Sewco Toys

Sewco International Holdings Limited

崇高國際控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code : 209

Annual Report **2008**

* For identification purpose only

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CORPORATE INFORMATION

DIRECTORS

Executive directors

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

Independent non-executive directors

Ms Cynthia Law
Mr Lam Chin Fung
Mr Tse Wei Kin

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Ms Cheung Yan, Priscilla
Ms Cheung Man, Catherine

AUDITORS

Ernst & Young, *Certified Public Accountants*

AUDIT COMMITTEE MEMBERS

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

REMUNERATION COMMITTEE MEMBERS

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

STOCK CODE

209

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

WEBSITE

www.sewco.com.hk

CHAIRMAN'S STATEMENT

Dear shareholders

On behalf of the board of directors (the "Board") of Sewco International Holdings Limited (the "Company" or "Sewco"), I hereby report the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008.

The "financial tsunami" swept through the world in full force in late 2008, but the tsunami for the toy industry came far earlier than that.

The sharp rallies in commodity markets and the Renminbi ("RMB") from 2007 to mid-2008 followed by the spectacular collapse in the global economy gave the toy industry, and indeed most labour- and material-intensive exporters in China – a twin shock. Even in early 2008, many export-oriented manufacturers across China were already buckling under the weight of ever-rising material and labour costs and new labour policies that added further costs. Those who survived the onslaught earlier in the year faced an even more formidable challenge in the final months of 2008 as the global credit crisis took hold and global trade ground to a halt.

Like many contract toy manufacturers, Sewco fared poorly in 2008, making a record loss of HK$84,274,000, including an impairment loss of HK$19,948,000 resulting from the collapse of an associate. Even though some business was becoming unprofitable as the already thin margins could not cover the rising material and labour costs, the Company believed it was important to honor its commitments and continued production for our long-term customers to show our loyalty and support.

To turn things around, the Group launched a round of aggressive restructuring late last year aimed at cutting production and administrative costs, controlling inventories and improving the overall management of its manufacturing operations. I am very pleased to see our efforts paying off in these few months – operations have improved dramatically, and operating and gross margins are back to health despite lower sales. Margins have also been helped by the sudden halt in the uninterrupted rise in material, labour and freight costs and appreciation of the Renminbi over the past few years.

Despite the uncertainties ahead as the global financial crisis unfolds, Sewco believes that the operating environment for manufacturers relying on low margins and large volumes in the Pearl River Delta region actually improved in early 2009. Even though sales are expected to fall by half, I am cautiously optimistic that the Group will return to profitability in 2009.

I take this opportunity to thank our customers, shareholders and other stakeholders for their support through the difficult times. I also wish to thank our loyal and talented staff members who have shown true grit and commitment during the difficult times. Let me also take this opportunity to thank former executive directors, Mr Kung Ka Pang and Mr Ha Jimmy N.T., for their service.

Cheung Yan, Priscilla
Chairman

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Ms Cheung Yan, Priscilla, aged 35, is the chairman of the Company. She is also an executive director of various subsidiaries of the Company. She is responsible for the strategic planning of the Group. Prior to joining the Group in October 2004, she was a journalist in Hong Kong and New York. She holds a Master of Public Administration degree from the University of Hong Kong and Bachelor of Arts degree in journalism from the University of Connecticut in the United States. She is the younger sister of Ms Cheung Man, Catherine, an executive director of the Company, and a daughter of Mr Cheung Po Lun, the controlling shareholder of the Company and the consultant of the Group.

Ms Cheung Man, Catherine, aged 38, joined the Group in November 1995 and is the chairman of the remuneration committee of the Company. She is also an executive director of certain subsidiaries of the Company. Ms Cheung is primarily responsible for strategic planning and development and marketing management of the Group. She graduated from the University of Warwick in the United Kingdom in 1993 with a Bachelor of Science (Honours) degree in management science, and worked in the marketing field prior to joining the Group. She is the elder sister of Ms Cheung Yan, Priscilla and a daughter of Mr Cheung Po Lun, the controlling shareholder of the Company and the consultant of the Group.

Mr Hui Kwok Chu, aged 48, is the chief executive officer of the Company. He is primarily responsible for the overall planning and operations of the Group. He has over 15 years of experience in the manufacturing and trading of toy products. Before his first joining the Group in 1993, Mr Hui had worked as an accountant in a commercial firm for over 10 years. He had been an executive director of the Company until his resignation on 4 December 2006. Since then, he remained as a consultant to the Group until December 2007. Mr Hui re-joined the Group as the chief executive officer of Sewco Toys & Novelty Limited, an indirect wholly-owned subsidiary of the Company in June 2008, and was appointed as an executive director and the chief executive officer of the Company on 1 December 2008. Mr Hui holds a diploma in management studies from the joint organisers of The Hong Kong Polytechnic University and The Hong Kong Management Association.

Mr Sham Lok Shing, Edward, aged 60, joined the Group in May 2008. He is also the general manager of Sewco Toys & Novelty Limited and Zhongshan Sewco Toys & Novelty Limited, both are indirect wholly-owned subsidiaries of the Company, and is primarily responsible for the day-to-day manufacturing operations of the Group. He has over 20 years of experience in toy manufacturing industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms Cynthia Law, aged 33, has been an independent non-executive director of the Company since November 2007 and is the chairman of the audit committee and a member of the remuneration committee of the Company. Ms Law holds a Bachelor of Business awarded by the University of Technology, Sydney. She is also a Certified Practising Accountant of the Australian Society of Certified Practising Accountants. Ms Law is currently a Business Planning Manager for a leading multinational corporation. She has extensive experience in strategic planning and business analysis.

Mr Lam Chin Fung, aged 59, has been an independent non-executive director of the Company since June 2005 and is a member of both the audit committee and remuneration committee of the Company. Mr Lam has been in the financial field for over 20 years and is the sales director of a company in the business of securities dealing and margin financing.

Mr Tse Wei Kin, aged 56, has been an independent non-executive director of the Company since March 2006 and is a member of both the audit committee and remuneration committee of the Company. Mr Tse has over 26 years of experience in the toy industry, and is currently a prototype and product development consultant.

SENIOR MANAGEMENT

Mr Chan Lee Tim, aged 46, joined the Group in May 2007 and is the financial controller and company secretary of the Company. Mr Chan obtained a Bachelor's degree in Social Sciences from The University of Hong Kong in 1985 and a Master's degree in Commerce from The University of New South Wales in 1995. He has been a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants since 1989 and a fellow member of the Association of Chartered Certified Accountants since 1993. Mr Chan has over 20 years of financial and operations experience in the toy industry.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group's revenue for the year ended 31 December 2008 was HK$873,677,000, a 12.8% increase from HK$774,362,000 in 2007. Gross profit dropped to HK$35,057,000, compared with HK$40,408,000 in 2007. The Group incurred a net loss of HK$84,274,000 in 2008, compared with a net loss of HK$55,773,000 in 2007.

The drop in gross profit margin was mainly a result of skyrocketing material costs, an increase in the minimum wage in Mainland China in April 2008, labour shortage that drove up labour costs, and the accelerated appreciation of RMB. The implementation of new labour laws in China in January 2008 also added a tremendous financial burden to the Group.

Other income increased to HK$11,681,000 in 2008 compared with HK$4,577,000 in 2007. The increase mainly resulted from income on the disposal of inactive inventories. Selling and distribution costs of HK$37,306,000 in 2008 were kept at a similar level with 2007. Administrative expenses increased slightly by 5.3% to HK$68,378,000 in 2008 due to increase in staff related cost.

The Group shared losses of HK$2,402,000 from an associate in 2008. After due consideration of the dim economic outlook in the US and the world economy, the Group withheld further plan to invest in and restructure the insolvent associate in order to reserve more resources for the development and strengthening of its own OEM business. Accordingly other operating expenses came to HK$16,087,000 in 2008 (2007: other operating income of HK$3,584,000), which was mainly due to the impairment losses provided for related goodwill and trade receivables of the said associate totaling HK$19,948,000.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group finances its operations from internally generated resources and external bank financing. The Group uses short term trade financing from banks to fund its working capital requirements and will consider longer term bank financing for significant capital investments and under favourable market conditions. As at 31 December 2008, cash and cash equivalents held by the Group, mainly in HKD, USD and RMB, were HK$21,447,000 (2007: HK$31,796,000). Bank borrowings at 31 December 2008, mainly in HKD and RMB, maturing mainly within one year were HK$79,412,000 (2007: HK$39,766,000, of which HK$34,281,000 was maturing within one year).

