Dream International Limited

DREAM INTERNATIONAL LIMITED
德 林 國 際 有 限 公 司

(incorporated in Hong Kong with limited liability)
（於香港註冊成立之有限公司）

Stock Code 股份代號：1126

Annual Report 2008 年報

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Kyoo Yoon CHOI *(Chairman and Executive Director)*
Mr. Young M. LEE
(Executive Managing Director and Chief Financial Officer)
Mr. James WANG
Mr. Hyun Ho KIM
Mr. Sang Hee JUNG *(appointed on 7 November 2008)*
Mr. Jung Kuk LEE *(resigned on 7 November 2008)*

Independent Non-executive Directors

Professor Cheong Heon YI
Professor Byong Hun AHN *(appointed on 30 May 2008)*
Mr. Oliver, Shing Kay WONG
(appointed on 1 September 2008)
Mr. Valiant, Kin Piu CHEUNG *(resigned on 30 May 2008)*
Dr. Chan YOO *(resigned on 30 September 2008)*

AUDIT COMMITTEE

Mr. Oliver, Shing Kay WONG *(Chairman)*
Professor Cheong Heon YI
Professor Byong Hun AHN

REMUNERATION COMMITTEE

Professor Cheung Heon YI *(Chairman)*
Professor Byong Hun AHN
Mr. Oliver, Shing Kay WONG
Mr. Young M. LEE

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

8th Floor
Tower 5, China HK City
33 Canton Road
Tsimshatsui Kowloon
Hong Kong

COMPANY SECRETARY

Mr. Chi Chung SHUM, *CPA*

AUDITOR

KPMG
Certified Public Accountants
8/F, Prince's Building
10 Chater Road
Central, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Young M. LEE
Mr. Chi Chung SHUM

PRINCIPAL BANKERS

The Hongkong and
Shanghai Banking Corporation Limited
Citibank, N.A.
Shinhan Finance Limited

SHARE REGISTRAR

Tricor Abacus Limited
26/F., Tesbury Centre
28 Queens Road East
Hong Kong

FINANCIAL RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit A, 29/F., Admiralty Centre I
18 Harcourt Road, Hong Kong

WEBSITE ADDRESS

www.dream-i.com.hk

STOCK CODE

Stock Exchange, Hong Kong 1126
Access to Reuters 1126.HK
Access to Bloomberg 1126:HK

CHAIRMAN'S STATEMENT

MR. KYOO YOON CHOI *CHAIRMAN*

Dear Shareholders,

In the past few years, toy manufacturers in China had to face very tough operating conditions including increasing material costs and labour costs and appreciation of the Renminbi. In the first half of 2008, with the oil price escalating and the new labour law in China taking effect, cost pressure on manufacturers increased. As a result, many manufacturers were ousted from the market. As a leading and forward looking toy manufacturer, Dream International Limited (the "company") and its subsidiary (collectively the "group") started to prepare for such rising costs some years ago, which has enabled the group to weather the hard times in the first half of 2008 and actually turn around the business in the second half year despite the impact of the global financial crisis.

Foreseeing challenges in the market, we started to implement a series of strategies to restructure our business in 2005, particularly in cost management to tackle rising production and operational costs. On the production front, we relocated and consolidated our manufacturing bases to inland China and Vietnam for optimum cost-effectiveness and production efficiency. We also streamlined our business structure and workforce to cap overall expenses.

Apart from cost control, we assessed and improved our customer base with the aim of sustaining long-term healthy growth of our business. We stopped taking orders of lower margin and smaller volumes, and focused on forging business partnerships with top-tier toy brands. To secure and retain quality customers, we strengthened research and development to facilitate introduction of products with higher margins and added value. Furthermore, through an acquisition in 2005, we expanded the Original Design Manufacturing arm for our steel and plastic toy segment to be in a position to capture the abundant opportunities in China.

