HK$23 million (2007: HK$34 million) or by HK$11 million. The decrease was mainly the combine effect of the escalating raw materials and labor cost in China in 2008. This coupled with expectation of a global economic slow down has made the management unable to pass the added cost to the customers and sharply decreased the gross margin.

The loss for the year was increased to HK$23.5 million (2007: HK$5.5 million) or by HK$18 million. The increase in loss was mainly the net effect of the decrease of gross profit by HK$11 million (2008: HK$23 million and 2007: HK$34 million), the decrease of net foreign exchange gain by HK$3 million (2008: HK$0.9 million and 2007: HK$3.9 million), the decrease of interest income by HK$0.8 million (2008: HK$0.8 million and 2007: HK$1.6 million) and the increase of administrative expenses by HK$2.8 million (2008: HK$45.8 million and 2007: HK$43 million). The increase in administrative expenses was mainly due to non-recurring legal and professional fees in respect of certain corporate exercises of the Company during the year.

BUSINESS OUTLOOK

The consumer products market today is still gripped by the uncertainties in the global economies and the management believes it is better to consolidate and streamline the existing operation for more effective management and utilization of resources. The slowdown of the global economy has however eased the upward pressure of certain raw materials and commodities costs and if this trend continues it may have a positive impact to the gross margin.

Moreover we will continue to exercise due care and diligence to explore other suitable investment, merger and acquisition opportunities. We believe that opportunities are still present even in time of difficulty and will adopt a proactive approach to position ourselves in 2009.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

The Group had neither any material acquisition nor disposal in 2008.

MATERIAL CONTINGENT LIABILITIES

The Group is not aware of any material contingent liabilities as at 31 December 2008.

EMPLOYEES AND REMUNERATION POLICY

At the balance sheet date, the Group employed 27 staffs (2007: 28) in Hong Kong and 988 employees (2007: 1160) in Mainland China. Employee remuneration are given and reviewed based on market norms, individual performance and experience. Awards and bonuses are considered based on the Group's business results and employees' individual merit.

The Group had also granted share options to certain employees of the Group on 10 July 2000, entitling them to subscribe for shares of the Company. These options are exercisable in stages commencing twelve months from the grant date. The lapse date of the options is on 9 July 2010. During the year under review, no share option has been exercised.

INTRODUCTION

The Group commits to maintain and ensure high standards of corporate governance and has adopted the provisions contained in the Code on Governance Practices ("Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December save for the few exceptions mentioned below. This report outlines the main corporate governance processes and practices adopted by the Group with specific reference to the provisions of the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard as set out in the Model Code during the year ended 31 December 2008.

BOARD OF DIRECTORS

The Company is led and controlled through the Board of Directors ("Board"). Apart from its statutory responsibilities, the Board sets the Group's overall business and financial strategies as well as setting policies on various matters including major investments, key operational targets and financial control.

Six Board meeting were held during the year ended 31 December 2008. The attendance of each director was as follows:

Name of Director	Number of attendance
Executive Director	
Mr. Hu Xiao *(Chairman, appointed on 3 November 2008)*	1/6
Mr. Tam Lup Wai, Franky *(Deputy Chairman)*	6/6
Mr. Leung Chung Shan *(ex-Chairman, resigned on 3 November 2008)*	3/6
Independent Non-executive Director	
Mr. Lam Bing Kwan	4/6
Mr. Yeung King Wah	3/6
Mr. Lau Kam Ying	5/6

Under the Code A.2.1, the role of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not at present have any officer with the title of chief executive officer ("CEO") but instead the duties of a CEO are performed by Mr. Tam, the Deputy Chairman of the Company in the same capacity as the CEO of the Company.

The Board comprises five members, two of whom are Executive Directors including the Chairman of the Board and three are Independent Non-executive Directors. An Independent Non-executive Director possesses recognized professional qualifications in accounting. The profiles of the Directors' qualifications and experience are set out on pages 3 to 5 of this annual report. The Company is of the view that the current Board comprises members who, as a group, provides the necessary skill and experience for the requirements of the Group's business.

The three Independent Non-executive Directors have all confirmed in writing to the Company that they meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules.

Under the Code A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. After the expiry of service contracts between the Company and Mr. Yeung and the Company and Mr. Lau during the financial year, all independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the Company's Bye-law at the annual general meeting. As their appointment will be reviewed when they are due for re-election, the Company is of the view that this meets the same objectives of the said Code.

AUDIT COMMITTEE

The Company's Audit Committee was established in December 1999 and the present members are as follows:

Name of Director	**Number of attendance**
Mr. Yeung King Wah *(Chairman)*	2/2
Mr. Lau Kam Ying	2/2
Mr. Lam Bing Kwan	2/2

The primary function of the Audit Committee is to review and monitor the Group's financial reporting process and internal controls. It is also responsible for making recommendation to the Board for the appointment, reappointment or removal of the external auditor.

During the year, the Audit Committee reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements and unaudited interim financial statements.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company's Remuneration Committee was established in August 2005 and the present members are as follows:

Name of Director	Number of attendance
Mr. Lam Bing Kwan *(Chairman)*	1/1
Mr. Tam Lup Wai, Franky	1/1
Mr. Yeung King Wah	1/1
Mr. Lau Kam Ying	1/1

The Remuneration Committee is responsible for making recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis.

The Remuneration Committee has assessed the performance of the executive directors and considered the remuneration package of executive directors by reference to the prevailing packages with companies listed on the Main board of the Stock Exchange. Details of the remuneration of directors are disclosed on an individual basis and are set out in note 12 to the financial statements.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparing of the financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results, and cash flows for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The directors have selected suitable accounting policies and applied them consistently, made judgments and estimates on a going concern basis.

Despite that the Group sustained recurrent losses, the directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

AUDITOR'S RESPONSIBILITIES AND REMUNERATION

The statement of RSM Nelson Wheeler regarding their report responsibilities is set out in the Independent Auditor's Report on pages 26 to 27 of this annual report.

During the year, the audit fee, non-audit fee and taxation service fee paid to the Company's auditor, RSM Nelson Wheeler for the Group amounted to HK$580,000, HK$150,000 and HK$11,000 respectively.

INTERNAL CONTROLS

The Board has the overall responsibilities for the Group's internal control system and has adopted a set of internal controls, which facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with relevant laws and regulations. The system is designed to minimize risks of failure to achieve corporate objectives.

The Company had reviewed the effectiveness of the Group's certain internal control system in 2008 and had reported the results to the Audit Committee.

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting provides a useful channel for shareholders to communicate with the Board. All shareholders have 21 days' notice of annual general meeting at which directors are available to answer questions on the Company's affair.

Separate resolutions are proposed at the annual general meeting on each substantially separate issue, including the election of individual director. Pursuant to Rule 13.39 of the Listing Rule, any votes of the shareholders at a general meeting must be taken by poll.

