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 **2009**

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Director
Mr. Sue Ka Lok *(Chairman)*

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

Independent Non-executive Directors
Mr. Kwok Ming Fai
Mr. Wong Kwok Tai
Ms. Leung Pik Har, Christine

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Ms. Chan Yuk Yee

TRADING OF SHARES

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

AUDITORS

Ernst & Young
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.sewco.com.hk

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of directors (the "Board") of Sewco International Holdings Limited (the "Company"), I hereby report the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

With the global economy gradually recover from the financial crisis, the Group successfully brought down loss attributable to equity holders of the Company to HK$17,777,000 for the year ended 31 December 2009, which was reduced by 79% when compared to the previous year (2008: HK$84,274,000). Basic loss per share was reduced to HK3.74 cents (2008: HK18.92 cents). The Group's profit margins were also helped by improvement on operational efficiency.

The Group succeeded in turning around its financial position from net current liabilities of HK$12,634,000 at 31 December 2008 to net current assets of HK$24,456,000 at 31 December 2009. Besides, the Group's gearing ratio was lowered from 53% at 31 December 2008 to 22% at 31 December 2009. In particular, bank loans reduced to HK$45,387,000 at 31 December 2009 (31 December 2008: HK$79,412,000); and cash and cash equivalents rose to HK$62,207,000 (31 December 2008: HK$21,447,000). In order to further enhance the Group's development and financial strength, the Group completed a placement of new shares with net proceeds of approximately HK$42,586,000 in 2009.

Global toy industry has been under significant reform during the years 2008 and 2009 due to the massive toy recalls in 2007. Toy manufacturing industry has become more regulated than ever following the recalls, with the US government and major retailers imposing ever-more stringent quality standards. These developments favor larger, reputable manufacturers as the new requirements, coupled with the financial downturn that dried up credit and sales, wiped out smaller manufacturers in Mainland China and buyers seek to reduce risk by consolidating their vendor base. Therefore, the Group takes this unique opportunity to consolidate its position as a premier toy manufacturer.

With this in mind, the Group continuously develops its manufacturing efficiencies and be at the forefront of the contract toy manufacturing industry as a trusted partner that can deliver quality, services and value. The Group has invested substantially in expanding its internal quality control laboratories and improving its quality control systems. The widespread labour shortages in the Pearl River Delta Region remain a major cause for concern and wages are expected to rise dramatically as a result. The Group has begun working with local labour authorities around the country to ensure adequate labour supply, and finding a new location outside the Guangdong province that can offer more competitive labour costs.

The global economy is believed to remain challenging in the coming year. Meanwhile, the Group is adopting active and effective measures to generate profit with expecting increase in turnover, and further looking for any opportunistic investments. I am cautiously optimistic that the Group will perform better in 2010.

On behalf of the Board, I would like to take this opportunity to thank all our shareholders, investors, bankers, business associates and customers for their continuous support to the Group, and to my fellow directors and all staff members for their hard work and contributions for the past year.

Sue Ka Lok
Chairman
Hong Kong, 15 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The management is pleased to report that the Group's results have been significantly improved with that loss attributable to equity holders of the Company was brought down to HK$17,777,000 for the year ended 31 December 2009, representing a 79% decrease from the previous year (2008: HK$84,274,000). The improvement in the Group's results was principally a combined effect of better profit margins and effective cost savings achieved by the Group's core toy manufacturing operation.

The Group's revenue for the year was HK$325,060,000, dropped by 63% when compared to the prior year (2008: HK$873,677,000) and was primarily due to the cessation of business with customers offered only low profit margin orders and the adverse impact of the global financial crises. Despite such revenue drop, the Group had managed to maintain its gross profit of HK$34,288,000 at a similar level to that of last year (2008: HK$35,057,000), which was mainly a result of the sharp rise of the Group's gross profit margin from 4.0% in 2008 to 10.5% in 2009. Such increase in the Group's gross profit margin was in turn primarily attributable to the higher profit margin of sales orders received this year resulting from active negotiations with customers; production costs savings resulting from increase in export tax refund rate in Mainland China and improved production efficiency resulting from tightened control on overheads.

The Group's other income decreased by 42% to HK$6,803,000 (2008: HK$11,681,000) and that selling and distribution costs decreased by 70% to HK$11,312,000 (2008: HK$37,306,000) from last year were primarily a result of drop of the Group's revenue. The Group's administrative expenses decreased by 38% to HK$42,611,000 (2008: HK$68,378,000) was also because of the decline in the Group's revenue as well as the effective implementation of the Group's operational restructuring plan adopted in late 2008.

The Group's other operating expenses dropped to only HK$480,000 (2008: HK$16,087,000) and share of losses of associates became nil this year (2008: HK$2,402,000) were mainly due to the non-recurrence of impairment losses provided for the related goodwill and trade receivables of an associate totaling HK$19,948,000 in 2008 (included as the Group's other operating expenses) and commencement of creditors' voluntary liquidation of the associate in 2008.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group finances its operations primarily from internally generated resources, external bank financing and shareholders' funds. The Group satisfies its seasonal trade finance requirements through both external bank financing and internal resources, and will consider longer term funding arrangement to finance its longer term investments and fixed assets acquisition. In order to enhance the Group's financial position, the Company placed 89,084,000 shares at HK$0.49 per share to investors in September 2009 and raised net proceeds of HK$42,586,000 to fund its general working capital.

As at 31 December 2009, cash and cash equivalents held by the Group, mainly in Hong Kong dollars ("HKD"), United States dollars ("USD") and Renminbi ("RMB") totalled HK$62,207,000 (2008: HK$21,447,000). The Group's bank borrowings as at 31 December 2009, mainly in HKD and RMB and maturing within one year amounted to HK$45,387,000 (2008: HK$79,412,000). The increase in cash and cash equivalents and decrease in bank borrowings when compared to last year were mainly a result of the positive cash flows generated from Group's operations and funds raised from the placing of shares of the Company.

FINANCIAL REVIEW (Continued)

Liquidity and Financial Resources (Continued)

The Group's current assets decreased by 30% to HK$141,556,000 (2008: HK$202,249,000). The decrease was in line with the drop of the Group's revenue and the management's continuous efforts in reducing inventory to a healthy level. The Group's current liabilities also decreased by 46% to HK$117,100,000 (2008: HK$214,883,000) mainly due to the decrease of trade payables as a result of lowered volume of raw materials purchase. The Group's current ratio, determined as current assets divided by current liabilities, was improved to a healthy level of 1.21 (2008: 0.94) as at 31 December 2009.

The Group's gearing ratio is determined as its net debt divided by total capital plus net debt where net debt includes interest-bearing bank loans, trade payables and other payables and accruals less cash and cash equivalents, and capital represents the total equity of the Group. The Group's policy is to maintain its gearing ratio below 75% to ensure a healthy financial position. The gearing ratio of the Group as at 31 December 2009 was 22% (2008: 53%).

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 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 funding requirement financed by floating interest long term debt borrowings.

Foreign currency risk arises from sales or costs and financial assets or liabilities incurred by the Group in currencies other than HKD. All of the Group's sales are denominated in HKD or USD; while its costs are approximately 49% (2008: 49%) denominated in HKD or USD, and approximately 51% (2008: 51%) denominated in RMB. The Group's financial assets as at 31 December 2009 are approximately 93% (2008: 84%) denominated in HKD or USD and are approximately 7% (2008: 16%) denominated in RMB. The Group's financial liabilities as at 31 December 2009 are approximately 51% (2008: 35%) denominated in HKD or USD and are approximately 49% (2008: 65%) 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 if fluctuations are expected to be significant.