CHAIRMAN'S STATEMENT *(Continued)*

All these efforts in the past few years have started to bear fruit and since the group's business bottomed out in the second half of 2008 it has been improving steadily. During the second half year, our turnover grew by more than 30% year-on-year driven by our refined customer base and product mix. As a result of our effective cost control measures, the group's gross profit margin improved and the percentage of administration expenses to turnover dropped to 13.9% from 14.2% in the prior year. We achieved an operating profit in the second half year although the global financial crisis started to spread in the third quarter. During the year, we made a major achievement which contributed notably to our better performance. We secured a licensing agreement with The Walt Disney Company ("Disney") for manufacturing character plush stuffed toys of our own designs, which apart from boosting our results for the year is also expected to be a strong growth driver of our business in the foreseeable future.

Looking ahead, with the full impact of the financial crisis yet to come, market sentiment is expected to continue to be poor in the short to mid-term, affecting overall sales of the toys industry. Although the market environment is not conducive to the growth of our business, we still see various factors working in our favour in 2009.

The harsh times for the industry in the past few years and the first half of 2008 had hastened the consolidation of the toys industry. According to the Mainland China Customs, the number of companies exporting toy products from Mainland China was down by half from 8,610 in 2007 to 4,388 in 2008. This trend translated into opportunities for gaining market share and stronger bargaining power in pricing for sizable players such as the company. Furthermore, the US and European markets tightened safety standards on toys in 2008, thus raising the entry barriers to the toys industry. This development also favours leading toy manufacturers such as ourselves.

Regarding operational conditions, with the material and labour costs becoming stable and appreciation of the Renminbi slowing down during 2009, and the group having closed two plants in coastal areas of Mainland China helping to lower overhead and administrative expenses, we expect cost pressures on our business to alleviate in the coming year. Moreover, the government of The People's Republic of China has raised the value-added tax rebate for toys exported from Mainland China to 14% from 11%, which will have a positive impact for the group in 2009. Taking these positive factors, our production scale and good reputation into account, we are cautiously optimistic about our business prospects and are confident of overcoming the difficult market circumstances ahead and maintaining industry leadership.

Appreciation

On behalf of the Board, I would like to take this opportunity to thank the management team and staff for their dedication and contribution to the group. I would also like to extend my gratitude to our shareholders, business partners and customers for their trust and support over the years.

Kyoo Yoon Choi
Chairman

Hong Kong, 28 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Having to face severe cost pressure in the first half year because of significant increase in raw material prices and labour costs, the full year performance of the group was affected. However, the efforts of the group in the past few years to restructure its business have started to bear fruit. The group's business bottomed out in the second half year and has been improving steadily since then.

Although turnover in the first half year dropped markedly when compared with the corresponding prior period because the group stopped taking small volume and low margin orders, significant business growth was recorded in the second half year leading to an overall growth of 10.8% in turnover for the full year to HK$1,048.6 million (2007: HK$946.3 million). However, because of the significant loss incurred in the first half year, loss attributable to equity shareholders for the full year was approximately HK$41.9 million (2007: HK$4.8 million).

In the second half year, the group's performance rebounded significantly. Thanks to the rapid growth of the licensing business, turnover recorded a year-on-year growth of 33.4% to HK$708.6 million (2H 2007: HK$531.3 million) during the six months. With an enhanced product mix and production costs having stabilised, gross profit for the second half year was 143.9 million, almost double that of the corresponding prior period (2H 2007: HK$74.5 million). The group managed to turnaround its business with an operating profit of HK$11.9 million (2H 2007: loss of HK$5.2 million) and net profit attributable to equity shareholders of the company of HK$9.1 million (2H 2007: loss of HK$8.0 million) during the second half year, a notable improvement from the loss of HK$51.0 million for the first six months.

The group maintained a balanced financial position with cash and cash equivalents of HK$122.4 million (2007: HK$107.2 million) as at 31 December 2008 and bank loans totalling HK$145.7 million (2007: HK$114.7 million).

BUSINESS REVIEW

2008 was a challenging year for the toy industry with severe cost pressure in the first half year and the global economic recession spreading during the second half year. However, the group, which has been restructuring its business in the past few years, was prepared for the testing period. To broaden its product portfolio and revenue streams, the group secured one more licensing agreement with Disney. It also shifted focus on to higher value products to enjoy better profit margin. Furthermore, it relocated its plants in coastal areas to inland China and also expanded the production base in Vietnam for more effective application of resources and saving costs. All these moves contributed to the business turnaround of the group in the latter half of the year compared to the prior year.