The directors present their annual report together with the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 30 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 8 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	27%	
Five largest customers in aggregate	63%	
The largest supplier		7%
Five largest suppliers in aggregate		28%

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interesting in these major customers and suppliers.

FINANCIAL STATEMENTS

The Group's results for the year ended 31 December 2008 and the state of the Group's affairs as at that date are set out in the financial statements on pages 28 to 87.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2008.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 29 on the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

Particulars of the Company's subsidiaries, associates and jointly controlled entity are set out in notes 30, 16 and 17 respectively on the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 27 on the financial statements.

SHARE OPTIONS, CONVERTIBLE NOTES AND WARRANTS

Details of share options, convertible notes and warrants in issued and their subsequent conversion are set out in notes 26(b) and 24 respectively on the financial statements.

DIRECTORS

The directors during the financial year and up to the date of this report were:

Executive Directors

Mr. Hu Xiao *(appointed on 3 November 2008)*
Mr. Tam Lup Wai, Franky
Mr. Leung Chung Shan *(resigned on 3 November 2008)*

Independent Non-executive Directors

Mr. Lam Bing Kwan
Mr. Yeung King Wah
Mr. Lau Kam Ying

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Tam Lup Wai, Franky and Mr. Lam Bing Kwan will retire by rotation at the Annual General Meeting. Pursuant to Bye-law 86(2) of the Company's Bye-laws, Mr. Hu Xiao will retire at the Annual General Meeting. All retiring directors, being eligible, will offer themselves for re-election.

After the expiry of the service contracts between the Company and Mr. Yeung King Wah and the Company and Mr. Lau Kam Ying during the financial year, all directors including the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the Company's Bye-law at the annual general meeting.

The Company confirmed that it has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 and the Company still considers the independent non-executive directors to be independent.

DIRECTORS' SERVICE CONTRACT

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract, which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2008, the interests and short positions of each directors and chief executives of the Company in shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position in issued shares and underlying shares

Name of director	Capacity/Nature of interests	Number of shares held	Number of underlying shares held	% of total issued shares
Hu Xiao ("Mr. Hu")	Interest in controlled corporation	938,974,000 *(Note 1)*	–	35.33%

Note:

1) The 938,974,000 shares are held by Early State Enterprises Limited ("Early State") a limited liability company incorporated in the British Virgin Islands. Mr. Hu is interested in the entire issued capital of Early State. These shares had charged to BMA Investment Limited ("BMA Investment") as security for loan facilities granted to Mr. Hu by BMA pursuant to a loan agreement dated 27 August 2008 entered into between Mr. Hu and BMA.

Save as disclosed above, as at 31 December 2008, none of the directors nor their associates had any interests and short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEME

At 31 December 2008, the employees of the Group had the following interests in options to subscribe for shares of the Company (closing price per share at 31 December 2008 is HK$0.27) granted for HK$1 consideration under the share option scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of the Company.

				Number of options				
Grantees	Grant Date	Lapse Date	Exercise price per share (Adjusted)	Outstanding at 1 January 2008	Cancelled during the year	Acquired on exercise of options during the year	Adjusted during the year	Outstanding at 31 December 2008
Directors	–	–	–	–	–	–	–	–
Employees	10 July 2000	9 July 2010	HK$0.392	1,850,000	–	–	–	1,850,000
Others *(Note 1)*	10 July 2000	9 July 2010	HK$0.392	28,290,000	–	–	–	28,290,000
				30,140,000	–	–	–	30,140,000

Note 1: Ex-employees of the Group who are still entitled to the options under the terms of the share option scheme.

The Company has a share option scheme, which was adopted on 2 June 1997 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The purpose of the share option scheme is to encourage the officers and staff to participate in the ownership of the Company in order to provide additional incentives to them. The share option scheme shall be valid and effective for a period of ten years ending 1 June 2007. However, with effect from 1 September 2001, the Company no longer can grant any further options under the Scheme unless the Company changes the terms of the Scheme to comply with the requirements of Chapter 17 of the Listing Rules.

For options granted before 1 September 2001, the exercise price of options was determined by the board of directors and was the higher of the nominal value of the shares of the Company and 80% of the average of the closing prices of the shares on the Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vest after one year from the date of grant and are then exercisable up to 10 years after the grant date. However, between 28 June 2001 and 23 August 2001, most of the holders of the options undertake with the Company that the exercise of the options shall be restricted in the following manner:

Period	Number of Shares
10 Jul 2001 to 31 Dec 2001 (both dates inclusive)	Not more than 10% of the outstanding options
1 Jan 2002 to 28 Feb 2002 (both dates inclusive)	Not more than 10% of the outstanding options
1 Mar 2002 to 30 Jun 2002 (both dates inclusive)	Not more than 15% of the outstanding options
1 Jul 2002 to 30 Sept 2002 (both dates inclusive)	Not more than 15% of the outstanding options
1 Oct 2002 to 31 Dec 2002 (both dates inclusive)	Not more than 15% of the outstanding options
1 Jan 2003 to 31 Mar 2003 (both dates inclusive)	Not more than 15% of the outstanding options
1 Apr 2003 to 31 Jul 2003 (both dates inclusive)	Not more than 20% of the outstanding options

The total number of shares available for issue under the share option scheme at 31 December 2008 will be 30,140,000 shares, which represents the outstanding options that have been granted but not yet lapsed or exercised at 31 December 2008, and it is 1.1% of the issued share capital of the Company as at the date of the annual report.

In respect of the maximum entitlement of each participant under the scheme, no limitation in relation to the number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period of the Company's ordinary shares in issue.

DIRECTORS' EMOLUMENTS

Particulars of the Directors' emoluments disclosed pursuant to section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 12 to the financial statements.

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

As at 31 December 2008, the following persons had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Long positions of substantial shareholders in the shares and underlying shares

Name of Shareholder	Capacity/ Nature of Interest	Number of shares held	Number of underlying shares held	% of total issued shares
Early State Enterprises Limited ("Early State")	Beneficial Owner	938,974,000 *(Note 1)*	–	35.33%
BMA Investment Limited ("BMA Investment")	Security interest	938,974,000 *(Note 2)*	–	35.33%
Profit Best Investments Limited ("Profit Best")	Interest in controlled corporation	938,974,000 *(Note 2)*	–	35.33%
Fine Assets Limited ("Fine Assets")	Interest in controlled corporation	938,974,000 *(Note 2)*	–	35.33%
Lo Kit Sing Steven ("Mr. Lo")	Interest in controlled corporation	938,974,000 *(Note 2)*	–	35.33%

Notes:

1) The 938,974,000 shares are held by Early State Enterprises Limited ("Early State"), a limited liability company incorporated in the British Virgin Islands. Mr. Hu is interested in the entire issued capital of Early State. For the avoidance of doubt, the same interests have been disclosed by Mr. Hu under the heading "Interests and short positions of the directors and the chief executives of the Company in shares, underlying shares and debentures of the Company and its associated corporations" above.