Credit risk arises mainly 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 end of the reporting period, the Company had provided corporate guarantees of HK$22,700,000 (2008: HK$115,100,000) to a bank in respect of banking facilities granted to its subsidiaries. As at the end of the reporting period, HK$2,310,000 (2008: HK$19,696,000) of these facilities was utilized by these subsidiaries.

CHARGE ON ASSETS

At 31 December 2009, the Group's certain leasehold land and buildings in Mainland China and Hong Kong (including the prepaid land premiums) with aggregate net book values of approximately HK$122,107,000 (2008: HK$127,770,000) and HK$11,010,000 (2008: HK$15,450,000), respectively, were pledged to secure general banking facilities granted to the Group. At 31 December 2009, the Group's property held for sale in Hong Kong with net book value of approximately HK$4,400,000 (2008: Nil) was also pledged to secure general banking facilities granted to the Group.

EMPLOYEES

As at 31 December 2009, the Group had a total of approximately 4,300 (2008: 8,500) employees in Hong Kong and Mainland China. The reduction in headcounts was mainly due to the implementation of the Group's operational restructuring plan since late 2008 aiming to cut overheads and improve profit margins. The Group provides remuneration packages to employees largely based on industry practice, individual performance, qualifications and experience. In addition, discretionary bonuses and share options under the Company's share option scheme may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides subsidies to staff for external training in order to enhance the Group's competitiveness.

OUTLOOK

The global toy industry continues its dramatic reform triggered by global giant Mattel Inc.'s massive toy recalls in 2007. The recalls led to new regulations around the globe to heighten toy safety standards and tighten control, making the industry as a whole more regulated than ever. Meanwhile, the industry continues to consolidate as a result of the global financial crisis.

These changes have sparked a reform in the contract toy manufacturing industry of its own as big players consolidate and upgrade its vendor base to limit risks of safety breaches. Manufacturers with the resources and will to invest in quality will be able to get ahead. Manufacturers can no longer be mere "order takers" but must play the role of long term partners willing and able to keep up with regulatory changes. As partners, they also must deliver value and play a more active role to support their customers' growth and success.

The Group has made it its mission to continuously improve its manufacturing operations and be at the forefront of the contract toy manufacturing industry as a trusted partner that can deliver quality, services and value.

To make this happen, the Group has invested substantially in expanding its internal quality control laboratories and improving its quality control systems. It also has invested in growing its product design and development capabilities. Meanwhile, the aggressive drive in 2009 to streamline its operations, control overhead costs, and improve production efficiencies by automation and third-party staff training have paid dividends, enabling the manufacturing operations to return to operational profitability despite lower sales and offer far better value to customers at the same time.

In order to enhance the Group's development and financial strength, the Group successfully completed a placement of new shares with net proceeds of approximately HK$42,586,000 during the current year.

In relation the above active measures, the Group is cautiously optimistic about its performance in 2010. Sales turnover is expected to rise as the global economy continues to recover. New manufacturing deals have been signed with several global toy companies, among them is one of the world's top firms. Operationally, the Group will continue its drive to improve operational and production efficiencies and control costs.

DIRECTORS' PROFILE

NON-EXECUTIVE DIRECTOR

Mr. Sue Ka Lok, *Chairman*

Aged 44, joined the Company as an Executive Director in October 2009 and was re-designated as Non-executive Director and appointed as the Chairman of the Company in November 2009. Mr. Sue is also a director of several subsidiaries of the Company. Mr. Sue holds a Bachelor of Economics degree from the University of Sydney in Australia and a Master of Science in Finance degree from the City University of Hong Kong. Mr. Sue is a fellow member of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the CPA Australia, a fellow member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators and a member of the Hong Kong Securities Institute. Mr. Sue has extensive experience in corporate management, finance, accounting and company secretarial practice. Mr. Sue is also an executive director and the chief executive officer of BEP International Holdings Limited (stock code: 2326) and Poly Development Holdings Limited (stock code: 1141), both are listed companies in Hong Kong. Mr. Sue resigned as an executive director and the chief executive officer of China Yunnan Tin Minerals Group Company Limited (stock code: 263), a listed company in Hong Kong, in January 2010.

EXECUTIVE DIRECTORS

Mr. Lo Ming Chi, Charles, *J.P., Chief Executive Officer and Chairman of the Remuneration Committee*

Aged 60, joined the Company as an Executive Director in October 2009 and was appointed as the Chief Executive Officer of the Company in November 2009. Mr. Lo is also a director of several subsidiaries of the Company. Mr. Lo is a certified practising accountant of the CPA Australia and is a fellow of the Financial Services Institute of Australasia. Mr. Lo has extensive experience in financial and investment services in Australia, Hong Kong and other Asian countries. Mr. Lo is also an independent non-executive director of CASH Financial Services Group Limited (stock code: 510), Hembly International Holdings Limited (stock code: 3989) and Tak Sing Alliance Holdings Limited (stock code: 126), all being listed companies in Hong Kong. Mr. Lo resigned as an executive director, the deputy chairman and the chief executive officer of Poly Development Holdings Limited (stock code: 1141) in November 2009 and resigned as an executive director of Sun Innovation Holdings Limited (stock code: 547) in March 2010, both are listed companies in Hong Kong.

Ms. Chan Yuk Yee

Aged 42, joined the Company as an Executive Director in October 2009 and was appointed as the Secretary of the Company in November 2009. Ms. Chan is also a director of several subsidiaries of the Company. Ms. Chan holds a Master of Business Law degree from Monash University in Australia and is an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Chan has over 10 years of experience in corporate administration and company secretarial practice. Ms. Chan is also the company secretary of Poly Development Holdings Limited (stock code: 1141), a listed company in Hong Kong.

Ms. Wang Jingyu

Aged 29, joined the Company as an Executive Director in November 2009. Ms. Wang graduated from Southwestern University of Finance and Economics in the People's Republic of China (the "PRC") with a bachelor's degree in economics, specialized in international finance. Ms. Wang has over 7 years of experience in financial management and investments in the PRC. Ms. Wang is a niece of Mr. Suen Cho Hung, Paul, the controlling shareholder of the Company.

DIRECTORS' PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwok Ming Fai, *member of the Audit Committee and the Remuneration Committee*
Aged 45, joined the Company as an Independent Non-executive Director in October 2009. Mr. Kwok has extensive experience in banking, finance and accounting and held executive positions at several international financial institutions, accounting firm and listed companies. Mr. Kwok obtained his Bachelor Degree in Accounting & Economics from the University of Sheffield in the United Kingdom and a Master Degree in Business Administration from the University of Adelaide in Australia. He is a certified practising accountant of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwok is an executive director of Zhongda International Holdings Limited (stock code: 909) and an independent non-executive director of China Yunnan Tin Minerals Group Company Limited (stock code: 263) and Incutech Investments Limited (stock code: 356), all being listed companies in Hong Kong.

Mr. Wong Kwok Tai, *Chairman of the Audit Committee and member of the Remuneration Committee*
Aged 71, joined the Company as an Independent Non-executive Director in November 2009. Mr. Wong graduated from the Deakin University in Geelong, Australia and holds a Diploma of Commerce. He is a Practising Certified Public Accountant and a fellow member of the CPA Australia and the Hong Kong Institute of Certified Public Accountants. Mr. Wong is the sole proprietor of W. Wong & Co., C.P.A. and has more than 44 years of financial experience. Currently, he is also an independent non-executive director of China Power New Energy Development Company Limited (stock code: 735), New Century Group Hong Kong Limited (stock code: 234), Poly Development Holdings Limited (stock code: 1141) and Takson Holdings Limited (stock code: 918), all being listed companies in Hong Kong.