Current assets decreased by 42% to HK$202,249,000 at 31 December 2008 (2007: HK$351,549,000). The decrease was mainly attributed to a significant drop in inventories and trade receivables due to our improved inventory and order management systems and a sharp fall in sales in the final quarter of 2008. Inventories and trade receivables at 31 December 2008 dropped to HK$103,706,000 (2007: HK$155,412,000) and HK$60,034,000 (2007: HK$154,292,000) respectively. Prepayments, deposits and other receivables increased to HK$16,617,000 (2007: HK$9,610,000) mainly due to a deposit of HK$7,937,000 placed in the China Post in Zhongshan for the payment of workers' wages in January 2009.

Current liabilities decreased by 27% to HK$214,883,000 at 31 December 2008 (2007: HK$295,869,000). Improved management in material procurement and order processing and increase in bank borrowings generated enough cash to reduce the trade payables to HK$97,673,000 at 31 December 2008 (2007: HK$214,855,000).

Current ratio (current assets/current liabilities) dropped to 0.94 at 31 December 2008 (2007: 1.19). The Group has secured enough banking facilities after year end to ensure liquidity and is cautiously optimistic that profitability will resume to improve its current ratio to above 1 in the coming year.

FINANCIAL REVIEW (Continued)

Liquidity and Financial Resources (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank loans, trade payables, and other payables and accruals, less cash and cash equivalents. Capital includes the total equity. The Group's policy is to maintain the gearing ratio below 75% to ensure liquidity and business continuity. The gearing ratio as at 31 December 2008 was 53% (2007: 52%).

Financial Risk Management Policies

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

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

Foreign currency risk arises from sales or costs incurred by the Group in currency other than HKD. All of the Group's sales are denominated in HKD or USD; while its costs are approximately 49% (2007: 50%) denominated in HKD or USD, and approximately 51% (2007: 50%) denominated in RMB. As HKD is pegged to USD, the Group is mainly exposed to the currency fluctuation of RMB and will closely monitor its exposures through entering into forward contracts.

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

CONTINGENT LIABILITIES

At the balance sheet date, the Company had provided corporate guarantees of HK$115,100,000 (2007: HK$115,100,000) to a bank in respect of banking facilities granted to its subsidiaries. As at the balance sheet date, HK$19,696,000 (2007: HK$23,747,000) was utilised by these subsidiaries.

CHARGES ON ASSETS

At 31 December 2008, the Group's leasehold land and buildings in Mainland China and in Hong Kong (including the prepaid land premiums) with aggregate net book values of approximately HK$127,770,000 (2007: HK$29,415,000) and HK$15,450,000 (2007: HK$16,640,000), respectively, were pledged to secure general banking facilities granted to the Group.

EMPLOYEES

As at 31 December 2008, the Group had a total of approximately 8,500 (2007: 11,400) employees in Hong Kong and Mainland China. The Group provides remuneration packages to employees largely based on industry practice, individual performance, qualifications and experience. In addition, discretionary bonuses and share options under the Company's share option scheme may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides subsidies to staff for external training in order to enhance the Group's competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

It was a difficult year for the Group. Margins were squeezed as material costs rose sharply and labour costs increased due to an increase in the government-mandated minimum wage and labour shortages in Guangdong. China's new labour law amendments that took effect in January 2008 also added costs to private enterprises in the country. Despite record sales, the Group racked up heavy losses as commodity prices continued to march upward through most of the year. The collapse of an associate of the Group, which it also sold to, brought further losses as the Group wrote off related receivables and goodwill.

Expecting a lean 2009 as the global financial crisis took hold, the Group began serious restructuring in late 2008, consolidating production and trimming headcounts to cut overhead and improve margins. Aggressive measures were also taken to control production costs and reduce inventories to improve cash flow.

Despite the anticipated drop in sales, the Group believes that the operating environment for manufacturers has significantly improved in early 2009 as the Chinese government implemented aggressive measures, such as a rise in export tax rebate and freeze of annual minimum wage adjustments, to help lift export. Manufacturers also got a break from the relentless rise in labour and material costs in recent years, and the gross product margins in the first quarter of 2009 reflected these favourable factors. Under these favourable conditions and with far tighter controls imposed since last year, the Group is cautiously optimistic that it will resume profitability in 2009.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group was engaged in the manufacture and trading of hard and stuffed toys, and consumer products.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 81.

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2008 (2007: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 9 June 2009 to Friday, 12 June 2009, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Friday, 12 June 2009 (the "forthcoming AGM"), unregistered holders of shares of the Company should ensure that all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 8 June 2009.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 82. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008.

REPORT OF THE DIRECTORS

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the Bermuda Act 1981, amounted to HK$100,940,000. In addition, the Company's share premium account, in the amount of HK$20,912,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 98.12% of the total sales for the year and sales to the largest customer included therein accounted for 46.17%. Purchases from the Group's five largest suppliers accounted for 28.82% of the total purchases for the year and the purchases from the largest supplier included therein accounted for 10.26%.

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

DIRECTORS

The directors of the Company during the year 2008 and up to the date of this report were:

Executive Directors:

Ms Cheung Yan, Priscilla	
Ms Cheung Man, Catherine	
Mr Hui Kwok Chu	(appointed on 1 December 2008)
Mr Sham Lok Shing, Edward	(appointed on 1 December 2008)
Mr Kung Ka Pang	(resigned on 1 December 2008)
Mr Ha Jimmy N. T.	(resigned on 1 April 2009)

Independent Non-executive Directors:

Ms Cynthia Law
Mr Lam Chin Fung
Mr Tse Wei Kin

In accordance with clause 86(2)(b) of the Bye-laws, Mr Hui Kwok Chu and Mr Sham Lok Shing, Edward, the newly appointed directors of the Company, will retire at the forthcoming AGM. In addition, pursuant to clause 87 of the Bye-laws, Ms Cheung Yan, Priscilla and Ms Cheung Man, Catherine will retire by rotation at the forthcoming AGM. All of the above retiring directors, being eligible, will offer themselves for re-election at the forthcoming AGM.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

On 15 April 2009, Ms Cheung Yan, Priscilla entered into a director's service contract with the Company for a term of 2 years commencing upon the expiration of her current term of office on 27 June 2009, unless terminated by either party giving not less than three months' prior notice in writing.

On 12 February 2009, Ms Cheung Man, Catherine entered into a director's service contract with the Company which ratified that the term of her office commenced on 5 February 2009 with a term of 2 years, unless terminated by either party giving not less than three months' prior notice in writing.

On 1 December 2008, Mr Hui Kwok Chu and Mr Sham Lok Shing, Edward entered into directors' service contracts with the Company, respectively for an initial term of 2 years commencing on 1 December 2008, unless terminated by either party giving not less than three months' prior notice in writing.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, none of the directors or the chief executive of the Company had, under Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), nor were they taken to or deemed to have under such provisions of the SFO, an interest or a short position in the shares or underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interest which was required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed issuers set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any full-time employee or executive of the Company or any of its subsidiaries, including any executive and non-executive directors, any discretionary object of a grantee which is a discretionary trust, and any shareholder of any member of the Group or any holder of any securities issued by any member of the Group. The Scheme was adopted on 5 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No share options have been granted by the Company under the Scheme up to the date of this report.

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

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

At 31 December 2008, the following parties had interests of 5% or more in the shares of the Company according to the register of interests kept by the Company pursuant to Section 336 of the SFO:

Long position in ordinary shares of the Company

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

Notes:

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

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

Save as disclosed above, as at 31 December 2008, no person had registered an interest or a short position in the shares or underlying shares of the Company according to the register that is required to be kept by the Company pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

Details of the connected transactions for the year are set out in note 32 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

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

On behalf of the Board

Cheung Yan, Priscilla
Chairman

Hong Kong
15 April 2009

CORPORATE GOVERNANCE REPORT

The Board hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2008.

CORPORATE GOVERNANCE PRACTICES

Good corporate governance has always been recognized as vital to sustain development of the Group and to safeguard the interests of shareholders. The Group is committed to achieving high standard of corporate governance to enhance corporate value and accountability.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules.

Throughout the year under review, the Company has complied with all the code provisions set out in the CG Code. The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of shareholders and investors.

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

A THE BOARD

A1. Responsibilities and Delegation

The overall management and control of the Group's business are vested in the Board. The Board is responsible for establishing policies, strategies and plans, providing leadership in creating value and overseeing the Group's financial performance on behalf of shareholders of the Company. All the directors carry out their duties in good faith and in compliance with applicable laws and regulations, taking decisions objectively and acting in the interests of the Company and its shareholders at all times.

The Board reserves for its decision all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request for independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

The day-to-day management, administration and operations of the Group are delegated to the executive directors and senior management of the Company. The Board has delegated a schedule of responsibilities to these officers for the implementation of Board decisions. The Board periodically reviews the delegated functions and work tasks. Prior to entering into any significant transactions, the aforesaid officers have to obtain Board approval.