2) The 938,974,000 shares are held by Early State and had been charged to BMA Investment Limited ("BMA Investment") as security for loan facilities granted to Mr. Hu by BMA pursuant to a loan agreement dated 27 August 2008 entered into between Mr. Hu and BMA. In accordance with notices received by the Company, Profit Best Investments Limited ("Profit Best") is interested in the entire issued capital of BMA Investment and Mr. Lo Kit Sing Steven ("Mr. Lo") is interested in the entire issued capital of Fine Assets Limited ("Fine Assets"), which is interested in 75% of the issued share capital of Profit Best.

Save as disclosed above, as at 31 December 2008, the Company according to the records required to be kept by the Company under Section 336 of the SFO, there was no person who had any interest or short positions in the shares or underlying shares of the Company.

DIRECTORS' INTERESTS IN CONTRACT

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company had no reserves available for distribution to shareholders of the Company, as computed in accordance with the Companies Act 1981 of Bermuda. However, the Company's share premium account, with a balance of HK$1,493,075,000 at 31 December 2008, may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

CONNECTED TRANSACTIONS

There were no material transactions that need to be disclosed as connected transactions in accordance with the requirement of the Listing Rules.

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

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

LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Particulars of loans from banks and other financial institutions of the Group as at 31 December 2008 are set out in note 23 on the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 88 of this annual report.

PENSION SCHEME

The Group operates a mandatory provident fund scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer makes contributions to the scheme at 5% – 10% and employees are required to make 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000 except for certain senior staff. Mandatory contributions to the scheme vest immediately.

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans ("Plans") organised by local authorities for the Group's employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the Plans. The Group has no other material obligation for the payment of pension benefits associated with these Plans beyond the annual contributions described above.

Details of the pension scheme contributions of the employees, net of forfeited contributions, which have been dealt with in the consolidated income statement for the year ended 31 December 2008, are set out in note 11 on the financial statements.

CORPORATE GOVERNANCE

The Company complied with all requirements set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules, with deviation from the Code A.4.1 that non-executive directors should be appointed for a specific term, subject to re-election. Further information on the Company's corporate governance practices is set out in the "Corporate Governance Report" from on pages 12 to 15 of this annual report.

AUDIT COMMITTEE

Pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), an Audit Committee was established on 28 December 1999 with written terms of reference. As at the date of this annual report, the Audit Committee comprising three independent non-executive directors, namely Mr. Yeung King Wah, Mr. Lam Bing Kwan and Mr. Lau Kam Ying. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of the annual report, there was a sufficient public float of the Company.

AUDITOR

The financial statements of the Company for the year under review have been audited by RSM Nelson Wheeler, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By Order of the Board
Hu Xiao
Chairman and Executive Director

Hong Kong, 20 April 2009

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

To the Shareholders of
eFORCE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of eForce Holdings Limited (the "Company") set out on pages 28 to 87, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and 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 (the "HKICPA") 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda 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 HKICPA. 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.

AUDITOR'S RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers 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 consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's results 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.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong, 20 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	**2008** HK$'000	2007 HK$'000
Turnover	6	**163,474**	159,657
Cost of sales		**(140,078)**	(125,540)
Gross profit		**23,396**	34,117
Other income	7	**5,074**	9,405
Distribution costs		**(4,467)**	(4,593)
Administrative expenses		**(45,754)**	(42,989)
Loss from operations		**(21,751)**	(4,060)
Finance costs	9	**(1,139)**	(1,081)
Share of loss of a jointly controlled entity		**(40)**	–
Loss before tax		**(22,930)**	(5,141)
Income tax expense	10	**(545)**	(358)
Loss for the year attributable to equity holders of the Company	11	**(23,475)**	(5,499)
		HK cents	*HK cents*
Loss per share	14		
Basic		**(0.88)**	0.22
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Note	**2008**	2007
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment	*15*	**22,923**	24,289
Investments in associates	*16*	**–**	–
Investment in a jointly controlled entity	*17*	**(40)**	–
Other non-current assets	*18*	**–**	–
		22,883	24,289
Current assets			
Inventories	*19*	**14,707**	18,715
Trade and other receivables	*20*	**22,709**	17,644
Pledged bank deposits	*21*	**1,533**	1,500
Bank and cash balances	*21*	**79,212**	104,203
		118,161	142,062
Current liabilities			
Trade and other payables	*22*	**(62,107)**	(62,228)
Borrowings	*23*	**(4,335)**	(4,073)
Unsecured other loans	*24*	**(6,500)**	(6,500)
Current tax liabilities		**(4,448)**	(4,489)
		(77,390)	(77,290)
Net current assets		**40,771**	64,772
Total assets less current liabilities		**63,654**	89,061
Non-current liabilities			
Borrowings	*23*	**(2,460)**	(4,161)
NET ASSETS		**61,194**	84,900

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	27	**132,896**	132,896
Reserves	29	**(71,702)**	(47,996)
TOTAL EQUITY		**61,194**	84,900

Approved by the Board of Directors on 20 April 2009

Tam Lup Wai, Franky *Director*	**Hu Xiao** *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Share capital *HK$'000*	**Share premium account** *HK$'000*	**Foreign currency translation reserve** *HK$'000*	**Warrant reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Total equity** *HK$'000*
At 1 January 2007	114,891	1,392,241	(2,623)	24,226	(1,554,801)	(26,066)
Translation difference and net expense recognised directly in equity	–	–	(2,374)	–	–	(2,374)
Loss for the year	–	–	–	–	(5,499)	(5,499)
Total recognised income and expense for the year	–	–	(2,374)	–	(5,499)	(7,873)
Issue of shares on placement *(note 27(a))*	18,000	100,800	–	–	–	118,800
Issue of shares on exercise of share options *(note 27(b))*	5	34	–	–	–	39
At 31 December 2007	132,896	1,493,075	(4,997)	24,226	(1,560,300)	84,900
At 1 January 2008	132,896	1,493,075	(4,997)	24,226	(1,560,300)	84,900
Translation difference and net expense recognised directly in equity	–	–	(231)	–	–	(231)
Loss for the year	–	–	–	–	(23,475)	(23,475)
Total recognised income and expense for the year	–	–	(231)	–	(23,475)	(23,706)
At 31 December 2008	132,896	1,493,075	(5,228)	24,226	(1,583,775)	61,194