Ms. Leung Pik Har, Christine, *member of the Audit Committee and the Remuneration Committee*
Aged 40, joined the Company as an Independent Non-executive Director in November 2009. Ms. Leung graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration. Ms. Leung has over 15 years of experience in banking and financial services industries and held executive positions at several international financial institutions including Citibank, Bank of America, Industrial and Commercial Bank of China (Asia) Limited and Fubon Bank (Hong Kong) Limited.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group was engaged in the manufacturing and trading of hard and stuffed toys.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the audited financial statements on pages 23 to 77.

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2009 (2008: Nil).

FIVE YEAR FINANCIAL SUMMARY

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 78. 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 Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year are set out in note 27 to the financial statements and there was no movement in share options during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws ("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

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

RESERVES

Details of movements in 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 2009, the Company's reserves available for distribution, calculated in accordance with the Bermuda Act 1981, amounted to HK$81,446,000. In addition, the Company's share premium account, in the amount of HK$54,590,000, 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 96.92% of the total sales for the year and sales to the largest customer included therein accounted for 46.15%. Purchases from the Group's five largest suppliers accounted for 20.87% of the total purchases for the year and the purchases from the largest supplier included therein accounted for 6.39%.

None of the directors of the Company ("Directors") 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 during the year 2009 and up to the date of this report were:

Non-executive Director:

Mr. Sue Ka Lok	(appointed as Executive Director on 3 October 2009 and re-designated as Non-executive Director on 25 November 2009)

Executive Directors:

Mr. Lo Ming Chi, Charles	(appointed on 3 October 2009)
Ms. Chan Yuk Yee	(appointed on 3 October 2009)
Ms. Wang Jingyu	(appointed on 25 November 2009)
Ms. Cheung Yan, Priscilla	(resigned on 25 November 2009)
Ms. Cheung Man, Catherine	(resigned on 25 November 2009)
Mr. Hui Kwok Chu	(resigned on 25 November 2009)
Mr. Sham Lok Shing, Edward	(resigned on 1 November 2009)
Mr. Ha Jimmy N. T.	(resigned on 1 April 2009)

Independent Non-executive Directors:

Mr. Kwok Ming Fai	(appointed on 3 October 2009)
Mr. Wong Kwok Tai	(appointed on 1 November 2009)
Ms. Leung Pik Har, Christine	(appointed on 25 November 2009)
Ms. Cynthia Law	(resigned on 1 November 2009)
Mr. Lam Chin Fung	(resigned on 25 November 2009)
Mr. Tse Wei Kin	(resigned on 25 November 2009)

In accordance with bye-law 87 of the Bye-laws, Mr. Lo Ming Chi, Charles, Ms. Chan Yuk Yee and Mr. Kwok Ming Fai will retire by rotation at the forthcoming annual general meeting ("AGM") and, being eligible, will offer themselves for re-election at the forthcoming AGM.

DIRECTORS' SERVICE CONTRACTS

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' PROFILE

Biographical details of the Directors are set out on pages 7 and 8 of the annual report.

DIRECTORS' REMUNERATION

Details of the Directors' remuneration are set out in note 8 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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 2009, 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 Issuer 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.

INTERESTS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At 31 December 2009, the following party had interest of 5% or more in the shares and underlying shares of the Company according to the register of interests kept by the Company pursuant to section 336 of the SFO:

Long position in ordinary shares of the Company

Name of shareholder	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital
Right Perfect Limited	Beneficial owner	300,002,000	56.13%

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

Long position in convertible bonds of the Company

Name of shareholder	Capacity and nature of interest	Number of underlying shares held	Approximate percentage of the Company's issued share capital
Right Perfect Limited	Beneficial owner	315,789,473	59.08%

Note: This represents the interest of Right Perfect Limited in 315,789,473 underlying shares through the convertible bonds issued by the Company to it in the principal amount of HK$120,000,000 on 9 February 2010 which can be converted into shares of the Company at conversion price of HK$0.38 per share. As at the date of this report, Right Perfect Limited has converted all its convertible bonds into shares of the Company at conversion price of HK$0.38 per share.

Save as disclosed above, the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2009 as required 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.

EMOLUMENT POLICY

The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits included provident fund scheme, insurance and medical cover, discretionary bonuses as well as share option scheme.

The determination of emoluments of the Directors of the Company had taken into consideration of their respective responsibilities and contribution to the Company and by reference to market benchmark.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

Details of significant events after the reporting period of the Group are set out in note 35 to the financial statements.

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

Lo Ming Chi, Charles
Chief Executive Officer

Hong Kong, 15 March 2010

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the "Board") hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2009.

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 Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

Throughout the year under review, the Company has adopted the principles and complied with all the code provisions as 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 BOARD

As at the date of this report, the Board comprises seven directors ("Directors"), including one Non-executive Director, namely Mr. Sue Ka Lok (Chairman), three Executive Directors, namely Mr. Lo Ming Chi, Charles (Chief Executive Officer), Ms. Chan Yuk Yee and Ms. Wang Jingyu; and three Independent Non-executive Directors, namely Mr. Kwok Ming Fai, Mr. Wong Kwok Tai and Ms. Leung Pik Har, Christine.

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.

The Board reserves for its decision on 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.

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.

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

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

THE BOARD (Continued)

During the year ended 31 December 2009, seven regular board meetings were held and the attendance of each Director is set out as follows:

Name of Director		**Attendance/Number of regular board meetings**
Non-executive Director		
Mr. Sue Ka Lok *(Chairman)*	(appointed as Executive Director on 3 October 2009 and re-designated as Non-executive Director on 25 November 2009)	1/7
Executive Directors		
Mr. Lo Ming Chi, Charles *(Chief Executive Officer)*	(appointed on 3 October 2009)	1/7
Ms. Chan Yuk Yee	(appointed on 3 October 2009)	1/7
Ms. Wang Jingyu	(appointed on 25 November 2009)	1/7
Ms. Cheung Yan, Priscilla	(resigned on 25 November 2009)	6/7
Ms. Cheung Man, Catherine	(resigned on 25 November 2009)	5/7
Mr. Hui Kwok Chu	(resigned on 25 November 2009)	6/7
Mr. Sham Lok Shing, Edward	(resigned on 1 November 2009)	5/7
Mr. Ha Jimmy N. T.	(resigned on 1 April 2009)	0/7
Independent Non-executive Directors		
Mr. Kwok Ming Fai	(appointed on 3 October 2009)	2/7
Mr. Wong Kwok Tai	(appointed on 1 November 2009)	1/7
Ms. Leung Pik Har, Christine	(appointed on 25 November 2009)	1/7
Ms. Cynthia Law	(resigned on 1 November 2009)	6/7
Mr. Lam Chin Fung	(resigned on 25 November 2009)	6/7
Mr. Tse Wei Kin	(resigned on 25 November 2009)	5/7

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, Mr. Sue Ka Lok, the Chairman of the Board, takes up the responsibility of the management of the Board whereas Mr. Lo Ming Chi, Charles, 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.

NON-EXECUTIVE DIRECTORS

The Non-executive Director and each of the Independent Non-executive Directors of the Company is appointed for a term of twelve-month period which automatically renews for successive twelve-month periods unless terminated by either party in writing prior to the expiry of the term.

CORPORATE GOVERNANCE REPORT

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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.

DIRECTORS' 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. 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 2009.

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.

BOARD COMMITTEES

(1) Remuneration Committee

The Remuneration Committee was established with terms of reference as set out in the CG Code. The Remuneration Committee comprises a total of four members, being one Executive Director, namely Mr. Lo Ming Chi, Charles, and three Independent Non-executive Directors, namely Mr. Kwok Ming Fai, Mr. Wong Kwok Tai and Ms. Leung Pik Har, Christine. Accordingly, a majority of the members are Independent Non-executive Directors. The Chairman of the Remuneration Committee is Mr. Lo Ming Chi, Charles.