A2. Board Composition

The Board comprises the following directors:

Executive directors:

Ms Cheung Yan, Priscilla	*(Chairman of the Board and Chairman of the Executive Committee)*
Ms Cheung Man, Catherine	*(Chairman of the Remuneration Committee and member of the Executive Committee)*
Mr Hui Kwok Chu	*(Chief Executive Officer and member of the Executive Committee)*
Mr Sham Lok Shing, Edward	*(Member of the Executive Committee)*

Independent non-executive directors:

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

The Board has at all times during the year ended 31 December 2008 met the requirements of the Listing Rules of having at least three independent non-executive directors with at least one of them possessing appropriate professional qualifications and accounting and related financial management expertise as required under the Listing Rules. The Company has also adopted the recommended best practice under the CG Code for having more than one-third of its Board members being independent non-executive directors.

The list of directors (by category) is set out under the section headed "Corporate Information" in this annual report and is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications of the Company.

The Board has maintained the necessary balance of skills and experience appropriate for the business requirements and objectives of the Group and for the exercise of independent judgement. Each executive director supervises specific areas of the Group's business in accordance with his/her expertise. The independent non-executive directors bring different business and financial expertise, experiences and independent judgement to the Board and they are invited to serve on the Board committees of the Company. Through participation in Board meetings, taking the lead in managing issues involving potential conflicts of interests and serving on Board committees, the independent non-executive directors have made various contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders.

The biographical details of the directors of the Company as well as the relationships among them, if any, are set out under the section headed "Directors and Senior Management Profile" in this annual report.

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

A3. Chairman and Chief Executive Officer

There are two key aspects of the management of the Company – the management of the Board and the day-to-day management of the Group's business. The Company supports that there should be a clear division of these responsibilities at the Board level to ensure a balance of power and authority, so that power is not concentrated in any one individual. Currently, Ms Cheung Yan, Priscilla, who is the Chairman of the Board, takes up the responsibility of the management of the Board whereas Mr Hui Kwok Chu, the Chief Executive Officer of the Company, is responsible for the day-to-day management of the Group's business. The respective responsibilities between the Chairman of the Board and the Chief Executive Officer have been clearly established and set out in writing.

A4. Appointment and Re-Election of Directors

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

The Company has not set up a nomination committee and the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the succession planning of directors and assessing the independence of independent non-executive directors. The Company has adopted "Directors Nomination Procedures" as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations.

Besides, the procedures and process of appointment, re-election and removal of directors are laid down in the Bye-laws. In accordance with the Bye-laws, all existing directors are subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meeting of the Company. Any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting of the Company held after his/her appointment.

Pursuant to the aforesaid provisions of the Bye-laws, Mr Hui Kwok Chu and Mr Sham Lok Shing, Edward, having been appointed as executive directors of the Company during the year ended 31 December 2008, shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. In addition, Ms Cheung Yan, Priscilla and Ms Cheung Man, Catherine shall retire by rotation and, being eligible, offer themselves for re-election at the said annual general meeting. The Board recommended the re-appointment of these four retiring directors standing for re-election at the forthcoming annual general meeting. The Company's circular, sent together with this annual report, contains detailed information of the above four directors.

During the year ended 31 December 2008, the Board, through its meeting held on 18 April 2008 (with all the then directors of the Company present at such meeting) and written resolutions passed on 28 November 2008, performed the following work regarding matters relating to nomination of directors:

(i) review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group; recommendation of the re-election of the retiring directors at the 2008 annual general meeting of the Company; and assessment of the independence of all the Company's independent non-executive directors; and

(ii) acceptance of the resignation of Mr Kung Ka Pang as an executive director and appointment of Mr Hui Kwok Chu and Mr Sham Lok Shing, Edward as executive directors of the Company.

A5. Induction and Continuing Development for Directors

Each newly appointed director receives induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The existing directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. As recommended by the Hong Kong Companies Registry, the "Non-statutory Guidelines on Directors' Duties" published by the Registry has been given to the Company's directors to provide them with more information on the general duties of directors, and the required standard of care, skill and diligence in the performance of his/her functions and exercise of his/her powers as directors.

Continuing briefings and professional development to directors will be arranged whenever necessary.

CORPORATE GOVERNANCE REPORT

A6. Board Meetings

A6.1 Board Practices and Conduct of Meetings

Schedules for regular Board meetings are normally agreed with the directors in advance in order to facilitate them to attend. In addition to the above, notice of at least 14 days is given of a regular Board meeting. For other Board and committee meetings, reasonable notice is generally given.

Draft agenda of each Board meeting is usually sent to all directors together with the notice in order to give them an opportunity to include any other matters in the agenda for discussion in the meeting.

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

The Chief Executive Officer, Financial Controller, Company Secretary and other relevant senior management normally attend regular Board meetings and, where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Group.

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

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

A6.2 Directors' Attendance Records

During the year ended 31 December 2008, four regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at these four Board meetings are set out below:

Name of Director	**Attendance/ Number of Board Meetings**
Executive directors	
Ms Cheung Yan, Priscilla	2/4
Ms Cheung Man, Catherine	4/4
Mr Kung Ka Pang (Note 1)	3/4
Mr Ha Jimmy N. T. (Note 1)	4/4
Mr Hui Kwok Chu (Note 2)	N/A
Mr Sham Lok Shing, Edward (Note 2)	N/A
Independent non-executive directors	
Ms Cynthia Law	4/4
Mr Lam Chin Fung	4/4
Mr Tse Wei Kin	4/4

Notes:

1. Mr Kung Ka Pang and Mr Ha Jimmy N. T. resigned as executive directors of the Company with effect from 1 December 2008 and 1 April 2009, respectively. Before their resignation, there were a total of 4 Board meetings held during the year ended 31 December 2008.

2. Mr Hui Kwok Chu and Mr Sham Lok Shing, Edward were appointed as executive directors of the Company with effect from 1 December 2008. During the period immediately after their appointment and up to 31 December 2008, there was no Board meeting held.

A6.3 Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Each director has been given a copy of the Own Code. Specific enquiry has been made of all the Company's directors and they have confirmed their compliance with the Own Code and the Model Code throughout the year ended 31 December 2008.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

B. BOARD COMMITTEES

The Board has established three Board committees, namely, the Remuneration Committee, the Audit Committee and the Executive Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the Company's website "www.sewco.com.hk" and are available to shareholders upon request. All the Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings set out in section A6.1 above.

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

B1. Remuneration Committee

The Remuneration Committee comprises a total of four members, being one executive director, namely Ms Cheung Man, Catherine, and three independent non-executive directors, namely Ms Cynthia Law, Mr Lam Chin Fung and Mr Tse Wei Kin. Accordingly, a majority of the members are independent non-executive directors. The chairman of the Remuneration Committee is Ms Cheung Man, Catherine.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure and the remuneration packages of directors and members of senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

During the year ended 31 December 2008, the Remuneration Committee has met once with the presence of all the committee members. The members in that meeting had generally reviewed the remuneration policy and structure of the Group, and the current remuneration packages of the directors and senior management of the Group, considered the renewal of the letter of appointment of Mr Tse Wei Kin and made relevant recommendations.

Details of the remuneration of each director of the Company for the year ended 31 December 2008 are set out in note 9 to the financial statements contained in this annual report.

B2. Audit Committee

The Audit Committee comprises a total of three members, being the three independent non-executive directors, namely Ms Cynthia Law, Mr Lam Chin Fung and Mr Tse Wei Kin. The chairman of the Audit Committee is Ms Cynthia Law who possesses the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditors and making the relevant recommendation to the Board; and reviewing the Group's financial reporting system, internal control system and risk management system.

During the year ended 31 December 2008, the Audit Committee has met four times (with all the members present at all meetings) and performed the following major works:

– Review and discussion of the financial statements for the eleven months ended 30 November 2007 and the audit findings from the external auditors;

– Review and discussion of the annual financial statements, results announcement and report for the year ended 31 December 2007, the related accounting principles and practices adopted by the Group and the relevant audit findings;

– Review and discussion of the internal control system of the Group;

– Discussion and recommendation of the re-appointment of the external auditors;

– Review and discussion of the financial statements for the five months ended 31 May 2008; and

– Review and discussion of the interim financial statements, results announcement and report for the six months ended 30 June 2008 and the related accounting principles and practices adopted by the Group.

The external auditors were invited to attend two of the meetings to discuss with the Audit Committee members on issues arising from the audit and financial reporting matters. There is no disagreement between the Board and the Audit Committee regarding the appointment of external auditors.

B3. Executive Committee

The Executive Committee comprises all the executive directors of the Company with the Chairman of the Board, Ms Cheung Yan, Priscilla, acting as the chairman of such Committee. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency for the business decision. It monitors the execution of the Company's strategic plans and operations of all business units of the Group and discusses and makes decisions on matters relating to the management and day-to-day operations of the Group.

C. DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2008.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

As reflected in the consolidated financial statements of the Company for the year ended 31 December 2008, the Group incurred consolidated net current liabilities as at 31 December 2008 and a loss for the year then ended. The directors of the Company have taken various measures, as detailed in note 2 to the financial statements, to improve the Group's financial position, immediate liquidity and cash flows and to sustain the Group as a going concern. The directors consider that the Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due and, accordingly, are satisfied that it is appropriate to prepare the said financial statements on a going concern basis.

D. INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system of the Group to safeguard the interests of the Company' shareholders and assets and, with the support of the Audit Committee, for reviewing the effectiveness of such system on an annual basis.

The Board has conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 December 2008. The senior management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Board and the Audit Committee on any findings and measures to address the variances and identified risks.

E. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 December 2008 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to the Company's external auditors in respect of audit services and non-audit services for the year ended 31 December 2008 are analyzed below:

Type of services provided by the external auditors	**Fees paid/payable**
	HK$
Audit services:	
Underprovision of audit fee for the year ended 31 December 2007	60,000
Audit fee for the year ended 31 December 2008	1,060,000
Non-audit services:	
Taxation service provided in the year 2008	371,000
TOTAL:	1,491,000

F. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board believes that a transparent and timely disclosure of the Group's information will enable shareholders and investors to make the best investment decision and to have better understanding on the Group's business performance and strategies. It is also vital for developing and maintaining continuing investor relations with the Company's potential and existing investors.

The Company maintains a website at "www.sewco.com.hk" as a communication platform with shareholders and investors, where information and updates on the Group's financial information and other information are available for public access. Shareholders and investors may write directly to the Company at its principal place of business for any inquiries. Inquiries are dealt with in an informative and timely manner.

The Board welcomes views of shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. The Chairman of the Board as well as the chairmen and/or other members of the Audit Committee and the Remuneration Committee are normally present at the annual general meetings and other shareholders' meetings of the Company to answer questions raised. During the year ended 31 December 2008, the Company held one shareholders' meeting, which is the annual general meeting held on 5 June 2008. All the then members of the Board, except for Mr Ha Jimmy N.T., were present at the meeting.

G. SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, the rights of shareholders for proposing resolutions are contained in the Bye-laws.

Upon implementation of the amendments of the Listing Rules with effect from 1 January 2009, all resolutions proposed at shareholders' meetings of listed issuers must be voted by poll. The poll voting results shall be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sewco.com.hk) after a shareholders' meeting.

INDEPENDENT AUDITORS' REPORT

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安 永

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

We have audited the financial statements of Sewco International Holdings Limited set out on pages 27 to 81, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 2 to the financial statements which indicates that the Group incurred a loss of HK$84,274,000 for the year ended 31 December 2008 and, as of that date, the Group's current liabilities exceeded its current assets by HK$12,634,000. These conditions, along with other matters as set forth in note 2, indicate the existence of a material uncertainty in relation to the going concern of the Group and the Company.

Ernst & Young
Certified Public Accountants

Hong Kong
15 April 2009

Year ended 31 December 2008 CONSOLIDATED INCOME STATEMENT

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	6	**873,677**	774,362
Cost of sales		**(838,620)**	(733,954)
Gross profit		**35,057**	40,408
Other income	6	**11,681**	4,577
Selling and distribution costs		**(37,306)**	(37,271)
Administrative expenses		**(68,378)**	(64,948)
Other operating income/(expenses)		**(16,087)**	3,584
Finance costs	8	**(3,403)**	(1,322)
Share of profits/(losses) of associates		**(2,402)**	325
LOSS BEFORE TAX	7	**(80,838)**	(54,647)
Tax	11	**(3,436)**	(1,126)
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12	**(84,274)**	(55,773)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	13	**(HK18.92 cents)**	(HK12.52 cents)

CONSOLIDATED BALANCE SHEET 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**168,909**	175,084
Deposit for items of property, plant and equipment		**2,015**	2,015
Prepaid land premiums	*15*	**9,805**	9,819
Interests in associates	*17*	**–**	7,366
Other intangible asset	*18*	**600**	600
Loan receivable	*19*	**395**	575
Total non-current assets		**181,724**	195,459
CURRENT ASSETS			
Inventories	*20*	**103,706**	155,412
Prepaid land premiums	*15*	**265**	259
Trade receivables	*21*	**60,034**	154,292
Prepayments, deposits and other receivables		**16,617**	9,610
Loan receivable	*19*	**180**	180
Cash and cash equivalents	*22*	**21,447**	31,796
Total current assets		**202,249**	351,549
CURRENT LIABILITIES			
Trade payables	*23*	**97,673**	214,855
Other payables and accruals		**35,937**	39,260
Derivative financial instruments	*24*	**349**	2,195
Interest-bearing bank loans	*25*	**79,412**	34,281
Tax payable		**1,512**	5,278
Total current liabilities		**214,883**	295,869
NET CURRENT ASSETS/(LIABILITIES)		**(12,634)**	55,680
TOTAL ASSETS LESS CURRENT LIABILITIES		**169,090**	251,139
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	*25*	**–**	5,485
Deferred tax liabilities	*26*	**1,819**	1,553
Total non-current liabilities		**1,819**	7,038
Net assets		**167,271**	244,101

31 December 2008 **CONSOLIDATED BALANCE SHEET**

	Notes	2008 HK$'000	2007 HK$'000
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued capital	*27*	**44,543**	44,543
Reserves	*28(a)*	**122,728**	199,558
Total equity		**167,271**	244,101

Cheung Yan, Priscilla
Director

Cheung Man, Catherine
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2008

		Attributable to equity holders of the Company							
	Notes	**Issued capital** HK$'000	**Share premium account** HK$'000	**Asset revaluation reserve** HK$'000	**Statutory reserve fund** HK$'000	**Exchange fluctuation reserve** HK$'000	**Retained profits** HK$'000	**Proposed final dividend** HK$'000	**Total equity** HK$'000
At 1 January 2007		44,543	20,912	37,471	4,658	6,568	162,106	2,227	278,485
Surplus on revaluation	*14*	–	–	14,695	–	–	–	–	14,695
Deferred tax liability on revaluation of properties	*26*	–	–	(328)	–	–	–	–	(328)
Exchange realignment		–	–	–	–	9,249	–	–	9,249
Total income and expense (including gains and losses) for the year recognised directly in equity		–	–	14,367	–	9,249	–	–	23,616
Loss for the year		–	–	–	–	–	(55,773)	–	(55,773)
Total income and expense for the year		–	–	14,367	–	9,249	(55,773)	–	(32,157)
Final 2006 dividend declared		–	–	–	–	–	–	(2,227)	(2,227)
Revaluation reserve released		–	–	(776)	–	–	776	–	–
Appropriation to statutory reserve fund		–	–	–	996	–	(996)	–	–
At 31 December 2007		44,543	20,912*	51,062*	5,654*	15,817*	106,113*	–	244,101
At 1 January 2008		44,543	20,912	51,062	5,654	15,817	106,113	–	244,101
Deficit on revaluation	*14*	–	–	(1,455)	–	–	–	–	(1,455)
Reversal of deferred tax liability on revaluation of properties	*26*	–	–	263	–	–	–	–	263
Exchange realignment		–	–	–	–	8,636	–	–	8,636
Total income and expense (including gains and losses) for the year recognised directly in equity		–	–	(1,192)	–	8,636	–	–	7,444
Loss for the year		–	–	–	–	–	(84,274)	–	(84,274)
Total income and expense for the year		–	–	(1,192)	–	8,636	(84,274)	–	(76,830)
Revaluation reserve released		–	–	(1,105)	–	–	1,105	–	–
Appropriation to statutory reserve fund		–	–	–	10	–	(10)	–	–
At 31 December 2008		44,543	20,912*	48,765*	5,664*	24,453*	22,934*	–	167,271

* *These reserve accounts comprise the consolidated reserves of HK$122,728,000 (2007: HK$199,558,000) in the consolidated balance sheet.*

Year ended 31 December 2008 **CONSOLIDATED CASH FLOW STATEMENT**

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(80,838)**	(54,647)
Adjustments for:			
Finance costs	8	**3,403**	1,322
Interest income	6	**(185)**	(510)
Share of (profits)/losses of associates		**2,402**	(325)
Depreciation	7	**12,094**	10,965
Recognition of prepaid land premiums	7	**270**	259
Loss on disposal of items of property, plant and equipment	7	**191**	21
Provision against slow-moving, obsolete and defective inventories	7	**19,330**	37,876
Impairment of interests in associates	7	**4,964**	–
Impairment of trade receivables	7	**14,984**	–
Fair value gains, net:			
Derivative instruments – transactions not qualifying as hedges	7	**(4,052)**	(3,604)
		(27,437)	(8,643)
Increase in a deposit for items of property, plant and equipment		**–**	(930)
Decrease/(increase) in inventories		**43,962**	(70,185)
Decrease/(increase) in trade receivables		**79,274**	(75,693)
Decrease/(increase) in prepayments, deposits and other receivables		**(6,810)**	8,411
Decrease in loan receivable		**180**	180
Increase/(decrease) in trade payables		**(122,039)**	118,629
Increase/(decrease) in other payables and accruals		**(4,254)**	14,258
Increase in derivative financial liabilities		**2,206**	2,630
Cash used in operations		**(34,918)**	(11,343)
Interest received		**185**	510
Interest paid		**(3,403)**	(1,322)
Hong Kong profits tax paid		**(5,014)**	(5,464)
Overseas taxes paid		**(1,669)**	(1,318)
Net cash outflow from operating activities		**(44,819)**	(18,937)