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008	2007
	HK$'000	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(22,930)**	(5,141)
Adjustments for:		
Depreciation	**5,320**	5,468
Interest income	**(781)**	(1,566)
Reversal of allowance for inventories	**(943)**	(1,500)
Net gain on disposals of property, plant and equipment	**(1)**	(539)
Written off of property, plant and equipment	**2**	9
Finance costs	**1,139**	1,081
Bad debts written off	**717**	565
Share of loss of a jointly controlled entity	**40**	–
Operating loss before working capital changes	**(17,437)**	(1,623)
Decrease/(increase) in inventories	**4,951**	(4,808)
(Increase)/decrease in trade debtors and bills receivables	**(6,782)**	7,202
Decrease in other debtors, deposits and prepayments	**1,000**	552
Increase in trade creditors and bills payables	**3,421**	5,991
Decrease in other creditors and accrued charges	**(1,813)**	(12,508)
Decrease in amount due to a former substantial shareholder	**(1,729)**	–
Decrease in amounts due to directors	**(301)**	(6,777)
Cash used in operations	**(18,690)**	(11,971)
Income taxes paid	**(615)**	(254)
Net cash used in operating activities	**(19,305)**	(12,225)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(3,775)**	(4,352)
Proceeds from sale of property, plant and equipment	**1,275**	1,850
(Increase)/decrease in pledged bank deposits	**(33)**	56
Interest received	**781**	1,566
Net cash used in investing activities	**(1,752)**	(880)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008	2007
	HK$'000	*HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings	**54,772**	40,712
Repayment of borrowings	**(56,570)**	(43,384)
Proceeds from issue of shares	**–**	118,839
Interest paid	**(838)**	(1,081)
Net cash (used in)/generated from financing activities	**(2,636)**	115,086
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(23,693)**	101,981
Effect of foreign exchange rate changes	**(1,298)**	(3,779)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**104,203**	6,001
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**79,212**	104,203
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**79,212**	104,203

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Suite 3008, Man Yee Building, 68 Des Voeux Road Central, Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 30 to the financial statements.

2. ADOPTION OF NEW AND REVISED HKFRSs

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2008. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective and has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings which are carried at their fair values.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Associates *(Continued)*

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

The Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(d) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in a jointly controlled entity is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the jointly controlled entity in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the jointly controlled entity's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

The Group's share of a jointly controlled entity's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

The gain or loss on the disposal of a jointly controlled entity represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the jointly controlled entity which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Joint venture *(Continued)*

Unrealised profits on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Foreign currency translation *(Continued)*

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

Land and buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Revaluation increases of land and buildings are recognised in the income statement to the extent that the increases reverse previous revaluation decreases of the same asset. All other revaluation increases are credited to the property revaluation reserve in shareholders' equity. Revaluation decreases that offset previous revaluation increases of the same asset are charged against property revaluation reserve directly in equity. All other decreases are recognised in the income statement. On the subsequent sale or retirement of a revalued land and buildings, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained profits.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Land and buildings	30 years
Leasehold improvements	Over the unexpired term of the lease
Plant and machinery	5 years
Furniture, fixtures, office equipment and motor vehicles	5 years
Moulds and tools	5 years

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment *(Continued)*

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(g) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

(h) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

(k) Trade and other receivables

Trade and other receivables are non-derivate financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Trade and other receivables *(Continued)*

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(l) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Trade and other payables

Trade and other payables are stated initially at their fair value and 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.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of manufactured goods and trading of raw materials and moulds are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(q) **Employee benefits** *(Continued)*

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to employees in Hong Kong. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

Subsidiaries incorporated in the People's Republic of China ("PRC") participate in the retirement schemes operated by the local authorities for the Group's employees in the PRC. Contributions to these schemes are charged to the consolidated income statement when incurred.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(r) **Borrowing costs**

All borrowing costs are recognised in the income statement in the period in which they are incurred.

(s) **Taxation**

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Taxation *(Continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) 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 (iv) or (v); or

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

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Segment reporting *(Continued)*

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(v) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Impairment of assets *(Continued)*

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(w) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements apart from those involving estimations, which are dealt with below.

(a) Split of land and building elements

The Group determines that the lease payments cannot be allocated reliably between the land and building elements. Accordingly the entire lease of land and buildings is classified as land and buildings and included under property, plant and equipment.

Key sources of 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.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(b) Property, plant and equipment and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(d) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars ("HKD"), United States dollars ("USD") and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2008, if HKD had weakened 1 per cent (2007: 5 per cent) against USD with all other variables held constant, consolidated loss after tax for the year would have been approximately HK$125,000 (2007: HK$264,000) lower, arising mainly as a result of the net foreign exchange gain on receivables, payables and borrowings denominated in USD. If HKD had strengthened 1 per cent (2007: 5 per cent) against USD with all other variables held constant, consolidated loss after tax for the year would have been approximately HK$125,000 (2007: HK$264,000) higher, arising mainly as a result of the net foreign exchange loss on receivables, payables and borrowings denominated in USD.

(b) Credit risk

The carrying amount of the cash and bank balances and trade and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

It has policies in place to ensure that sales are made to customers with an appropriate credit history.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk *(Continued)*

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has significant concentration of credit risk to its trade receivables as the Group's largest customer contributed over 27% of the turnover for the year and shared over 23% of the trade and bills receivables at the balance sheet date. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to non-recoverable of the receivables and there is no recent history of default for the Group's largest customer.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Over 5 years *HK$'000*
At 31 December 2008				
Borrowings	5,295	2,362	584	–
Unsecured other loans	6,760	–	–	–
Trade and other payables	62,107	–	–	–
At 31 December 2007				
Borrowings	4,616	1,916	2,665	–
Unsecured other loans	6,760	–	–	–
Trade and other payables	62,228	–	–	–

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits and borrowings and unsecured other loans.

Unsecured other loans of HK$6,500,000 (2007: HK$6,500,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risks. Other bank deposits and borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

At 31 December 2008, if interest rates at that date had been 10 basis points lower with all other variables held constant, consolidated loss after tax for the year would have been HK$66,000 (2007: HK$84,000) higher, arising as a result of lower interest income from bank deposits. If interest rates had been 50 basis points higher, with all other variables held constant, consolidated loss after tax for the year would have been HK$331,000 (2007: HK$419,000) lower, arising as a result of higher interest income from bank deposits.

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

6. TURNOVER

The Group's turnover represents the aggregate of sales value of goods supplied to customers less goods returned, trade discounts and sales tax. The amount of revenue recognised in turnover during the year represents manufacture and sale of healthcare and household products.

7. OTHER INCOME

	2008	2007
	HK$'000	*HK$'000*
Income from moulds sales, net	**256**	269
Income from scrap sales	**2,830**	2,623
Interest income	**781**	1,566
Net foreign exchange gain	**903**	3,893
Net gain on disposals of property, plant and equipment	**1**	539
Rental income	**21**	21
Others	**282**	494
	5,074	9,405

8. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group has been operating in a single business segment, that is the manufacture and sale of healthcare and household products.

(b) Secondary reporting format – geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	North America		Europe		The PRC		Hong Kong and others		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**55,273**	54,466	**52,256**	58,864	**15,568**	12,930	**40,377**	33,397	**163,474**	159,657
Segment assets	**–**	–	**–**	–	**42,875**	51,850	**98,169**	114,501	**141,044**	166,351
Capital expenditure	**–**	–	**–**	–	**2,665**	4,262	**1,110**	90	**3,775**	4,352

9. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest on bank loans	**840**	778
Interest on other loans wholly repayable within five years	**299**	303
	1,139	1,081

10. INCOME TAX EXPENSE

(a) Taxation included in consolidated income statement represents:

	2008	2007
	HK$'000	*HK$'000*
Current tax – PRC Enterprise Income Tax		
Provision for the year	**40**	358
Under-provision in prior years	**505**	–
	545	358

No provision for Hong Kong Profits Tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong.