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 2009, three meetings of the Remuneration Committee were held to review the remuneration packages for Directors and senior management. The attendance of each member is set out as follows:

Members		**Attendance/Number of Remuneration Committee Meetings**
Mr. Lo Ming Chi, Charles *(Chairman of the Remuneration Committee)*	(appointed as Chairman of the Remuneration Committee on 25 November 2009)	1/3
Mr. Kwok Ming Fai	(appointed as member of the Remuneration Committee on 25 November 2009)	1/3
Mr. Wong Kwok Tai	(appointed as member of the Remuneration Committee on 1 November 2009)	1/3
Ms. Leung Pik Har, Christine	(appointed as member of the Remuneration Committee on 25 November 2009)	1/3
Ms. Cheung Man, Catherine	(resigned as Chairman of the Remuneration Committee on 25 November 2009)	1/3
Ms. Cynthia Law	(resigned as member of the Remuneration Committee on 1 November 2009)	2/3
Mr. Lam Chin Fung	(resigned as member of the Remuneration Committee on 25 November 2009)	2/3
Mr. Tse Wei Kin	(resigned as member of the Remuneration Committee on 25 November 2009)	2/3

BOARD COMMITTEES (Continued)

(2) Audit Committee

The Audit Committee was established with terms of reference as set out in the CG Code. The Audit Committee comprises a total of three members, being the three Independent Non-executive Directors, namely Mr. Wong Kwok Tai, Mr. Kwok Ming Fai and Ms. Leung Pik Har, Christine. The Chairman of the Audit Committee is Mr. Wong Kwok Tai.

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 2009, three meetings of the Audit Committee were held and the attendance of each member is set out as follows:

Members		**Attendance/Number of Audit Committee Meetings**
Mr. Wong Kwok Tai *(Chairman of the Audit Committee)*	(appointed as Chairman of the Audit Committee on 1 November 2009)	0/3
Mr. Kwok Ming Fai	(appointed as member of the Audit Committee on 25 November 2009)	0/3
Ms. Leung Pik Har, Christine	(appointed as member of the Audit Committee on 25 November 2009)	0/3
Ms. Cynthia Law	(resigned as Chairman of the Audit Committee on 1 November 2009)	3/3
Mr. Lam Chin Fung	(resigned as member of the Audit Committee on 25 November 2009)	3/3
Mr. Tse Wei Kin	(resigned as member of the Audit Committee on 25 November 2009)	3/3

During the year, the Audit Committee reviewed the audited financial statements of the Group for the year ended 31 December 2008 and the unaudited interim financial statements of the Group for the six months ended 30 June 2009 with recommendations to the Board for approval, reviewed internal control system of the Group and discussed with the management and the auditors the accounting policies and practices which may affect the Group and financial reporting matters.

(3) Executive Committee

The Executive Committee comprises all Executive Directors. As at the date of this report, the members of the Executive Committee comprises Mr. Lo Ming Chi, Charles, Ms. Chan Yuk Yee and Ms. Wang Jingyu and the Chairman of the Executive Committee is Mr. Lo Ming Chi, Charles. 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.

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 2009.

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.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system of the Group to safeguard the interests of the Company's 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 2009. 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.

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 2009 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 2009 are analyzed below:

Type of services provided by the external auditors	**Fees paid/payable** HK$
Audit services:	
Overprovision of audit fee for the year ended 31 December 2008	(140,000)
Audit fee for the year ended 31 December 2009	820,000
Non-audit services:	
Taxation service provided in the year 2009	460,000
Total:	1,140,000

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.

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.

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

ERNST & YOUNG
安 永

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

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

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

We have audited the financial statements of Sewco International Holdings Limited set out on pages 23 to 77, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
15 March 2010

CONSOLIDATED INCOME STATEMENT

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	5	**325,060**	873,677
Cost of sales		**(290,772)**	(838,620)
Gross profit		**34,288**	35,057
Other income	5	**6,803**	11,681
Selling and distribution costs		**(11,312)**	(37,306)
Administrative expenses		**(42,611)**	(68,378)
Other operating expenses		**(480)**	(16,087)
Finance costs	7	**(3,084)**	(3,403)
Share of losses of associates		**–**	(2,402)
LOSS BEFORE TAX	6	**(16,396)**	(80,838)
Income tax expense	10	**(1,381)**	(3,436)
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	11	**(17,777)**	(84,274)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	12	**(HK3.74 cents)**	(HK18.92 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
LOSS FOR THE YEAR		**(17,777)**	(84,274)
OTHER COMPREHENSIVE INCOME			
Surplus/(deficit) on revaluation of properties	*13*	**596**	(1,455)
Income tax effect	*26*	**(320)**	263
		276	(1,192)
Exchange differences on translation of foreign operations		**287**	8,636
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**563**	7,444
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**(17,214)**	(76,830)

31 December 2009 **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Notes	**2009 HK$'000**	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**158,037**	168,909
Deposit for items of property, plant and equipment		**1,646**	2,015
Prepaid land premiums	*14*	**9,541**	9,805
Interests in associates	*16*	**–**	–
Other intangible asset	*17*	**450**	600
Loan receivable	*18*	**215**	395
Total non-current assets		**169,889**	181,724
CURRENT ASSETS			
Inventories	*19*	**36,761**	103,706
Property held for sale	*20*	**4,400**	–
Prepaid land premiums	*14*	**266**	265
Trade receivables	*21*	**31,969**	60,034
Prepayments, deposits and other receivables		**5,773**	16,617
Loan receivable	*18*	**180**	180
Cash and cash equivalents	*22*	**62,207**	21,447
Total current assets		**141,556**	202,249
CURRENT LIABILITIES			
Trade payables	*23*	**33,801**	97,673
Other payables and accruals		**36,137**	35,937
Derivative financial instruments	*24*	**–**	349
Interest-bearing bank loans	*25*	**45,387**	79,412
Tax payable		**1,775**	1,512
Total current liabilities		**117,100**	214,883
NET CURRENT ASSETS/(LIABILITIES)		**24,456**	(12,634)
TOTAL ASSETS LESS CURRENT LIABILITIES		**194,345**	169,090
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*26*	**1,702**	1,819
Net assets		**192,643**	167,271

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued capital	*27*	**53,451**	44,543
Reserves	*28(a)*	**139,192**	122,728
Total equity		**192,643**	167,271

Sue Ka Lok
Director

Lo Ming Chi, Charles
Director

Year ended 31 December 2009 **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Note	Attributable to equity holders of the Company						
		Issued capital	**Share premium account**	**Asset revaluation reserve**	**Statutory reserve fund**	**Exchange fluctuation reserve**	**Retained profits**	**Total equity**
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008		44,543	20,912	51,062	5,654	15,817	106,113	244,101
Loss for the year		–	–	–	–	–	(84,274)	(84,274)
Other comprehensive income/(loss)		–	–	(1,192)	–	8,636	–	7,444
Total comprehensive income/(loss) 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
At 1 January 2009		44,543	20,912	48,765	5,664	24,453	22,934	167,271
Loss for the year		–	–	–	–	–	(17,777)	(17,777)
Other comprehensive income		–	–	276	–	287	–	563
Total comprehensive income/(loss) for the year		–	–	276	–	287	(17,777)	(17,214)
Issue of shares	*27*	8,908	34,743	–	–	–	–	43,651
Share issue expenses	*27*	–	(1,065)	–	–	–	–	(1,065)
Revaluation reserve released		–	–	(2,401)	–	–	2,401	–
Appropriation to statutory reserve fund		–	–	–	744	–	(744)	–
At 31 December 2009		53,451	54,590*	46,640*	6,408*	24,740*	6,814*	192,643