CONSOLIDATED CASH FLOW STATEMENT Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	*14*	**(5,494)**	(7,687)
Dividends received from an associate		**–**	2,300
Proceeds from disposal of items of property, plant and equipment		**13**	25
Net cash outflow from investing activities		**(5,481)**	(5,362)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**225,462**	74,247
Repayment of bank loans		**(186,689)**	(43,024)
Dividend paid		**–**	(2,227)
Net cash inflow from financing activities		**38,773**	28,996
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(11,527)**	4,697
Cash and cash equivalents at beginning of year		**31,796**	26,623
Effect of foreign exchange rate changes, net		**1,178**	476
CASH AND CASH EQUIVALENTS AT END OF YEAR		**21,447**	31,796
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	**21,447**	31,796

31 December 2008 **BALANCE SHEET**

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*16*	**166,390**	207,046
CURRENT ASSETS			
Prepayments, deposits and other receivables		**–**	7
Cash and cash equivalents	*22*	**6**	3
Total current assets		**6**	10
CURRENT LIABILITIES			
Accruals		**1**	1
NET CURRENT ASSETS		**5**	9
Net assets		**166,395**	207,055
EQUITY			
Issued capital	*27*	**44,543**	44,543
Reserves	*28(b)*	**121,852**	162,512
Total equity		**166,395**	207,055

Cheung Yan, Priscilla
Director

Cheung Man, Catherine
Director

NOTES TO THE FINANCIAL STATEMENTS 31 December 2008

1. CORPORATE INFORMATION

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

During the year, the Group was engaged in the manufacture and trading of hard and stuffed toys, and consumer products.

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

2. BASIS OF PRESENTATION

The Group had consolidated net current liabilities of approximately HK$12,634,000 as at 31 December 2008 and a loss of approximately HK$84,274,000 for the year then ended, compared with a loss of approximately HK$55,773,000 in the prior year.

In order to improve the Group's financial position, immediate liquidity and cash flows and to sustain the Group as a going concern, the directors of the Company have taken the following measures:

(a) the Group has been negotiating with a bank for new banking facilities totalling RMB50 million (equivalent to approximately HK$56,696,000). As detailed in note 35 to the financial statements, subsequent to the balance sheet date, on 31 March 2009, this bank issued a letter of intent in respect of the said banking facilities which would be secured by certain leasehold land and buildings of the Group. These new banking facilities will replace the loan facilities of RMB11.6 million (equivalent to approximately HK$13,153,000) as at 31 December 2008 granted from another bank with the same pledged assets. Of the total banking facilities of RMB50 million as stated in the letter of intent, a loan of RMB15 million (equivalent to approximately HK$17,008,000) was granted to the Group on 10 April 2009;

(b) the Group continues to maintain good business relations with its bankers, who have continued their support to the Group, and, in particular, one of its bankers has agreed to roll over its loans on maturity. In addition, as disclosed in note 25(c) to the financial statements, the Group is currently in discussions with one of its bankers for a waiver of the breaches of financial covenants. The directors believe that such waiver will be granted;

(c) the directors of the Company have been taking various cost control measures to tighten the costs of operations and various general and administrative expenses; and

(d) the Group has been implementing various strategies to improve the Group's profitability.

The directors of the Company consider that the Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due, and accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

3.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

3.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets* (Continued)

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*

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

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[2]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments*[1]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*[6]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[5]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, the amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Apply prospectively to transfers of assets from customers received on or after 1 July 2009
6 Effective for annual periods beginning on or after 30 June 2009

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

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

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

The results of associates are included in the Group's income statement to the extent of dividends received and receivable. The Group's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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

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

Impairment of non-financial assets other than goodwill

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

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

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

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

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

Intangible assets (other than goodwill)

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

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

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Fair value

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Assets carried at cost

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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

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

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

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

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

Financial liabilities at fair value through profit or loss

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Derivative financial instruments

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

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

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

Inventories

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

Cash and cash equivalents

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

Revenue recognition

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

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

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

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

Employee benefits

Pension schemes

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

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

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

Foreign currencies

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

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES

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

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. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of goodwill on acquisition of associates

The Group determines whether goodwill included in the interests in associates is impaired at least on an annual basis. This requires an estimation of the value in use of the interests in associates including goodwill. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the interests in associates and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill on the acquisition of associates at 31 December 2008 was nil (2007: HK$4,964,000). Further details are set out in note 17 to the financial statements.

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

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

Impairment of non-financial assets (other than goodwill)

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

5. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

5. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain assets, liabilities and expenditures information for the Group's business segments for the years ended 31 December 2008 and 2007.

Group

	Hard toys		Stuffed toys		Consumer products		Corporate		Eliminations		Consolidated	
	2008	2007	**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	**HK$'000**	HK$'000
Segment revenue:												
Sales to external customers	**801,081**	664,757	**70,819**	102,558	**1,777**	7,047	**–**	–	**–**	–	**873,677**	774,362
Other revenue from external sources	**11,387**	3,621	**109**	446	**–**	–	**–**	–	**–**	–	**11,496**	4,067
Intersegment other revenue	**1,231**	1,231	**–**	–	**–**	–	**–**	–	**(1,231)**	(1,231)	**–**	–
Total	**813,699**	669,609	**70,928**	103,004	**1,777**	7,047	**–**	–	**(1,231)**	(1,231)	**885,173**	778,429
Segment results	**(60,773)**	(38,388)	**(5,501)**	(8,316)	**(6,972)**	(8,788)	**(1,972)**	1,332	**–**	–	**(75,218)**	(54,160)
Interest income											**185**	510
Finance costs											**(3,403)**	(1,322)
Share of profits/(losses) of associates											**(2,402)**	325
Loss before tax											**(80,838)**	(54,647)
Tax											**(3,436)**	(1,126)
Loss for the year											**(84,274)**	(55,773)
Assets and liabilities												
Segment assets	**360,439**	491,303	**21,823**	38,209	**532**	8,767	**604**	608	**–**	–	**383,398**	538,887
Interests in associates									**–**		**–**	7,366
Unallocated assets									**–**		**575**	755
Total assets									**–**		**383,973**	547,008
Segment liabilities	**130,702**	246,782	**2,876**	5,643	**32**	690	**349**	3,195	**–**	–	**133,959**	256,310
Unallocated liabilities									**–**	–	**82,743**	46,597
Total liabilities									**–**		**216,702**	302,907
Other segment information:												
Capital expenditure	**5,494**	7,687	**–**	–	**–**	–	**–**	–	**–**	–	**5,494**	7,687
Surplus/(deficit) on revaluation of leasehold land and buildings	**(1,455)**	14,695	**–**	–	**–**	–	**–**	–	**–**	–	**(1,455)**	14,695
Recognition of prepaid land premiums	**270**	259	**–**	–	**–**	–	**–**	–	**–**	–	**270**	259
Depreciation	**11,459**	10,207	**484**	742	**151**	16	**–**	–	**–**	–	**12,094**	10,965
Other non-cash expenses	**32,052**	36,805	**2,262**	4,875	**–**	–	**3,352**	(974)	**–**	–	**37,666**	40,706

5. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue and certain assets and expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

Group

	USA and Canada		Japan and others		Hong Kong and Mainland China		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**683,014**	613,556	**165,125**	132,398	**25,538**	28,408	**873,677**	774,362
Other revenue	**3,674**	644	**396**	833	**7,426**	2,590	**11,496**	4,067
Total	**686,688**	614,200	**165,521**	133,231	**32,964**	30,998	**885,173**	778,429
Other segment information:								
Segment assets	**532**	1,139	**–**	–	**383,441**	545,869	**383,973**	547,008
Capital expenditure	**–**	167	**–**	–	**5,494**	7,520	**5,494**	7,687

6. REVENUE AND OTHER INCOME

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

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

	2008	2007
	HK$'000	HK$'000
Revenue		
Sale of goods	**873,677**	774,362
Other income		
Mould income	**338**	1,102
Bank interest income	**171**	490
Interest income from loan receivable	**14**	20
Sundry income	**11,158**	2,965
	11,681	4,577