The provision for PRC Enterprise Income Tax is based on the estimated assessable profits for PRC taxation purposes at the rate of taxation applicable to each year.

The new PRC Enterprise Income Tax Law (the "EIT Law") passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the Enterprise Income Tax rate for domestic and foreign-invested enterprises at 25%. The new EIT Law was effective from 1 January 2008. In addition, the new EIT Law also provides a five-year grandfathering period starting from its effective date for those enterprises which are established before 16 March 2007.

10. INCOME TAX EXPENSE *(Continued)*

(b) The reconciliation between the income tax expense and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2008	2007
	HK$'000	*HK$'000*
Loss before tax	**(22,930)**	(5,141)
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	**(3,783)**	(900)
Tax effect of income that is not taxable	**(116)**	(809)
Tax effect of expenses that are not deductible	**4,036**	3,702
Tax effect of temporary differences not recognised	**134**	280
Tax effect of tax losses not recognised	**139**	292
Tax effect of utilisation of tax losses not previously recognised	**–**	(1,769)
Under-provision in prior years	**505**	–
Effect of different tax rates of subsidiaries	**(370)**	(145)
Tax effect of PRC tax holiday	**–**	(293)
Income tax expense	**545**	358

11. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

	2008	2007
	HK$'000	*HK$'000*
Depreciation	**5,320**	5,468
Operating lease charges in respect of land and buildings	**4,942**	4,941
Research and development costs *	**2,632**	2,934
Auditor's remuneration	**580**	640
Cost of inventories sold#	**140,078**	125,540
Bad debts written off	**717**	565
Reversal of allowance for inventories (included in cost of inventories sold)	**(943)**	(1,500)
Written off of property, plant and equipment	**2**	9
Staff costs including directors' remuneration		
Salaries, bonus and allowances	**43,524**	40,772
Retirement benefit scheme contributions	**371**	380
	43,895	41,152

* Research and development costs include staff costs of approximately HK$2,367,000 (2007: HK$2,585,000) which are included in the amount disclosed separately above.

\# Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately HK$27,231,000 (2007: HK$23,459,000), which are included in the amounts disclosed separately above.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of emoluments of the directors of the Company disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

For the year ended 31 December 2008

	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Employee share option benefits	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of director						
Executive directors						
Mr. Hu Xiao *(note (a))*	–	–	–	–	–	–
Mr. Leung Chung Shan *(note (b))*	–	2,975	–	–	12	2,987
Mr. Tam Lup Wai, Franky	–	1,339	–	–	12	1,351
Independent non-executive directors						
Mr. Lam Bing Kwan	60	–	–	–	–	60
Mr. Yeung King Wah	120	–	–	–	–	120
Mr. Lau Kam Ying	120	–	–	–	–	120
	300	4,314	–	–	24	4,638

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

For the year ended 31 December 2007

	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Employee share option benefits	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of director						
Executive directors						
Mr. Leung Chung Shan	–	3,161	–	–	12	3,173
Mr. Tam Lup Wai, Franky	–	1,227	–	–	12	1,239
Independent non-executive directors						
Mr. Chow Siu Ngor	60	–	–	–	–	60
Mr. Ting Leung Huel, Stephen	60	–	–	–	–	60
Mr. Lam Bing Kwan	60	–	–	–	–	60
Mr. Yeung King Wah	60	–	–	–	–	60
Mr. Lau Kam Ying	30	–	–	–	–	30
	270	4,388	–	–	24	4,682

Notes:

(a) Appointed on 3 November 2008

(b) Resigned on 3 November 2008

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

During the year, no share options were granted to the directors.

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2007: HK$Nil).

The five highest paid individuals in the Group during the year included two (2007: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2007: three) individuals are set out below:

	2008	2007
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**2,986**	3,108
Retirement benefit scheme contributions	**83**	95
	3,069	3,203

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**2**	1
	3	3

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the year ended 31 December 2008 (2007: HK$Nil).

14. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share attributable to equity holders of the Company is based on the loss for the year attributable to equity holders of the Company of approximately HK$23,475,000 (2007: HK$5,499,000) and the weighted average number of ordinary shares of 2,657,926,789 (2007: 2,484,243,775) in issue during the year.

(b) Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary share during the two years ended 31 December 2008.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures, office equipment and motor vehicles *HK$'000*	Moulds and tools *HK$'000*	Total *HK$'000*
Cost or valuation:						
At 1 January 2007	18,868	1,863	20,526	14,694	27,084	83,035
Additions	–	–	894	1,493	1,965	4,352
Disposals	–	–	(221)	(303)	(1,296)	(1,820)
Written off	–	–	(270)	(232)	(6)	(508)
Exchange differences	1,311	–	1,636	413	987	4,347
At 31 December 2007 and at 1 January 2008	20,179	1,863	22,565	16,065	28,734	89,406
Additions	–	–	142	1,454	2,179	3,775
Disposals	–	–	–	(241)	(1,399)	(1,640)
Written off	–	–	(717)	(78)	–	(795)
Exchange differences	1,242	–	1,577	450	1,001	4,270
At 31 December 2008	21,421	1,863	23,567	17,650	30,515	95,016
Accumulated depreciation and impairment:						
At 1 January 2007	2,791	1,863	17,619	12,683	22,859	57,815
Charge for the year	1,121	–	1,172	1,052	2,123	5,468
Disposals	–	–	(221)	(239)	(49)	(509)
Written off	–	–	(270)	(229)	–	(499)
Exchange differences	193	–	1,525	310	814	2,842
At 31 December 2007 and at 1 January 2008	4,105	1,863	19,825	13,577	25,747	65,117
Charge for the year	1,020	–	1,218	1,143	1,939	5,320
Disposals	–	–	–	(238)	(128)	(366)
Written off	–	–	(716)	(77)	–	(793)
Exchange differences	252	–	1,439	316	808	2,815
At 31 December 2008	5,377	1,863	21,766	14,721	28,366	72,093
Carrying amount:						
At 31 December 2008	16,044	–	1,801	2,929	2,149	22,923
At 31 December 2007	16,074	–	2,740	2,488	2,987	24,289

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The analysis of the cost or valuation at 31 December 2008 of the above assets is as follows:

	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures, office equipment and motor vehicles *HK$'000*	Moulds and tools *HK$'000*	Total *HK$'000*
At cost	–	1,863	23,567	17,650	30,515	73,595
At valuation 2003	21,421	–	–	–	–	21,421
	21,421	1,863	23,567	17,650	30,515	95,016

The analysis of the cost or valuation at 31 December 2007 of the above assets is as follows:

	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures, office equipment and motor vehicles *HK$'000*	Moulds and tools *HK$'000*	Total *HK$'000*
At cost	–	1,863	22,565	16,065	28,734	69,227
At valuation 2003	20,179	–	–	–	–	20,179
	20,179	1,863	22,565	16,065	28,734	89,406

(a) All land and buildings of the Group are outside Hong Kong under medium-term leases.