* *These reserve accounts comprise the consolidated reserves of HK$139,192,000 (2008: HK$122,728,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(16,396)**	(80,838)
Adjustments for:			
Finance costs	7	**3,084**	3,403
Interest income	5	**(47)**	(185)
Share of losses of associates		**–**	2,402
Depreciation	6	**10,019**	12,094
Recognition of prepaid land premiums	6	**271**	270
Loss on disposal of items of property, plant and equipment	6	**719**	191
Provision against slow-moving, obsolete and defective inventories	6	**21,520**	19,330
Impairment of interests in associates	6	**–**	4,964
Impairment of trade receivables	6	**–**	14,984
Impairment of other intangible asset	6	**150**	–
Fair value gains:			
Derivative instruments – transactions not qualifying as hedges	6	**(405)**	(4,052)
		18,915	(27,437)
Decrease in loan receivable		**180**	180
Decrease in inventories		**45,682**	43,962
Decrease in trade receivables		**28,065**	79,274
Decrease/(increase) in prepayments, deposits and other receivables		**9,329**	(6,810)
Decrease in trade payables		**(63,909)**	(122,039)
Increase/(decrease) in other payables and accruals		**148**	(4,254)
Increase in derivative financial liabilities		**56**	2,206
Cash generated from/(used in) operations		**38,466**	(34,918)
Interest received		**47**	185
Interest paid		**(3,084)**	(3,403)
Hong Kong profits tax refunded/(paid)		**2**	(5,014)
Overseas taxes paid		**(1,558)**	(1,669)
Net cash flows from/(used in) operating activities		**33,873**	(44,819)

Year ended 31 December 2009 **CONSOLIDATED STATEMENT OF CASH FLOWS**

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(1,771)**	(5,494)
Proceeds from disposal of items of property, plant and equipment		**172**	13
Net cash flows used in investing activities		**(1,599)**	(5,481)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*27*	**43,651**	–
Share issue expenses	*27*	**(1,065)**	–
New bank loans		**214,197**	225,462
Repayment of bank loans		**(248,319)**	(186,689)
Net cash flows from financing activities		**8,464**	38,773
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**40,738**	(11,527)
Cash and cash equivalents at beginning of year		**21,447**	31,796
Effect of foreign exchange rate changes, net		**22**	1,178
CASH AND CASH EQUIVALENTS AT END OF YEAR		**62,207**	21,447
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	*22*	**62,207**	21,447

STATEMENT OF FINANCIAL POSITION 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	15	**153,582**	166,390
CURRENT ASSETS			
Prepayments, deposits and other receivables		**281**	–
Cash and cash equivalents	22	**36,505**	6
Total current assets		**36,786**	6
CURRENT LIABILITIES			
Accruals		**881**	1
NET CURRENT ASSETS		**35,905**	5
Net assets		**189,487**	166,395
EQUITY			
Issued capital	27	**53,451**	44,543
Reserves	28(b)	**136,036**	121,852
Total equity		**189,487**	166,395

Sue Ka Lok
Director

Lo Ming Chi, Charles
Director

1. CORPORATE INFORMATION

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

During the year, the Group was engaged in the manufacturing and trading of hard and stuffed toys.

On 26 August 2009, Great Victory International Inc., the then holding company and ultimate holding company of the Company, disposed of its entire equity interest in the Company to Right Perfect Limited ("Right Perfect"), a company incorporated in the British Virgin Islands. Since then, in the opinion of the directors, the ultimate holding company of the Company became Smart Legend Holdings Limited, a company incorporated in the British Virgin Islands, which owns the entire equity interest in Right Perfect.

2.1 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 2009. 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.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's 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*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKFRS 8 Amendment*	Amendment to HKFRS 8 *Operating Segments – Disclosure of information about segment assets (early adopted)*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
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*
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*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary,* which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKAS 1 (Revised) and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

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

(a) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(b) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segment determined in accordance with HKFRS 8 is the same as the business segment previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

The Group has early adopted in these financial statements the Amendment to HKFRS 8 issued in *Improvements to HKFRSs 2009* which clarifies that segment assets need only to be reported when those assets are included in measures that are used by the chief operating decision maker.

2.3 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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for first-time Adopters*[2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share- based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKAS 24 (Revised)	*Related Party Disclosures*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int14 *Prepayments of a Minimum Funding Requirement*[5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*[1]
HK Interpretation 4 (Revised in December 2009)	*Lease – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 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 statement of financial position 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 and is not individually tested for impairment.

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 statement of financial position 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 statement of financial position.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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 the end of each reporting period 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.

2.4 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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.

2.4 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 financial year end.

An item of property, plant and equipment and any significant part initially recognised 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)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Properties held for sale

Properties are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Properties classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Properties classified as held for sale are not depreciated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and bank balances, trade and other receivables and loan receivable.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognised an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank loans.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. 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.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the financial guarantee. 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 end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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.

Derivative financial instruments

Initial recognition and subsequent measurement

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 of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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 statement of cash flows, 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions (Continued)

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Pension schemes (Continued)

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.

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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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 end of the reporting period, the assets and liabilities of the subsidiary are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and its income statement is translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, 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 rate for the year.

3. 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 end of the reporting period. 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 end of the reporting period, 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Estimation uncertainty (Continued)

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

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all its non-financial assets at the end of each reporting period. 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. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. 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.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	2009	2008
	HK$’000	HK$’000
The United States of America and Canada	**237,430**	683,014
Japan	**83,830**	165,125
Hong Kong and Mainland China	**3,800**	25,538
	325,060	873,677

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

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information (Continued)

(b) Non-current assets

	2009 HK$'000	2008 HK$'000
Hong Kong	**18,952**	20,209
Mainland China	**150,937**	161,515
	169,889	181,724

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

Information about major customers

	2009 HK$'000	2008 HK$'000
The largest customer	**150,008**	423,544
Second largest customer	**82,166**	186,989
Third largest customer	**72,611**	165,125
Others*	**20,275**	98,019
Total	**325,060**	873,677

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

5. 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:

	2009 HK$'000	2008 HK$'000
Revenue		
Sale of goods	**325,060**	873,677
Other income		
Mould income	**687**	338
Bank interest income	**37**	171
Interest income from loan receivable	**10**	14
Sundry income	**6,069**	11,158
	6,803	11,681

6. LOSS BEFORE TAX

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

	Notes	2009 HK$'000	2008 HK$'000
Cost of inventories sold		**269,252**	819,290
Provision against slow-moving, obsolete and defective inventories, included in "Cost of sales" in the consolidated income statement		**21,520**	19,330
Depreciation*	*13*	**10,019**	12,094
Recognition of prepaid land premiums	*14*	**271**	270
Minimum lease payments under operating leases in respect of land and buildings		**849**	3,695
Auditors' remuneration:			
Current year		**820**	1,060
Under/(over) provision in prior years		**(140)**	60
		680	1,120
Employee benefit expense (excluding directors' remuneration – note 8)**:			
Wages and salaries		**103,670**	255,149
Other employee benefits		**647**	1,038
Pension schemes contributions		**6,608**	11,105
		110,925	267,292
Loss on disposal of items of property, plant and equipment***		**719**	191
Foreign exchange differences, net		**1,200**	1,802
Impairment of interests in associates***	*16*	**–**	4,964
Impairment of trade receivables***	*21*	**–**	14,984
Impairment of other intangible asset***	*17*	**150**	–
Fair value gains:			
Derivative instruments – transactions not qualifying as hedges***	*24*	**(405)**	(4,052)