7. LOSS BEFORE TAX

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

	Notes	2008 HK$'000	2007 HK$'000
Cost of inventories sold		**819,290**	696,078
Provision against slow-moving, obsolete and defective inventories		**19,330**	37,876
Depreciation*	*14*	**12,094**	10,965
Recognition of prepaid land premiums	*15*	**270**	259
Minimum lease payments under operating leases in respect of land and buildings		**3,695**	3,117
Auditors' remuneration:			
Current year		**1,060**	1,000
Underprovision in prior years		**60**	120
		1,120	1,120
Employee benefit expense (excluding directors' remuneration – note 9)**:			
Wages and salaries		**255,149**	202,799
Other employee benefits		**1,038**	137
Pension schemes contributions		**11,105**	4,741
		267,292	207,677
Loss on disposal of items of property, plant and equipment		**191**	21
Foreign exchange differences, net		**1,802**	2,263
Impairment of interests in associates***	*17*	**4,964**	–
Impairment of trade receivables***	*21*	**14,984**	–
Fair value gains, net:			
Derivative instruments – transactions not qualifying as hedges	*24*	**(4,052)**	(3,604)

* *Depreciation of HK$7,722,000 (2007: HK$6,977,000) is also included in "Cost of inventories sold" above.*

** *Employee benefit expense of HK$231,568,000 (2007: HK$177,728,000) is also included in "Cost of inventories sold" above.*

*** *Impairment of interests in associates of HK$4,964,000 (2007: Nil) and impairment of trade receivables of HK$14,984,000 (2007: Nil) are included in "Other operating income/(expenses)" on the face of the consolidated income statement.*

8. FINANCE COSTS

	Group 2008 HK$'000	2007 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**3,403**	1,322

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2008 HK$'000	2007 HK$'000
Fees	**150**	150
Other emoluments:		
Salaries, allowances and benefits in kind	**3,967**	3,921
Pension scheme contributions	**142**	132
	4,109	4,053
	4,259	4,203

(a) Independent non-executive directors

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

	2008 HK$'000	2007 HK$'000
Mr Lam Chin Fung	**50**	50
Mr Tse Wei Kin	**50**	50
Ms Cynthia Law	**50**	50
	150	150

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000
2008				
Ms Cheung Yan, Priscilla	**–**	**1,368**	**50**	**1,418**
Ms Cheung Man, Catherine	**–**	**725**	**16**	**741**
Mr Kung Ka Pang	**–**	**739**	**34**	**773**
Mr Ha Jimmy N. T.	**–**	**931**	**36**	**967**
Mr Hui Kwok Chu	**–**	**104**	**3**	**107**
Mr Sham Lok Shing, Edward	**–**	**100**	**3**	**103**
	–	**3,967**	**142**	**4,109**
2007				
Ms Cheung Yan, Priscilla	–	1,368	50	1,418
Ms Cheung Man, Catherine	–	767	12	779
Mr Kung Ka Pang	–	809	34	843
Mr Ha Jimmy N. T.	–	977	36	1,013
	–	3,921	132	4,053

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were four (2007: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2007: one) non-director, highest paid employee for the year is as follows:

	Group **2008**	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**901**	1,886
Pension scheme contributions	**42**	–
	943	1,886

11. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**19**	42
Underprovision in prior years	**64**	21
Current – Mainland China	**2,824**	1,319
Deferred (Note 26)	**529**	(256)
Total tax charge for the year	**3,436**	1,126

11. TAX (Continued)

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

Group – 2008

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(77,296)		(3,542)		(80,838)	
Tax at the statutory tax rates	(12,754)	(16.5)	(886)	(25.0)	(13,640)	(16.9)
Adjustment in respect of current tax of previous periods	64	0.1	–	–	64	0.1
Tax losses not recognised	7,129	9.2	–	–	7,129	8.8
Losses attributable to associates	396	0.5	–	–	396	0.5
Income not subject to tax	(127)	(0.2)	–	–	(127)	(0.1)
Expenses not deductible for tax	5,375	7.0	3,710	104.7	9,085	11.2
Effect of withholding tax at 5% on the distributable profits of the Group's subsidiary in Mainland China	529	0.7	–	–	529	0.7
Tax charge at the Group's effective rate	612	0.8	2,824	79.7	3,436	4.3

11. TAX (Continued)

Group – 2007

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

The share of tax attributable to associates amounting to nil (2007: HK$42,000) is included in "Share of profits/(losses) of associates" on the face of the consolidated income statement.

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2008 includes a loss of HK$40,660,000 (2007: HK$11,942,000) which has been dealt with in the financial statements of the Company (note 28(b)).

13. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share for the year is based on the loss for the year attributable to ordinary equity holders of the Company of HK$84,274,000 (2007: HK$55,773,000) and 445,430,000 (2007: 445,430,000) ordinary shares in issue during the year.

A diluted loss per share amount for the years ended 31 December 2008 and 2007 has not been disclosed as no diluting events exist during both years.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2008

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
2008						
At 31 December 2007 and at 1 January 2008:						
Cost or valuation	137,440	1,480	71,388	17,937	7,225	235,470
Accumulated depreciation	–	(811)	(43,820)	(10,123)	(5,632)	(60,386)
Net carrying amount	137,440	669	27,568	7,814	1,593	175,084
At 1 January 2008, net of accumulated depreciation	137,440	669	27,568	7,814	1,593	175,084
Additions	–	–	3,673	1,671	150	5,494
Disposals	–	–	(140)	(34)	(30)	(204)
Deficit on revaluation	(1,455)	–	–	–	–	(1,455)
Depreciation provided during the year	(3,491)	(128)	(5,113)	(2,880)	(482)	(12,094)
Exchange realignment	656	–	1,031	368	29	2,084
At 31 December 2008, net of accumulated depreciation	133,150	541	27,019	6,939	1,260	168,909
At 31 December 2008:						
Cost or valuation	133,150	1,480	76,812	20,299	6,857	238,598
Accumulated depreciation	–	(939)	(49,793)	(13,360)	(5,597)	(69,689)
Net carrying amount	133,150	541	27,019	6,939	1,260	168,909
Analysis of cost or valuation:						
At cost	–	1,480	76,812	20,299	6,857	105,448
At 31 December 2008 valuation	133,150	–	–	–	–	133,150
	133,150	1,480	76,812	20,299	6,857	238,598

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

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

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

At the balance sheet date, the Group's leasehold land and buildings situated in Hong Kong and buildings situated in Mainland China were revalued individually by RHL Appraisal Limited, independent professionally qualified valuers, in aggregate at HK$133,150,000 (2007: HK$137,440,000) on an open market existing use or depreciated replacement cost basis. A revaluation deficit of HK$1,455,000 (2007: surplus of HK$14,695,000), resulting from the above valuations, has been debited (2007: credited) to the asset revaluation reserve.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been HK$82,228,000 (2007: HK$84,287,000).

At 31 December 2008, the Group's leasehold land and buildings in Mainland China and in Hong Kong (including the prepaid land premiums as disclosed in note 15 to the financial statements) with aggregate net book values of approximately HK$127,770,000 (2007: HK$29,415,000) and HK$15,450,000 (2007: HK$16,640,000), respectively, were pledged to secure general banking facilities granted to the Group (note 25).

The leasehold land and buildings situated in Hong Kong of HK$15,450,000 (2007: HK$16,640,000) are held under long-term leases and the leasehold buildings situated in Mainland China of HK$117,700,000 (2007: HK$120,800,000) are located on the leasehold land as disclosed in note 15 to the financial statements.

15. PREPAID LAND PREMIUMS

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**10,078**	10,026
Recognised during the year	**(270)**	(259)
Exchange realignment	**262**	311
Carrying amount at 31 December	**10,070**	10,078
Current portion	**(265)**	(259)
Non-current portion	**9,805**	9,819

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

16. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**156,726**	156,726
Advances to subsidiaries (note (a))	**60,332**	61,126
	217,058	217,852
Impairment (note (b))	**(50,668)**	(10,806)
	166,390	207,046

Notes:

(a) The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these advances are considered as quasi-equity loans to the subsidiaries.

(b) An impairment of HK$10,806,000 (2007: HK$10,806,000) was recognised for an amount due from a subsidiary with a carrying amount of HK$10,806,000 (before deducting the impairment loss) (2007: HK$10,806,000) because that subsidiary has been loss-making.

An impairment of HK$39,862,000 (2007: Nil) was also recognised for an unlisted investment in a subsidiary with a carrying amount of HK$156,726,000 (before deducting the impairment loss) (2007: HK$156,726,000) because that subsidiary has also recognised an impairment in respect of its subsidiaries, which were loss-making.