(b) The Group's land and buildings held for own use were revalued at 31 December 2003 on an open market value basis by CS Surveyors Limited, an independent firm of professional valuers.

Had the land and buildings held for own use been carried at historical cost less accumulated depreciation and impairment loss as at 31 December 2008 their carrying value would have been approximately HK$23,983,000 (2007: HK$25,076,000).

(c) At 31 December 2008, all land and buildings of the Group were pledged to secure certain loan facilities granted to the Group (note 23).

16. INVESTMENTS IN ASSOCIATES

	2008	2007
	HK$'000	*HK$'000*
Unlisted investments:		
Share of net assets	–	–

Details of the Group's associates at 31 December 2008 are as follows:

Name of associate	**Place of incorporation/ operation**	**Issued and paid up capital**	**Percentage of ownership interest/voting power/profit sharing**	**Principal activities**
Dynasty L.L.C.	United States of America	140,000 ordinary shares of US$1 each	50%	Dormant
Esterham Enterprise Inc.	British Virgin Islands ("BVI")	2 ordinary shares of US$1 each	50%	Dormant

16. INVESTMENTS IN ASSOCIATES *(Continued)*

Summarised financial information in respect of the Group's associates is set out below:

	2008	2007
	HK$'000	*HK$'000*
At 31 December		
Total assets	–	–
Total liabilities	–	–
Net assets	–	–
Group's share of associates' net assets	–	–
Year ended 31 December		
Total revenue	–	–
Total loss for the year	–	–
Group's share of associates' results for the year	–	–

The Group's share of net assets and results for the year is insignificant since the associates are dormant for many years.

17. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	2008 *HK$'000*	2007 *HK$'000*
Unlisted investment:		
Share of net liabilities	**(40)**	–

Details of the jointly controlled entity at 31 December 2008 are as follows:

Name	Place of incorporation/ registration	Issued and fully paid share capital	Attributable equitable interest of the Group	Principal activities
Kato Fairform Strategic Holdings Limited (Formerly known as Powerful Gainer Limited)	Hong Kong	10 ordinary shares of HK$1 each	40%	Investment holding

The following amounts are the Group's share of the jointly controlled entity that is accounted for by the equity method of accounting.

	2008 *HK$'000*	2007 *HK$'000*
At 31 December		
Current assets	**2**	–
Non-current assets	**–**	–
Current liabilities	**(42)**	–
Non-current liabilities	**–**	–
Net liabilities	**(40)**	–
Year ended 31 December		
Turnover	**–**	–
Expenses	**(40)**	–

18. OTHER NON-CURRENT ASSETS

It represented a quality guarantee deposit amounted to HK$44,933,000 paid to China Infohighway Communications Co., Ltd. ("IHW") pursuant to Cooperation Agreement and Supplemental Agreements (collectively "the Agreements") entered into between the Group and IHW on 19 December 2001. Under the Agreements the Group agreed to provide certain equipment and facilities as necessary for IHW's network infrastructure for a facility fee. In the event that the Group fails to provide the required equipment and facilities, IHW can make use of the deposit to purchase the required equipment and facilities. The deposit was unsecured, non-interest bearing and is repayable upon the expiry of the Agreements on 21 July 2019.

However, owing to the difficulty and complexity in securing a telecommunications service-operating permit in the PRC, the Group had decided to suspend the cooperation projects. The directors are currently negotiating a refund of the deposit with IHW but has been unable to reach an agreement.

As the recoverability of the deposit was uncertain, the directors considered that it is prudent to make full allowance of impairment of HK$44,933,000 against the deposit since the year ended 31 December 2003.

19. INVENTORIES

	2008	2007
	HK$'000	*HK$'000*
Raw materials	**8,952**	10,832
Work in progress	**4,897**	7,631
Finished goods	**858**	252
	14,707	18,715

Because of the change in the market conditions of the Group's products during the year, there was a significant increase in the net realisable value of inventories. As a result, allowance made in prior years against the inventories of HK$943,000 (2007: HK$1,500,000) was reversed.

20. TRADE AND OTHER RECEIVABLES

	2008 **HK$'000**	2007 *HK$'000*
Trade debtors and bills receivables *(notes (a), (b) & (c))*	**19,536**	13,471
Other debtors, deposits and prepayments	**3,152**	4,152
Amounts due from associates *(note (d))*	**21**	21
	22,709	17,644

Notes:

(a) An ageing analysis of the Group's trade and bills receivables, based on the invoice date, and net of allowances is as follows:

	2008 **HK$'000**	2007 *HK$'000*
0 to 30 days	**11,656**	8,539
31 to 90 days	**7,665**	4,087
91 to 180 days	**–**	689
181 to 365 days	**1**	1
Over 365 days	**214**	155
	19,536	13,471

Trade debts are normally due within from 30 days to 45 days from the date of billing.

Trade debtors and bills receivables of HK$6,282,000 (2007: HK$5,901,000) are assigned to a bank to secure banking facilities (note 23).

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (continued)

(b) The carrying amounts of the Group's trade debtors and bills receivables are denominated in the following currencies:

	HKD *HK$'000*	USD *HK$'000*	RMB *HK$'000*	Total *HK$'000*
2008	**–**	**18,003**	**1,533**	**19,536**
2007	10	11,286	2,175	13,471

(c) Trade debtors and bills receivables were past due but not impaired

As of 31 December 2008, trade debtors and bills receivables of HK$7,880,000 (2007: HK$4,932,000) were past due but not impaired. The ageing analysis of these trade and bills receivables is as follows:

	2008 ***HK$'000***	2007 *HK$'000*
Up to 3 months	**7,665**	4,087
3 to 6 months	**1**	689
More than 6 months	**214**	156
	7,880	4,932

Receivables that were past due but not impaired relate to customers having a good track record with the Group. Based on past experience, management believes that no impairment allowance 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 over these balances.

(d) Amounts due from associates are unsecured, interest-free and have no fixed repayment terms.

21. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group. The deposits are in HKD and at an average interest rate of 3.1% (2007: 4.39%) per annum.