* *Depreciation of HK$6,048,000 (2008: HK$7,722,000) is also included in "Cost of inventories sold" above.*

** *Employee benefit expense of HK$90,076,000 (2008: HK$231,568,000) is also included in "Cost of inventories sold" above.*

*** *These items are included in "Other operating expenses" in the consolidated income statement.*

7. FINANCE COSTS

An analysis of financial costs is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**3,084**	3,403

8. 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	
	2009	2008
	HK$'000	HK$'000
Fees	**160**	150
Other emoluments:		
Salaries, allowances and benefits in kind	**4,275**	3,967
Pension scheme contributions	**134**	142
	4,409	4,109
	4,569	4,259

(a) Independent non-executive directors

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

	2009	2008
	HK$'000	HK$'000
Mr. Kwok Ming Fai	**15**	–
Mr. Wong Kwok Tai	**10**	–
Ms. Leung Pik Har, Christine	**6**	–
Mr. Lam Chin Fung	**50**	50
Mr. Tse Wei Kin	**50**	50
Ms. Cynthia Law	**–**	50
	131	150

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000
2009				
Executive directors:				
Mr. Lo Ming Chi, Charles	**–**	**191**	**5**	**196**
Ms. Chan Yuk Yee	**–**	**32**	**1**	**33**
Ms. Wang Jingyu	**–**	**36**	**–**	**36**
Ms. Cheung Yan, Priscilla	**–**	**1,481**	**45**	**1,526**
Ms. Cheung Man, Catherine	**–**	**683**	**15**	**698**
Mr. Ha Jimmy N. T.	**–**	**229**	**11**	**240**
Mr. Hui Kwok Chu	**–**	**881**	**27**	**908**
Mr. Sham Lok Shing, Edward	**–**	**742**	**30**	**772**
	–	**4,275**	**134**	**4,409**
Non-executive director:				
Mr. Sue Ka Lok	**29**	**–**	**–**	**29**
	29	**4,275**	**134**	**4,438**
2008				
Executive directors:				
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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were four (2008: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2008: one) non-director, highest paid employee for the year are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**988**	901
Pension scheme contributions	**42**	42
	1,030	943

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	Group	
	2009	2008
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**37**	19
Underprovision in prior years	**–**	64
Current – Mainland China	**1,781**	2,824
Deferred (note 26)	**(437)**	529
Total tax charge for the year	**1,381**	3,436

10. INCOME TAX (Continued)

A reconciliation of the tax credit applicable to loss before tax at 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 – 2009

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(15,307)		(1,089)		(16,396)	
Tax at the statutory tax rate	(2,526)	(16.5)	(272)	(25.0)	(2,798)	(17.1)
Tax losses not recognised	1,058	6.9	–	–	1,058	6.4
Income not subject to tax	(73)	(0.4)	–	–	(73)	(0.4)
Expenses not deductible for tax	1,106	7.2	1,828	167.9	2,934	17.9
Effect of withholding tax at 5% on the distributable profits of the Group's subsidiary in Mainland China	92	0.6	–	–	92	0.6
Others	168	1.1	–	–	168	1.0
Tax charge/(credit) at the Group's effective rate	(175)	(1.1)	1,556	142.9	1,381	8.4

10. INCOME TAX (Continued)

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 rate	(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. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2009 includes a loss of HK$19,494,000 (2008: HK$40,660,000) which has been dealt with in the financial statements of the Company (note 28(b)).

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

The calculation of basic loss per share amounts is based on the loss for the year attributable to equity holders of the Company of HK$17,777,000 (2008: HK$84,274,000) and the weighted average number of ordinary shares of 475,124,000 (2008: 445,430,000) in issue during the year, as adjusted to reflect the shares issued during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

13. 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
2009						
At 31 December 2008 and at 1 January 2009:						
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
At 1 January 2009, net of accumulated depreciation	133,150	541	27,019	6,939	1,260	168,909
Additions	–	–	263	3,523	–	3,786
Disposals	–	(289)	(313)	(101)	(188)	(891)
Surplus on revaluation	596	–	–	–	–	596
Depreciation provided during the year	(3,474)	(73)	(4,123)	(1,952)	(397)	(10,019)
Transfer (note 20)	(4,400)	–	–	–	–	(4,400)
Exchange realignment	18	–	27	10	1	56
At 31 December 2009, net of accumulated depreciation	125,890	179	22,873	8,419	676	158,037
At 31 December 2009:						
Cost or valuation	125,890	515	76,660	22,090	5,586	230,741
Accumulated depreciation	–	(336)	(53,787)	(13,671)	(4,910)	(72,704)
Net carrying amount	125,890	179	22,873	8,419	676	158,037
Analysis of cost or valuation:						
At cost	–	515	76,660	22,090	5,586	104,851
At 31 December 2009 valuation	125,890	–	–	–	–	125,890
	125,890	515	76,660	22,090	5,586	230,741

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
2008						
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

At the end of the reporting period, 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$125,890,000 (2008: HK$133,150,000) on an open market, existing use or depreciated replacement cost basis. A revaluation surplus of HK$596,000 (2008: deficit of HK$1,455,000), resulting from the above valuations, has been credited (2008: debited) to other comprehensive income.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been HK$77,655,000 (2008: HK$82,228,000).

At 31 December 2009, the Group's certain leasehold land and buildings in Mainland China and in Hong Kong (including the prepaid land premiums as disclosed in note 14 to the financial statements) with aggregate net book values of approximately HK$122,107,000 (2008: HK$127,770,000) and HK$11,010,000 (2008: HK$15,450,000), 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$13,590,000 (2008: HK$15,450,000) are held under long term leases and the leasehold buildings situated in Mainland China of HK$112,300,000 (2008: HK$117,700,000) are located on the leasehold land as disclosed in note 14 to the financial statements.

14. PREPAID LAND PREMIUMS

	Group	
	2009	2008
	HK$'000	HK$'000
Carrying amount at 1 January	**10,070**	10,078
Recognised during the year	**(271)**	(270)
Exchange realignment	**8**	262
Carrying amount at 31 December	**9,807**	10,070
Current portion	**(266)**	(265)
Non-current portion	**9,541**	9,805

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

15. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**156,726**	156,726
Advances to subsidiaries (note (a))	**63,578**	60,332
	220,304	217,058
Impairment (note (b))	**(66,722)**	(50,668)
	153,582	166,390

15. INTERESTS IN SUBSIDIARIES (Continued)

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 (2008: 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) (2008: HK$10,806,000) because that subsidiary has been loss-making.

An impairment of HK$55,916,000 (2008: HK$39,862,000) was also recognised for an unlisted investment in a subsidiary with a carrying amount of HK$156,726,000 (before deducting the impairment loss) (2008: HK$156,726,000) because that subsidiary has also recognised an impairment in respect of its subsidiaries, which were loss-making.

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	Dormant

\# *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.

16. INTERESTS IN ASSOCIATES

	Group 2009 HK$'000	2008 HK$'000
Share of net assets	**–**	–
Goodwill on acquisition	**4,964**	4,964
	4,964	4,964
Provision for impairment	**(4,964)**	(4,964)
	–	–

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 2009	2008	Principal activities
Jasman Asia Limited	Ordinary shares of HK$10 each	Hong Kong	**40**	40	Dormant
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. In the prior year, the Group's unrecognised share of losses of these associates was HK$3,141,000. Impairment loss was recognised as at 31 December 2009 for the interests in associates amounting to HK$4,964,000 (2008: HK$4,964,000) because the associates were in financial difficulty.

