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 2008

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 2008 together with the comparative figures for the corresponding year in 2007. The said annual results for the year ended 31 December 2008 have been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	**2008** *HK$'000*	2007 *HK$'000*
REVENUE	*2*	**873,677**	774,362
Cost of sales		**(838,620)**	(733,954)
Gross profit		**35,057**	40,408
Other income		**11,681**	4,577
Selling and distribution costs		**(37,306)**	(37,271)
Administrative expenses		**(68,378)**	(64,948)
Other operating income/(expenses)		**(16,087)**	3,584
Finance costs		**(3,403)**	(1,322)
Share of profits/(losses) of associates		**(2,402)**	325
LOSS BEFORE TAX	*3*	**(80,838)**	(54,647)
Tax	*4*	**(3,436)**	(1,126)
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**(84,274)**	(55,773)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	*5*	**(HK18.92 cents)**	(HK12.52 cents)

CONSOLIDATED BALANCE SHEET
31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**168,909**	175,084
Deposit for items of property, plant and equipment		**2,015**	2,015
Prepaid land premiums		**9,805**	9,819
Interests in associates		**–**	7,366
Other intangible asset		**600**	600
Loan receivable		**395**	575
Total non-current assets		**181,724**	195,459
CURRENT ASSETS			
Inventories		**103,706**	155,412
Prepaid land premiums		**265**	259
Trade receivables	6	**60,034**	154,292
Prepayments, deposits and other receivables		**16,617**	9,610
Loan receivable		**180**	180
Cash and cash equivalents		**21,447**	31,796
Total current assets		**202,249**	351,549
CURRENT LIABILITIES			
Trade payables	7	**97,673**	214,855
Other payables and accruals		**35,937**	39,260
Derivative financial instruments		**349**	2,195
Interest-bearing bank loans		**79,412**	34,281
Tax payable		**1,512**	5,278
Total current liabilities		**214,883**	295,869
NET CURRENT ASSETS/(LIABILITIES)		**(12,634)**	55,680
TOTAL ASSETS LESS CURRENT LIABILITIES		**169,090**	251,139
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**–**	5,485
Deferred tax liabilities		**1,819**	1,553
Total non-current liabilities		**1,819**	7,038
Net assets		**167,271**	244,101
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued capital		**44,543**	44,543
Reserves		**122,728**	199,558
Total equity		**167,271**	244,101

Notes:

1. BASIS OF PRESENTATION

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

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

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

(b) the Group continues to maintain good business relations with its bankers, who have continued their support to the Group, and, in particular, one of its bankers has agreed to roll over its loans on maturity. The Group has breached the financial covenants of another banker and is currently in discussions with this banker for a waiver. The directors believe that such waiver will be granted;

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

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

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

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

1.1 BASIS OF PREPARATION

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

1.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Apply prospectively to transfers of assets from customers received on or after 1 July 2009
6 Effective for annual periods beginning on or after 30 June 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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

2. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

(a) Business segments

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

Group

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

(b) **Geographical segments**

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

Group

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

3. LOSS BEFORE TAX

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

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

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

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

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

4. TAX

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

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

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

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

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

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

6. TRADE RECEIVABLES

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

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

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

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

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

7. **TRADE PAYABLES**

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

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

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

MODIFIED AUDITORS' OPINION

The independent auditors' report on the Group's financial statements for the year ended 31 December 2008 contained a modified opinion:

Material Uncertainty – Going Concern

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

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results

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

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

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

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

Financial Review

Liquidity and Financial Resources

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

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

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

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

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

Financial Risk Management Policies

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

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

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

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

Contingent Liabilities

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

Charges on Assets

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

Employees

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

Business Review and Outlook

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

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

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for 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 (Chairman), Ms Cheung Man, Catherine, Mr Hui Kwok Chu (Chief Executive Officer) and Mr Sham Lok Shing, Edward are the executive directors of the Company and Ms Cynthia Law, Mr Lam Chin Fung and Mr Tse Wei Kin are the independent non-executive directors of the Company.

On behalf of the Board
Cheung Yan, Priscilla
Chairman

Hong Kong, 15 April 2009

* *For identification purposes only*