As at 31 December 2008, the bank and cash balances of the Group denominated in RMB amounted to HK$1,062,000 (2007: HK$2,715,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

22. TRADE AND OTHER PAYABLES

	2008 ***HK$'000***	2007 *HK$'000*
Trade creditors and bills payables *(notes (a) & (b))*	**30,316**	26,895
Other creditors and accrued charges	**31,609**	33,121
Amount due to a former substantial shareholder *(note (c))*	**–**	1,729
Amounts due to directors *(note (c))*	**182**	483
	62,107	62,228

22. TRADE AND OTHER PAYABLES *(Continued)*

Notes:

(a) An ageing analysis of the Group's trade creditors and bills payables, based on the date of receipt of goods, is as follows:

	2008	2007
	HK$'000	*HK$'000*
0 to 30 days	**7,903**	8,020
31 to 90 days	**13,756**	12,677
91 to 180 days	**6,554**	3,469
Over 180 days	**2,103**	2,729
	30,316	26,895

(b) The carrying amounts of the Group's trade creditors and bills payables are denominated in the following currencies:

	HKD	**USD**	**RMB**	**EURO**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008	**14,783**	**1,579**	**13,898**	**56**	**30,316**
2007	14,742	1,432	10,719	2	26,895

(c) Amounts due to a former substantial shareholder and directors are unsecured, interest-free and have no fixed repayment terms.

23. BORROWINGS

	2008	2007
	HK$'000	*HK$'000*
Loans from financial institutions		
– unsecured *(note (a))*	**380**	380
– secured *(notes (b) & (d))*	**4,417**	5,843
	4,797	6,223
Secured bank loan *(notes (c) & (d))*	**1,998**	2,011
	6,795	8,234
The borrowings are repayable as follows:		
On demand or within one year	**4,335**	4,073
In the second year	**1,958**	1,681
In the third to fifth years, inclusive	**502**	2,480
	6,795	8,234
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(4,335)**	(4,073)
Amount due for settlement after 12 months	**2,460**	4,161

23. BORROWINGS *(Continued)*

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	HKD *HK$'000*	USD *HK$'000*	RMB *HK$'000*	Total *HK$'000*
2008	**380**	**1,998**	**4,417**	**6,795**
2007	380	2,011	5,843	8,234

Notes:

(a) The unsecured loan is interest bearing at 3% per annum over the prevailing prime lending rate offered by The Hongkong and Shanghai Banking Corporation Limited and expose the Group to cash flow interest rate risk.

(b) Secured loans are arranged at floating interest rate with an average rate of 8.21% (2007: 5.64%) per annum and expose the Group to cash flow interest rate risk.

(c) Secured bank loan is arranged at interest rate of 1% per annum over the standard bills rate quoted by the bank (2007: 1%) and expose the Group to cash flow interest rate risk.

(d) The secured loans are secured over the Group's leasehold land and buildings held for own use situated outside Hong Kong with a carrying amount of approximately HK$16 million (2007: HK$16 million), fixed deposit approximately HK$1.5 million (2007: HK$1.5 million), the Company's guarantee and certain trade receivables of a subsidiary.

(e) At 31 December 2008, the Group had available HK$8.7 million (2007: HK$8.9 million) undrawn borrowing facilities.

24. UNSECURED OTHER LOANS

On 1 February 2000, pursuant to a placing and underwriting agreement dated 16 December 1999 entered into between the Company and independent placing agents, 4% convertible notes with an aggregate principal amount of HK$9 million were issued (the "Notes"). The Notes were convertible to ordinary shares of HK$0.05 each of the Company at any time between 1 April 2000 and 27 January 2002 and Notes of HK$2.5 million were subsequently converted during 2000.

Prior to maturity, holders of the remaining Notes of HK$6.5 million had not exercised the conversion right, therefore, the directors of the Company consider that the conversion right attaching to the Notes had lapsed. The Notes should be regarded as unsecured other loans and the outstanding balances together with accrued interest of approximately HK$8.3 million are due for repayment. As at the date of authorisation for issue of these financial statements, the Notes holders have not yet requested the Company to repay the loans.

25. DEFERRED TAX

At the balance sheet date the Group has unused tax losses of HK$135,601,000 (2007: HK$134,671,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

No provision for deferred taxation has been made in the financial statements as the tax effect of other temporary differences is immaterial to the Group.

26. RETIREMENT BENEFIT SCHEMES

(a) Employee retirement benefits

The Group operates a mandatory provident fund scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer makes contributions to the scheme at 5% – 10% and employees are required to make 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000 except for certain senior staff. Mandatory contributions to the scheme vest immediately.

26. RETIREMENT BENEFIT SCHEMES *(Continued)*

(a) Employee retirement benefits *(Continued)*

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans ("Plans") organised by local authorities for the Group's employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the Plans. The Group has no other material obligation for the payment of pension benefits associated with these Plans beyond the annual contributions described above.

(b) Equity compensation benefits

The Company has a share option scheme which was adopted on 2 June 1997 whereby the directors of the Company are authorised to invite employees of the Group, including the directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board and was the higher of the nominal value of the shares of the Company and 80% of the average of the closing prices per share on the Stock Exchange for the five business days immediately preceding the date of grant. The options vest after one year from the date of grant and are then exercisable within a period of ten years thereafter. Each option gives the holder the right to subscribe for one share. With effect from 1 September 2001, the Company needs to revise the terms of the existing scheme to comply with the requirements of Chapter 17 of the Listing Rules if the Company wishes to continue to grant options under the existing scheme.

Movements in share options are as follows:

	Number	
	2008	2007
At 1 January	**30,140,000**	30,240,000
Exercised	**–**	100,000
At 31 December – options vested	**30,140,000**	30,140,000

The outstanding share options at the balance sheet dates were granted on 10 July 2000 and are exercisable for a period commencing from 10 July 2001 to 9 July 2010 at an exercise price of HK$0.392 per share.

27. SHARE CAPITAL

	2008	2007
	HK$'000	*HK$'000*
Authorised:		
6,000,000,000 ordinary shares of $0.05 each	**300,000**	300,000

	2008		2007	
	No. of shares	**Amount**	No. of shares	Amount
		HK$'000		*HK$'000*
Issued and fully paid:				
At 1 January	**2,657,926,789**	**132,896**	2,297,826,789	114,891
Issue of shares on placement *(note a)*	–	–	360,000,000	18,000
Shares issued on exercise of share options *(note b)*	–	–	100,000	5
At 31 December	**2,657,926,789**	**132,896**	2,657,926,789	132,896

Notes:

(a) The Company entered into a subscription agreement with Clear Rise Limited ("Clear Rise") on 12 June 2007 pursuant to which Clear Rise agreed to subscribe 360,000,000 ordinary shares of the Company at HK$0.33 per share. These 360,000,000 shares represent approximately 15.67% of the entire issued share capital of the Company prior to the subscription and approximately 13.54% of the entire issued share capital of the Company as enlarged by the subscription. The subscription price represents a discount of approximately 18.52% to the closing price of HK$0.405 per share quoted on the Stock Exchange on 11 June 2007. The excess of the subscription consideration received over the nominal values issued, amounted to HK$100,800,000, was credited to the share premium account. The aggregate amount raised from the subscription was HK$118,800,000. The Directors intend to apply the net proceeds as general working capital.

27. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(b) During the year ended 31 December 2007, 100,000 ordinary shares of HK$0.05 each were issued in relation to share options exercised by former employee of the Group under the share option scheme of the Company at HK$0.392 for a total cash consideration of HK$39,200. The excess of the subscription consideration received over the nominal values issued, amounted to HK$34,200, was credited to the share premium account.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, minority interests, retained earnings and other reserves).

It is the Group's strategy to keep the net debt-to-adjusted capital ratio as low as feasible. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt. As at 31 December 2008, the Group did not have any net debt.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

28. BALANCE SHEET OF THE COMPANY

	2008	2007
	HK$'000	*HK$'000*
Investments in subsidiaries	**191,351**	191,351
Due from subsidiaries	**1,454,728**	1,437,552
Impairment loss on investments and amounts due from subsidiaries	**(1,645,995)**	(1,600,521)
Other current assets	**74,438**	99,131
Due to subsidiaries	**(26,890)**	(29,154)
Other current liabilities	**(11,483)**	(12,428)
NET ASSETS	**36,149**	85,931
Share capital	**132,896**	132,896
Reserves	**(96,747)**	(46,965)
TOTAL EQUITY	**36,149**	85,931

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

(b) Company

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Warrant reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2007	1,392,241	9,354	24,226	(1,573,430)	(147,609)
Issue of shares on placement *(note 27(a))*	100,800	–	–	–	100,800
Issue of shares on exercise of share options *(note 27(b))*	34	–	–	–	34
Loss for the year	–	–	–	(190)	(190)
At 31 December 2007	1,493,075	9,354	24,226	(1,573,620)	(46,965)
At 1 January 2008	1,493,075	9,354	24,226	(1,573,620)	(46,965)
Loss for the year	–	–	–	(49,782)	(49,782)
At 31 December 2008	1,493,075	9,354	24,226	(1,623,402)	(96,747)

29. RESERVES *(Continued)*

(c) Nature and purpose of reserves

(i) Share premium account

Under the Bye-laws of the Company, the share premium is not distributable but may be applied in paying up unissued shares of the Company to be issued to shareholders of the Company as fully paid bonus shares.

(ii) Contributed surplus

The contributed surplus of the Company arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 1997 and represented the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

Under the Companies Act of Bermuda, the Company may make distributions to its members out of the contributed surplus, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, issued share capital and reserves.

(iii) Warrant reserve

The warrant reserve represents the proceeds received from the issue of 370,000,000 warrants at a placing price of HK$0.07 per warrant on 27 November 2003, net of warrant issue expenses. The trading of the warrants on the Stock Exchange had ceased after 2 December 2004 and the listing of the warrants on the Stock Exchange was withdrawn from 4 December 2004. The subscription rights attaching to the warrants had expired on 7 December 2004. The Company had 365,880,000 outstanding warrants not exercised.

30. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2008 are as follows:

Name of company	Place of incorporation/ operation	Issued share and paid up capital	Percentage of ownership interest/voting power/profit sharing *Direct*	*Indirect*	Principal activities
Dongguan Fairform Creative Company Limited *(note (a))***	The PRC	Registered capital HK$8,000,000	–	100%	Manufacture and trading of healthcare and household products
Dongguan Weihang Electrical Product Company Limited *(note (b))*	The PRC	Registered capital US$9,000,000	–	100%	Manufacture and trading of healthcare and household products
eForce Management Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	–	Provision of management services
eForce Project Services Limited	BVI	1 share of US$1	100%	–	Provision of management consultancy services
Fairform Group Limited	BVI	15,700,200 shares of US$1 each	100%	–	Investment holding
Fairform Holdings Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	–	Dormant
Fairform Manufacturing Company Limited	Hong Kong	138,750,000 ordinary shares of HK$1 each and 250,000 non-voting deferred shares of HK$1 each	–	100%	Manufacturing and trading of healthcare and household products

30. PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries as at 31 December 2008 are as follows:

Name of company	Place of incorporation/ operation	Issued share and paid up capital	Percentage of ownership interest/voting power/profit sharing *Direct*	*Indirect*	Principal activities
Gainford International Inc.	BVI	50 shares of US$1 each	–	100%	Investment holding
Oasis Global Limited	BVI	10 shares of US$1 each	–	100%	Trademark holding
Qesco International (H.K.) Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	–	100%	Trademark holding

Notes:

(a) Dongguan Fairform Creative Company Limited is a wholly foreign owned enterprise with an operating period of 12 years expiring on 8 September 2017.

(b) Dongguan Weihang Electrical Product Company Limited is a wholly foreign owned enterprise with an operating period of 30 years expiring on 10 April 2024.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* *For identification purpose only*

31. CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities at 31 December 2008 (2007: Nil).

32. COMMITMENTS

At 31 December 2008, the Group has the following capital commitments outstanding and not provided for in the financial statements:

	2008	2007
	HK$'000	*HK$'000*
Contracted but not provided for:		
Quality guarantee deposit	**17,500**	17,500
Interest-free loan to a jointly controlled entity	**4,000**	–
	21,500	17,500

33. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had no other transactions with its related parties during the year.

34. LEASE COMMITMENTS

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2008	2007
	HK$'000	*HK$'000*
Within one year	**2,003**	4,812
In the second to fifth years inclusive	**907**	1,514
After five years	**8,562**	8,293
	11,472	14,619

(a) The Group leases a number of properties under operating leases. The leases run for an initial period from 1 to 50 years, with an option to renew the lease and renegotiate the terms at the expiry date or dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

(b) Tenancy agreement in respect of office premises in Hong Kong were entered into by Tees Corporation ("Tees"), a former substantial shareholder of the Group, whom acts as the capacity of nominee for the Group. The Group has agreed to assume all the rights and obligations of the tenancy agreement and to indemnify Tees against any claims and losses arising from the tenancy agreement.

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 20 April 2009.

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Turnover	**163,474**	159,657	174,277	168,307	170,283
Operating loss after finance costs	**(22,890)**	(5,141)	(11,980)	(25,312)	(13,404)
Share of profit less losses of associates	**–**	–	–	(1,911)	(8,011)
Share of loss of a jointly controlled entity	**(40)**	–	–	–	–
Loss before taxation	**(22,930)**	(5,141)	(11,980)	(27,223)	(21,415)
Taxation	**(545)**	(358)	–	–	–
Loss for the year	**(23,475)**	(5,499)	(11,980)	(27,223)	(21,415)
Loss attributable to equity holders of the Company	**(23,475)**	(5,499)	(11,980)	(27,223)	(21,415)

	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**141,044**	166,351	71,147	74,298	80,136
Total liabilities	**(79,850)**	(81,451)	(97,213)	(105,693)	(84,118)
Net assets/(liabilities)	**61,194**	84,900	(26,066)	(31,395)	(3,982)
Equity attributable to equity holders of the Company	**61,194**	84,900	(26,066)	(31,395)	(3,982)