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

16. INTERESTS IN ASSOCIATES (Continued)

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

	2009	2008
	HK$'000	HK$'000
Assets	**–***	18,415
Liabilities	**–***	24,065
Revenues	**–***	131,806
Loss	**–***	(13,858)

* *Management accounts for the Group's associates are not available as these associates are currently in the process of creditors' liquidation.*

17. OTHER INTANGIBLE ASSET

	Group	
	2009	2008
	HK$'000	HK$'000
Cost at 1 January	**600**	600
Impairment during the year	**(150)**	–
Net carrying amount as at 31 December	**450**	600

18. 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% (2008: 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$215,000 (2008: HK$395,000) is included under non-current assets as at 31 December 2009.

19. INVENTORIES

	Group 2009 HK$'000	Group 2008 HK$'000
Raw materials	**12,908**	47,737
Work in progress	**15,158**	36,948
Finished goods	**8,695**	19,021
	36,761	103,706

20. PROPERTY HELD FOR SALE

On 22 October 2009, a provisional sale and purchase agreement was entered into with an independent third party in respect of the disposal of one of the Group's properties, situated in Hong Kong, at a consideration of HK$6,125,000. The transaction was completed on 5 January 2010 (note 35(a)).

As at 31 December 2009, the property held for sale was pledged to secure general bank facilities granted to the Group (note 25).

21. TRADE RECEIVABLES

	Group 2009 HK$'000	Group 2008 HK$'000
Trade receivables	**46,953**	75,018
Impairment	**(14,984)**	(14,984)
	31,969	60,034

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) (2008: HK$14,984,000), 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 end of the reporting period, based on the invoice date and net of provision, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 30 days	**22,631**	41,328
31 to 90 days	**9,338**	16,163
Over 90 days	**–**	2,543
	31,969	60,034

The movement in provision for impairment of trade receivables is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**14,984**	–
Impairment losses recognised (note 6)	**–**	14,984
At 31 December	**14,984**	14,984

The above provision for impairment of trade receivables represents a provision for a trade receivable of HK$14,984,000 (2008: HK$14,984,000) with a carrying amount before provision of HK$14,984,000 (2008: HK$14,984,000). 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.

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

	Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**23,169**	52,201
Less than 1 month past due	**8,800**	4,085
1 to 3 months past due	**–**	3,375
Over 3 months	**–**	373
	31,969	60,034

21. TRADE RECEIVABLES (Continued)

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	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**62,207**	21,447	**36,505**	6

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$12,584,000 (2008: HK$14,162,000). 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. 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 end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Current to 30 days	**14,842**	34,466
31 to 90 days	**9,857**	39,210
Over 90 days	**9,102**	23,997
	33,801	97,673

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2009	2008
	HK$'000	HK$'000
Forward currency contract	**–**	349

The Group had no forward currency contract outstanding as at 31 December 2009. The change in fair value of a non-hedging currency derivative amounting to HK$405,000 (note 6) was credited to the consolidated income statement during the year (2008: HK$4,052,000).

25. INTEREST-BEARING BANK LOANS

Group

	2009			2008		
	Contractual interest rate (%)	**Maturity**	**HK$'000**	Contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	**Fixed rates of 0.19 – 0.44 per month**	**January 2010 – April 2010**	**43,077**	Fixed rates of 0.35 – 0.42 per month	February 2009 – April 2009	59,716
Bank loans – secured	**–**	**–**	**–**	Prime – 1%	On demand	14,000
Instalment loan – secured	**Prime – 2.5%**	**August 2010**	**2,310**	Prime – 2.5%	On demand	5,696
			45,387			79,412

The above bank and instalment loans are repayable within one year or on demand and with carrying amounts approximate to their fair values.

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 end of the reporting period of approximately HK$122,107,000 (2008: HK$127,770,000) (note 13);

(ii) the pledge of the Group's certain leasehold land and buildings situated in Hong Kong, which had an aggregate carrying value at the end of the reporting period of approximately HK$11,010,000 (2008: HK$15,450,000) (note 13); and

(iii) the pledge of the Group's property held for sale of HK$4,400,000 (2008: Nil) (note 20).

(b) Except for secured bank loans of HK$17,036,000 (2008: HK$31,637,000) which are denominated in RMB, all other bank and instalment loans are in Hong Kong dollars.

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
2009					
At 1 January 2009	**640**	**1,290**	**(640)**	**529**	**1,819**
Deferred tax charged/(credited) to the income statement during the year (note 10)	**294**	**–**	**(294)**	**(437)**	**(437)**
Deferred tax on surplus on revaluation of properties	**–**	**320**	**–**	**–**	**320**
At 31 December 2009	**934**	**1,610**	**(934)**	**92**	**1,702**
2008					
At 1 January 2008	449	1,553	(449)	–	1,553
Deferred tax charged/(credited) to the income statement during the year (note 10)	191	–	(191)	529	529
Deferred tax on deficit on revaluation of properties	–	(263)	–	–	(263)
At 31 December 2008	640	1,290	(640)	529	1,819

The Group has estimated tax losses arising in Hong Kong of HK$93,871,000 (2008: HK$85,679,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets of HK$14,555,000 (2008: HK$13,497,000) 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 Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed 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 2009 HK$'000	Company 2008 HK$'000
Authorised:		
7,000,000,000 (2008: 1,000,000,000) ordinary shares of HK$0.10 (2008: HK$0.10) each	**700,000**	100,000
Issued and fully paid:		
534,514,000 (2008: 445,430,000) ordinary shares of HK$0.10 (2008: HK$0.10) each	**53,451**	44,543

During the year, the movements in share capital were as follows:

(a) Pursuant to an ordinary resolution passed on 29 October 2009, the authorised share capital of the Company was increased from HK$100,000,000 to HK$700,000,000 by the creation of 6,000,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing shares of the Company.

(b) On 1 September 2009, the Company entered into a placing agreement with the placing agent in respect of the placing of 89,084,000 new shares at an issue price of HK$0.49 per share. On 11 September 2009, the placing was completed and 89,084,000 new shares were placed by the placing agent to not less than six independent placees at an issue price of HK$0.49 per share resulting in raising proceeds, before expenses, of HK$43,651,000.

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

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2008,31 December 2008 and 1 January 2009	445,430,000	44,543	20,912	65,455
Issue of shares (b)	89,084,000	8,908	34,743	43,651
	534,514,000	53,451	55,655	109,106
Share issue expenses	–	–	(1,065)	(1,065)
At 31 December 2009	534,514,000	53,451	54,590	108,041

27. SHARE CAPITAL (Continued)

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 3.35% 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.

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.

(b) Company

	Note	**Share premium account** HK$'000	**Contributed surplus#** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2008		20,912	152,762	(11,162)	162,512
Total comprehensive loss for the year	*11*	–	–	(40,660)	(40,660)
At 31 December 2008 and 1 January 2009		20,912	152,762	(51,822)	121,852
Total comprehensive loss for the year	*11*	–	–	(19,494)	(19,494)
Issue of shares		34,743	–	–	34,743
Share issue expenses		(1,065)	–	–	(1,065)
At 31 December 2009		54,590	152,762	(71,316)	136,036

\# *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

At the end of the reporting period, the Company had provided corporate guarantees of HK$22,700,000 (2008: HK$115,100,000) to a bank in respect of banking facilities granted to its subsidiaries. As at the end of the reporting period, HK$2,310,000 (2008: HK$19,696,000) was utilised by these subsidiaries.

