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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

ANNUAL RESULTS

The Board of Directors (the "Board") of Sewco International Holdings Limited (the "Company") hereby announces the consolidated annual results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2007 together with the comparative figures for the corresponding year in 2006. The said annual results for the year ended 31 December 2007 have been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

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

CONSOLIDATED BALANCE SHEET
31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**175,084**	161,392
Deposit for items of property, plant and equipment		**2,015**	1,085
Prepaid land premiums		**9,819**	9,779
Interests in associates		**7,366**	8,541
Other intangible asset		**600**	600
Loan receivable		**575**	755
Total non-current assets		**195,459**	182,152
CURRENT ASSETS			
Inventories		**155,412**	115,871
Prepaid land premiums		**259**	247
Dividend receivable from an associate		**–**	800
Trade receivables	7	**154,292**	78,599
Prepayments, deposits and other receivables		**9,610**	19,874
Loan receivable		**180**	180
Tax recoverable		**–**	21
Cash and cash equivalents		**31,796**	26,623
Total current assets		**351,549**	242,215
CURRENT LIABILITIES			
Trade payables	8	**214,855**	95,753
Other payables and accruals		**39,260**	25,002
Derivative financial instruments		**2,195**	3,169
Interest-bearing bank loans		**34,281**	7,963
Tax payable		**5,278**	12,514
Total current liabilities		**295,869**	144,401
NET CURRENT ASSETS		**55,680**	97,814
TOTAL ASSETS LESS CURRENT LIABILITIES		**251,139**	279,966
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**5,485**	–
Deferred tax liabilities		**1,553**	1,481
Total non-current liabilities		**7,038**	1,481
Net assets		**244,101**	278,485
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued capital		**44,543**	44,543
Reserves		**199,558**	231,715
Proposed final dividend	5	**–**	2,227
Total equity		**244,101**	278,485

Notes:

1. BASIS OF PREPARATION

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

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

1.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

(a) HKFRS 7 *Financial Instruments: Disclosures*

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

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

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in the notes to the financial statements in this year's Annual Report of the Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. SEGMENT INFORMATION

(a) Business segments

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

Group	Hard toys		Stuffed toys		Consumer products		Corporate		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**664,757**	543,815	**102,558**	78,385	**7,047**	–	**–**	–	**–**	–	**774,362**	622,200
Other revenue from external sources	**3,621**	2,246	**446**	72	**–**	–	**–**	–	**–**	–	**4,067**	2,318
Intersegment other revenue	**1,231**	1,231	**–**	–	**–**	–	**–**	–	**(1,231)**	(1,231)	**–**	–
Total	**669,609**	547,292	**103,004**	78,457	**7,047**	–	**–**	–	**(1,231)**	(1,231)	**778,429**	624,518
Segment results	**(38,388)**	5,865	**(8,316)**	5,031	**(8,788)**	–	**1,332**	(6,252)	**–**	–	**(54,160)**	4,644
Interest income											**510**	644
Finance costs											**(1,322)**	(207)
Share of profits of associates											**325**	5,214
Profit/(loss) before tax											**(54,647)**	10,295
Tax											**(1,126)**	(6,287)
Profit/(loss) for the year											**(55,773)**	4,008
Assets and liabilities:												
Segment assets	**491,303**	391,879	**38,209**	22,188	**8,767**	–	**608**	824	**–**	–	**538,887**	414,891
Interests in associates											**7,366**	8,541
Unallocated assets											**755**	935
Total assets											**547,008**	424,367
Segment liabilities	**246,782**	116,043	**5,643**	5,271	**690**	–	**3,195**	4,489	**–**	–	**256,310**	125,803
Unallocated liabilities											**46,597**	20,079
Total liabilities											**302,907**	145,882
Other segment information:												
Capital expenditure	**7,687**	4,013	**–**	–	**–**	–	**–**	–	**–**	–	**7,687**	4,013
Surplus on revaluation of land and buildings	**14,695**	1,219	**–**	–	**–**	–	**–**	–	**–**	–	**14,695**	1,219
Recognition of prepaid land premiums	**259**	254	**–**	–	**–**	–	**–**	–	**–**	–	**259**	254
Depreciation	**10,207**	9,919	**742**	725	**16**	–	**–**	–	**–**	–	**10,965**	10,644
Other non-cash expenses	**36,805**	15,466	**4,875**	470	**–**	–	**(974)**	3,169	**–**	–	**40,706**	19,105

(b) **Geographical segments**

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

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

3. PROFIT/(LOSS) BEFORE TAX

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

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

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

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

4. TAX

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

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

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

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

5. DIVIDEND

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

6. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

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

7. TRADE RECEIVABLES

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

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

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

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

8. TRADE PAYABLES

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

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

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

FINAL DIVIDEND

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2007 (2006: HK0.5 cent per share).

CLOSURE OF REGISTER OF MEMBERS

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results

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

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

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

Business Review

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

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

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

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

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

Financial Review

Liquidity and Financial Resources

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

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

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

Financial Risk Management Policies

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

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

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

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

Contingent Liabilities

The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$706,000 as at 31 December 2007 (2006: HK$1,054,000). The contingent liability has arisen at the balance sheet date as a number of current employees have achieved the required number of years of service to the Group, and will be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

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

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

Charges on Assets

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

Employees

As at 31 December 2007, the Group had a total of approximately 11,400 (2006: 10,600) employees in Hong Kong and Mainland China. The Group provides remuneration packages to employees largely based on industry practice, individual performance, qualifications and experience. In addition, discretionary bonuses and share options under the Company's share option scheme may be granted to eligible staff by reference to the Group's performance and individual performance. The Group also provides subsidies to staff for external training in order to enhance the Group's competitiveness.

Outlook

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

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

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

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

ICAC INVESTIGATIONS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2007.

CORPORATE GOVERNANCE

The Company commits to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met all the code provisions set out in the "Code on Corporate Governance Practices" contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

DIRECTORS OF THE COMPANY

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

On behalf of the Board
Cheung Yan, Priscilla
Chairman

Hong Kong, 18 April 2008

* *For identification purposes only*