NOTES TO THE FINANCIAL STATEMENTS 31 December 2008

16. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sewco (B.V.I.) Limited*	British Virgin Islands	Ordinary US$401	100	–	Investment holding
Sewco Toys & Novelty Limited	Hong Kong	Ordinary HK$200 Non-voting deferred HK$420,000	–	100	Investment holding and trading of toy products
Pearl Delta Toys Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$2,000,000	–	100	Provision of agency services
Zhongshan Sewco Toys & Novelty Limited#*	The People's Republic of China/ Mainland China	Paid-up registered HK$122,503,125	–	100	Manufacture of toy products
Huge Returns Enterprises Inc.*	British Virgin Islands	Ordinary US$10	–	100	Investment holding
Gee Wiz Limited*	Hong Kong	Ordinary HK$51	–	100	Design and trading of consumer products
Gee Wiz Entertainment Limited Liability Company*	The United States of America	Ordinary US$1	–	100	Provision of agency services

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

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

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

17. INTERESTS IN ASSOCIATES

	Group	
	2008	2007
	HK$'000	HK$'000
Share of net assets	**–**	2,402
Goodwill on acquisition (note)	**4,964**	4,964
	4,964	7,366
Provision for impairment	**(4,964)**	–
	–	7,366

The Group's trade receivable from an associate is disclosed in note 21 to the financial statements.

Note: Impairment of interests in associates

The impairment loss was recognised for the interests in associates amounting to HK$4,964,000 (2007: Nil) because the associates were in financial difficulty.

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

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

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

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

17. INTERESTS IN ASSOCIATES (Continued)

Particulars of the associates are as follows:

Name	Particulars of issued shares/common stocks held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group 2008	2007	Principal activities
Jasman Asia Limited	Ordinary shares of HK$10 each	Hong Kong	**40**	40	Design and trading of toy products
Jasman Inc.	Common shares of no par value	The United States of America	**40**	40	Dormant
Jasman USA Inc.	Common stocks of US$0.01 each	The United States of America	**40**	40	Dormant

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

The Group has discontinued the recognition of its share of losses of its associates because the share of losses of these associates exceeded the Group's interests in these associates. The Group's unrecognised share of losses of these associates for the current year was HK$3,141,000 (2007: Nil).

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

	2008 HK$'000	2007 HK$'000
Assets	**18,415**	30,505
Liabilities	**24,065**	22,645
Revenues	**131,806**	159,859
Profit/(loss)	**(13,858)**	812

18. OTHER INTANGIBLE ASSET

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

19. LOAN RECEIVABLE

The balance represents an advance made by a subsidiary of the Company to an employee of the Group. The loan interest rate is charged at 2% (2007: 2%) per annum. The outstanding loan balance is repayable by monthly instalments of HK$15,000 by the borrower.

The instalments receivable in the next 12 months are included under current assets and the balance of HK$395,000 (2007: HK$575,000) is included under non-current assets as at 31 December 2008.

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

20. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**47,737**	70,553
Work in progress	**36,948**	55,829
Finished goods	**19,021**	29,030
	103,706	155,412

21. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**75,018**	154,292
Impairment	**(14,984)**	–
	60,034	154,292

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

Included in the Group's trade receivables is an amount due from an associate of HK$14,984,000 (before deducting the impairment loss of HK$14,984,000) (2007: HK$6,279,000), which is repayable on similar credit terms to those offered to the major customers of the Group.

21. TRADE RECEIVABLES (Continued)

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within 30 days	**41,328**	78,724
31 to 90 days	**16,163**	60,799
Over 90 days	**2,543**	14,769
	60,034	154,292

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**–**	–
Impairment losses recognised (note 7)	**14,984**	–
At 31 December	**14,984**	–

The above provision for impairment of trade receivables represents a provision for a trade receivable of HK$14,984,000 (2007: Nil) with a carrying amount of HK$14,984,000 (2007: HK$6,279,000). This trade receivable relates to an associate of the Group that was in financial difficulty and the receivable is not expected to be recovered. The Group does not hold any collateral or other credit enhancements over this balance.

21. TRADE RECEIVABLES (Continued)

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

	Group	
	2008	2007
	HK$'000	HK$'000
Not past due	**52,201**	70,303
Less than 1 month past due	**4,085**	45,203
1 to 3 months past due	**3,375**	29,934
Over 3 months	**373**	8,852
	60,034	154,292

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

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

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**21,447**	31,796	**6**	3

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$14,162,000 (2007: HK$19,067,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. TRADE PAYABLES

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

	Group	
	2008	2007
	HK$'000	HK$'000
Current to 30 days	**34,466**	103,060
31 to 90 days	**39,210**	88,260
Over 90 days	**23,997**	23,535
	97,673	214,855

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2008	2007
	HK$'000	HK$'000
Forward currency contracts	**349**	2,195

The Group had entered into various forward currency contracts during the year to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK$4,052,000 (note 7) were credited to the consolidated income statement during the year (2007: HK$3,604,000).

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

25. INTEREST-BEARING BANK LOANS

Group

	2008			2007		
	Contractual interest rate (%)	**Maturity**	**HK$'000**	Contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	**Fixed rates of 0.35 – 0.42 per month**	**February 2009 – April 2009**	**59,716**	Fixed rates of 0.60 – 0.65 per month	February 2008 – April 2008	16,019
Bank loans – secured	**Prime – 1%**	**On demand**	**14,000**	Prime – 1.5%	January 2008 – March 2008	14,780
Current portion of an instalment loan – secured	**Prime – 2.5%**	**On demand**	**5,696**	Prime – 2.5%	2008	3,482
			79,412			34,281
Non-current						
Instalment loan – secured			**–**	Prime – 2.5%	2009 – 2010	5,485
			79,412			39,766

	Group	
	2008	2007
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**79,412**	34,281
In the second year	**–**	3,407
In the third to fifth years, inclusive	**–**	2,078
	79,412	39,766

Notes:

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

(i) the pledge of the Group's leasehold land and buildings in Mainland China, which had an aggregate carrying value at the balance sheet date of approximately HK$127,770,000 (2007: HK$29,415,000) (note 14); and

(ii) the pledge of the Group's leasehold land and buildings situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$15,450,000 (2007: HK$16,640,000) (note 14).

(b) Except for secured bank loans of HK$31,637,000 (2007: HK$16,019,000) which are denominated in RMB, all bank and instalment loans are in Hong Kong dollars.

25. INTEREST-BEARING BANK LOANS (Continued)

Notes: (Continued)

(c) Pursuant to the banking facility agreement between the Group and one of its bankers, relating to the aggregate bank and instalment loan facilities of HK$19,696,000 (2007: HK$23,747,000), a termination event would arise if the Group fails to meet the financial covenants stipulated in the agreement of the banking facilities.

The banking facilities granted to the Group have stipulated financial covenants of consolidated net worth at an amount of not less than HK$200,000,000 at all times, a current ratio of not less than one at all times and an interest coverage ratio of not less than five at all times. As at 31 December 2008, such covenants were breached by the Group, and as such, the aggregate loans of HK$19,696,000 became repayable on demand and the non-current portion of the outstanding instalment loan of HK$2,310,000 was reclassified from non-current liabilities to current liabilities. The Group is currently in discussions with the bank for a waiver of the above breach of covenants. The directors believe that such waiver will be granted.

In the prior year, the instalment loan was secured, bore interest at 2.5% below the Hong Kong dollar prime rate per annum and was repayable by 36 monthly instalments commencing on 16 September 2007.

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

26. DEFERRED TAX

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

	Accelerated tax depreciation	Revaluation of properties	Losses available for offsetting against future taxable profits	Withholding tax	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008					
At 1 January 2008	**449**	**1,553**	**(449)**	**–**	**1,553**
Deferred tax charged/(credited) to the income statement during the year (note 11)	**191**	**–**	**(191)**	**529**	**529**
Deferred tax reversed to the asset revaluation reserve during the year	**–**	**(263)**	**–**	**–**	**(263)**
At 31 December 2008	**640**	**1,290**	**(640)**	**529**	**1,819**
2007					
At 1 January 2007	256	1,225	–	–	1,481
Deferred tax charged/(credited) to the income statement during the year (note 11)	193	–	(449)	–	(256)
Deferred tax charged to the asset revaluation reserve during the year	–	328	–	–	328
At 31 December 2007	449	1,553	(449)	–	1,553

26. DEFERRED TAX (Continued)

The Group has estimated tax losses arising in Hong Kong of HK$85,679,000 (2007: HK$41,154,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets of HK$81,798,000 (2007: HK$38,589,000) have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on any dividends distributable by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

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

27. SHARE CAPITAL

Shares

	Company	
	2008	2007
	HK$'000	HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
445,430,000 ordinary shares of HK$0.10 each	**44,543**	44,543

Share options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any full-time employee or executive of the Company or any of its subsidiaries, including any executive or non-executive director, any discretionary object of a grantee which is a discretionary trust, and any shareholder of any member of the Group or any holder of any securities issued by any member of the Group. The Scheme was adopted and approved by the shareholders of the Company on 5 February 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

27. SHARE CAPITAL (continued)

Share options (continued)

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

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

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

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

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

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

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

28. RESERVES

(a) Group

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

Pursuant to the relevant laws and regulations applicable to wholly-foreign-owned enterprises in Mainland China, the Company's subsidiary in Mainland China is required to appropriate an amount of not less than 10% of its profit after tax to the statutory reserve fund, which may be distributed to shareholders in the form of a bonus issue.

28. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus# HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2007		20,912	152,762	780	174,454
Loss for the year	*12*	–	–	(11,942)	(11,942)
At 31 December 2007 and 1 January 2008		20,912	152,762	(11,162)	162,512
Loss for the year	*12*	–	–	(40,660)	(40,660)
At 31 December 2008		20,912	152,762	(51,822)	121,852

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

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

29. CONTINGENT LIABILITIES

(a) At the balance sheet date, the Company had provided corporate guarantees of HK$115,100,000 (2007: HK$115,100,000) to a bank in respect of banking facilities granted to its subsidiaries. As at the balance sheet date, HK$19,696,000 (2007: HK$23,747,000) was utilised by these subsidiaries.

(b) In the prior year, the Company had provided a corporate guarantee of HK$500,000 to a bank in respect of banking facilities granted to one of its associates. This corporate guarantee was released during the year.

30. OPERATING LEASE ARRANGEMENTS

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

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

	Group 2008 HK$'000	2007 HK$'000
Within one year	**386**	1,982
In the second to fifth years, inclusive	**–**	237
	386	2,219

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

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted for:		
Office equipment	**1,085**	1,085

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

32. RELATED PARTY TRANSACTIONS

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

	Notes	**2008** **HK$'000**	2007 HK$'000
Rental expenses to a director	*(i)*	**204**	204
Sales of goods to an associate	*(ii)*	**21,242**	24,748
Consultancy fee to a related company	*(iii)*	**491**	1,282
Reimbursement of expenses to a related company	*(iii)*	**140**	316

Notes:

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

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

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

(b) Other transactions with related parties

During the year, Mr Cheung Po Lun, an ex-director of the Company and a substantial shareholder of the Company, occupied an insignificant portion of the Group's office premises for no consideration (2007: no consideration).

(c) Outstanding balances with related parties:

Details of the Group's trade balance with an associate as at the balance sheet date are disclosed in note 21 to the financial statements.

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

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

33. FINANCIAL INSTRUMENTS BY CATEGORY

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

2008

Financial assets	*Notes*	**Group Loans and receivables HK$'000**
Trade receivables	*21*	**60,034**
Loan receivable	*19*	**575**
Financial assets included in prepayments, deposits and other receivables		**6,995**
Cash and cash equivalents	22	**21,447**
		89,051

Financial liabilities	*Notes*	**Group**		
		Financial liabilities at fair value through profit or loss – held for trading HK$'000	**Financial liabilities at amortised cost HK$'000**	**Total HK$'000**
Trade payables	*23*	**–**	**97,673**	**97,673**
Financial liabilities included in other payables and accruals		**–**	**22,511**	**22,511**
Derivative financial instruments	*24*	**349**	**–**	**349**
Interest-bearing bank loans	*25*	**–**	**79,412**	**79,412**
		349	**199,596**	**199,945**

33. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2007

Financial assets	*Notes*	**Group** Loans and receivables HK$'000
Trade receivables	*21*	154,292
Loan receivable	*19*	755
Financial assets included in prepayments, deposits and other receivables		6,574
Cash and cash equivalents	*22*	31,796
		193,417

Financial liabilities	*Notes*	**Group** Financial liabilities at fair value through profit or loss – held for trading HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade payables	*23*	–	214,855	214,855
Financial liabilities included in other payables and accruals		–	37,154	37,154
Derivative financial instruments	*24*	2,195	–	2,195
Interest-bearing bank loans	*25*	–	39,766	39,766
		2,195	291,775	293,970

33. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets

		Company	
		2008	2007
		Loans and receivables	Loans and receivables
	Note	**HK$'000**	HK$'000
Cash and cash equivalents	*22*	**6**	3

At 31 December 2008 and 2007, the Company had no financial liability.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into derivative transaction, including forward currency contracts. The purpose is to manage the currency risk arising from the Group's operations.

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

Interest rate risk

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

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

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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

		2008	2007
	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax**	Increase/ (decrease) in loss before tax
		HK$'000	HK$'000
Hong Kong dollar	100	**193**	122
RMB	100	**380**	107
Hong Kong dollar	(100)	**(193)**	(122)
RMB	(100)	**(380)**	(107)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or costs incurred by operating units in currencies other than the Hong Kong dollar which is the Group's functional reporting currency. All of the Group's sales are denominated in HKD or United States dollars ("USD"), while approximately 49% (2007: 50%) of costs are denominated in HKD or USD, and approximately 51% (2007: 50%) of which are denominated in RMB.

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

	Increase/ (decrease) in RMB rate	**Increase/ (decrease) in loss before tax**
	%	HK$'000
2008		
If Hong Kong dollar weakens against RMB	**5**	**5,620**
If Hong Kong dollar strengthens against RMB	**(5)**	**(5,620)**
2007		
If Hong Kong dollar weakens against RMB	5	4,016
If Hong Kong dollar strengthens against RMB	(5)	(4,016)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, loan receivable, trade and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in notes 29(a) and (b) to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. At the balance sheet date, the Group had certain concentrations of credit risk as 41.3% (2007: 38.6%) and 97.1% (2007: 93.8%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its own operating cash reserve and bank loans. The Group maintains good business relations with its bankers and ensures compliance with covenants as stipulated in the banking facility agreements.

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

Group			**2008**		
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Interest-bearing bank loans	**19,696**	**59,716**	**–**	**–**	**79,412**
Trade payables	**51,989**	**42,553**	**3,131**	**–**	**97,673**
Other payables	**14,831**	**3,170**	**4,510**	**–**	**22,511**
Derivative financial instruments	**–**	**–**	**349**	**–**	**349**
	86,516	**105,439**	**7,990**	**–**	**199,945**

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group (continued)

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

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 2007.

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

Group

	Notes	**2008 HK$'000**	2007 HK$'000
Interest-bearing bank loans	*25*	**79,412**	39,766
Trade payables	*23*	**97,673**	214,855
Other payables and accruals		**35,937**	39,260
Less: Cash and cash equivalents	*22*	**(21,447)**	(31,796)
Net debt		**191,575**	262,085
Equity attributable to equity holders		**167,271**	244,101
Capital and net debt		**358,846**	506,186
Gearing ratio		**53%**	52%

35. POST BALANCE SHEET EVENT

On 31 March 2009, a letter of intent in respect of banking facilities of RMB50 million (equivalent to approximately HK$56,696,000), to be granted to the Group was issued by a bank in Mainland China. Of the total banking facilities of RMB50 million as stated in the letter of intent, a loan of RMB15 million (equivalent to approximately HK$17,008,000) was granted to the Group on 10 April 2009. The banking facilities are secured by certain leasehold land and buildings of the Group.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2009.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2008	2007	2006	2005	2004
RESULTS	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**873,677**	774,362	622,200	565,741	449,643
Cost of sales	**(838,620)**	(733,954)	(544,144)	(500,241)	(383,106)
Gross profit	**35,057**	40,408	78,056	65,500	66,537
Other income and gain	**11,681**	4,577	2,962	4,078	4,392
Selling and distribution costs	**(37,306)**	(37,271)	(22,562)	(19,568)	(15,827)
Administrative expenses	**(68,378)**	(64,948)	(49,940)	(43,753)	(35,642)
Other operating income/ (expenses)	**(16,087)**	3,584	(3,228)	236	(262)
Finance costs	**(3,403)**	(1,322)	(207)	(610)	(490)
Share of profits/(losses) of associates	**(2,402)**	325	5,214	675	(307)
Amortisation of goodwill on acquisition of associates	**–**	–	–	–	(805)
Profit/(loss) before tax	**(80,838)**	(54,647)	10,295	6,558	17,596
Tax	**(3,436)**	(1,126)	(6,287)	(3,122)	(5,053)
Profit/(loss) for the year	**(84,274)**	(55,773)	4,008	3,436	12,543
Attributable to:					
Equity holders of the Company	**(84,274)**	(55,773)	4,008	3,436	12,543

ASSETS AND LIABILITIES					
TOTAL ASSETS	**383,973**	547,008	424,367	353,203	354,431
TOTAL LIABILITIES	**(216,702)**	(302,907)	(145,882)	(85,660)	(114,819)
	167,271	244,101	278,485	267,543	239,612