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 one to three years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**1,699**	386
In the second to fifth years, inclusive	**2,552**	–
	4,251	386

At the end of the reporting period, 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 end of the reporting period:

	Group	
	2009	2008
	HK$'000	HK$'000
Contracted for:		
Office equipment	**388**	1,085

At the end of the reporting period, 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	2009 HK$'000	2008 HK$'000
Rental expenses to a then director	*(i)*	**204**	204
Sales of goods to an associate	*(ii)*	**–**	21,242
Consultancy fee to a related company	*(iii)*	**–**	491
Reimbursement of expenses to a related company	*(iii)*	**–**	140

Notes:

(i) The rental expenses were paid by the Group to Ms. Cheung Man, Catherine, a then director of the Company, for leasing a property as staff quarters during the year. 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 was a member of the then 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 current and prior years, Mr. Cheung Po Lun, an ex-director of the Company, occupied an insignificant portion of the Group's office premises at no consideration.

(c) Outstanding balances with related parties

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

(d) Compensation of key management personnel of the Group are disclosed in notes 8 and 9 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 end of the reporting period are as follows:

2009

Financial assets	*Notes*	**Group** **Loans and receivables** **HK$'000**
Trade receivables	*21*	**31,969**
Loan receivable	*18*	**395**
Financial assets included in prepayments, deposits and other receivables		**2,950**
Cash and cash equivalents	*22*	**62,207**
		97,521

Financial liabilities	*Notes*	**Group** **Financial liabilities at amortised cost** **HK$'000**
Trade payables	*23*	**33,801**
Financial liabilities included in other payables and accruals		**11,019**
Interest-bearing bank loans	*25*	**45,387**
		90,207

33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2008

Financial assets		**Group**
		Loans and receivables
	Notes	HK$'000
Trade receivables	*21*	60,034
Loan receivable	*18*	575
Financial assets included in prepayments, deposits and other receivables		6,995
Cash and cash equivalents	*22*	21,447
		89,051

Financial liabilities		**Group**		
		Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
	Notes	HK$'000	HK$'000	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

Financial assets		**Company**	
		2009	2008
		Loans and receivables	Loans and receivables
	Note	**HK$'000**	HK$'000
Cash and cash equivalents	*22*	**36,505**	6

At the end of the reporting period, the Company had no financial liability.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The Group's funding policy uses short-term interest-bearing debts, at floating and fixed rates, to finance its working capital requirements and interest-bearing debts over one year or internal generated resources to finance its capital investments.

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).

		2009	2008
	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax HK$'000**	Increase/ (decrease) in loss before tax HK$'000
Hong Kong dollar	100	**95**	193
RMB	100	**568**	380
Hong Kong dollar	(100)	**(95)**	(193)
RMB	(100)	**(568)**	(380)

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 HK$ or United States dollars ("US$"), while approximately 49% (2008: 49%) of costs are denominated in HK$ or US$, and approximately 51% (2008: 51%) of which are denominated in RMB.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of reporting period 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
2009		
If Hong Kong dollar weakens against RMB	**5**	**1,893**
If Hong Kong dollar strengthens against RMB	**(5)**	**(1,893)**
2008		
If Hong Kong dollar weakens against RMB	5	5,620
If Hong Kong dollar strengthens against RMB	(5)	(5,620)

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 as well as loan 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 note 29 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 end of the reporting period, the Group had certain concentrations of credit risk as 58.6% (2008: 41.3%) and 68.6% (2008: 97.1%) 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.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

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 end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2009			
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to less than 12 months HK$'000**	**Total HK$'000**
Interest-bearing bank loans	**–**	**27,327**	**18,518**	**45,845**
Trade payables	**15,361**	**15,825**	**2,615**	**33,801**
Other payables	**7,571**	**3,448**	**–**	**11,019**
	22,932	**46,600**	**21,133**	**90,665**

	2008			
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	Total HK$'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

The maturity profile of the Company's financial liability as at the end of the reporting period, based on the contractual undiscounted payment, is as follows:

Company

	2009 On demand HK$'000	2008 On demand HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**2,310**	19,696

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 2009 and 2008.

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 represents total equity. The gearing ratios as at the ends of reporting periods were as follows:

Group

	Notes	**2009** **HK$'000**	2008 HK$'000
Interest-bearing bank loans	*25*	**45,387**	79,412
Trade payables	*23*	**33,801**	97,673
Other payables and accruals		**36,137**	35,937
Less: Cash and cash equivalents	*22*	**(62,207)**	(21,447)
Net debt		**53,118**	191,575
Equity attributable to equity holders of the Company		**192,643**	167,271
Capital and net debt		**245,761**	358,846
Gearing ratio		**22%**	53%

35. EVENTS AFTER THE REPORTING PERIOD

(a) During the year, a provisional sale and purchase agreement was entered into with an independent third party in respect of the disposal of one of the Group's properties, situated in Hong Kong, at a consideration of HK$6,125,000. The transaction was completed on 5 January 2010 (note 20).

(b) During the year, the Company entered into a subscription agreement with Right Perfect and a placing agreement with a placing agent in respect of the offer to subscribe/place convertible bonds of the Company, within the subscription/placing period, up to the principal amounts of HK$120,000,000 and HK$130,000,000 respectively, convertible into up to 657,894,736 shares at the initial conversion price of HK$0.38 (subject to adjustments) for each ordinary share and the interest rate for the convertible bonds is 3% per annum. The maturity date of the convertible bonds is two years from the date of issuance and the holders can convert the outstanding principal amount at any time from the relevant date of issue up to 7 days prior to the maturity date.

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

(c) On 23 February 2010, convertible bonds in the principal amount of HK$100,000,000 have been converted into 263,157,892 ordinary shares at the issue price of HK$0.38 each.

(d) On 25 February 2010, convertible bonds in the principal amount of HK$60,000,000 have been converted into 157,894,735 ordinary shares at the issue price of HK$0.38 each.

(e) On 26 February 2010, convertible bond in the principal amount of HK$10,000,000 has been converted into 26,315,789 ordinary shares at the issue price of HK$0.38 each.

(f) On 3 March 2010, convertible bond in the principal amount of HK$40,000,000 has been converted into 105,263,157 ordinary shares at the issue price of HK$0.38 each.

(g) On 8 March 2010, the Company entered into a placing agreement with a placing agent in respect of the placing of 106,000,000 new shares at an issue price of HK$1 per share. On 15 March 2010, the placing was completed and 106,000,000 new shares were placed by the placing agent to not less than six independent placees at an issue price of HK$1 per share resulting in raising proceeds, before expenses, of HK$106,000,000.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 March 2010.

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				
	2009	2008	2007	2006	2005
RESULTS	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**325,060**	873,677	774,362	622,200	565,741
Cost of sales	**(290,772)**	(838,620)	(733,954)	(544,144)	(500,241)
Gross profit	**34,288**	35,057	40,408	78,056	65,500
Other income and gain	**6,803**	11,681	4,577	2,962	4,078
Selling and distribution costs	**(11,312)**	(37,306)	(37,271)	(22,562)	(19,568)
Administrative expenses	**(42,611)**	(68,378)	(64,948)	(49,940)	(43,753)
Other operating income/(expenses), net	**(480)**	(16,087)	3,584	(3,228)	236
Finance costs	**(3,084)**	(3,403)	(1,322)	(207)	(610)
Share of profits/(losses) of associates	**–**	(2,402)	325	5,214	675
Profit/(loss) before tax	**(16,396)**	(80,838)	(54,647)	10,295	6,558
Income tax expense	**(1,381)**	(3,436)	(1,126)	(6,287)	(3,122)
Profit/(loss) for the year attributable to equity holders of the Company	**(17,777)**	(84,274)	(55,773)	4,008	3,436

ASSETS AND LIABILITIES

	2009	2008	2007	2006	2005
TOTAL ASSETS	**311,445**	383,973	547,008	424,367	353,203
TOTAL LIABILITIES	**(118,802)**	(216,702)	(302,907)	(145,882)	(85,660)
	192,643	167,271	244,101	278,485	267,543