Product Analysis

Plush stuffed toys segment

Plush stuffed toys recorded sales of HK$875.5 million, representing 83.5% of the group's total turnover for the year ended 31 December 2008. Original Equipment Manufacturing ("OEM") and licensing business was the core business of the group, accounting for 81.0% of the sales of the plush stuffed toy segment. During the year, the group secured a renowned US entertainment company as a new customer and expanded the products for this customer to bath items in addition to infant toys in the second half year. In the fourth quarter, the group secured a Japanese customer and the first shipment of products was made before the end of the year. Stable orders are expected from this customer in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

Product Analysis *(Continued)*

Plush stuffed toys segment *(Continued)*

In the first half of 2008, the group signed a licence agreement with Disney covering design as well as manufacture of plush and soft toys of various popular Disney characters. The first shipment of basic plush toys was made in the second half year. The group also enriched its product mix with teenagers items featuring High School Musical and Hanna Montana brands, and sold them to major retailers in the US, including Wal-Mart, Target, K-Mart, Toys"R"Us and Walgreens. With the licence giving it the flexibility to decide the different aspects of a product from on the drawing board to up on the store shelf, the group will seek to fully realise the potential of the products and capture various opportunities in the market.

Original Design Manufacturing ("ODM") business accounted for 19.0% of the sales of the plush stuffed toys segment. During the year, the group continued to manufacture interactive educational electronic plush stuffed toys carrying the "CALTOY" brand for a US retailer. It also became a major toy manufacturer of another US retailer in 2008. The group will strive to maintain close cooperation with profitable customers with the aim of securing more orders from them in the future.

Steel and plastic toy segment

Sales of the steel and plastic toy segment grew by 19.4% year-on-year to HK$173.1 million, accounting for 16.5% of the group's total turnover. During the year, the group secured additional orders to manufacture high-end products such as tricycles with electronic sound mechanism on the handle bar for a US marketing company. The products were well received in the US. During the second half year, the group promoted a series of new scooters developed with its own patented technology and drew the interest of mass retailers in the US and European markets. Furthermore, it also strengthened its presence in China by restructuring its sales network for scooters and inline skates of its own "Great" and "Far Great" brands in the market with chain stores in Shanghai and other metropolitan areas as a strategic focus.

During the year, the group manufactured scooters and ride-on products under another licence agreement with Disney to penetrate the China market. During the second half year, the group cooperated with a Tianjin bicycle company to promote bicycle and tricycle products associated with a renowned Japanese character. The group was also devoted to developing new bicycle, tricycle and ride-on toy designs during the year to broaden its product range.

Market Analysis

For the year ended 31 December 2008, thanks mainly to contributions from the new licence business from Disney, North America continued to be the group's largest market with sales accounting for 41.4% of the group's total turnover. Japan and Europe were two other major markets, representing 31.8% and 16.3% of the total turnover of the group respectively.

Operational Analysis

As at 31 December 2008, the group operated eight plants in all, six of which were in Mainland China and two in Vietnam, running at an average utilisation rate of above 80%. To combat the challenging operating environment with high cost pressure, the group continued to restructure and relocate its production regime to either inland areas of Mainland China or Vietnam for better production efficiency and cost-effectiveness. A steel and plastic toy plant in Shenzhen and a plush toy plant near Shanghai were closed during the year and all production was relocated to three inland factories in and around Auhui province. The move has allowed the group to better utilise the facilities and enjoy economies of scale. To exploit the relatively lower labour cost in Vietnam, the group expanded its production base in the country. Apart from the existing plush toy plant and a plant equipped with 1,000 sewing machines which began operation during the year, a new fabric factory there has commenced trial production and is expected to be in full operation in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PROSPECTS

As the global financial crisis continues to impact economies, the group expects poor market sentiment to stay in the coming year and affect the overall performance of the toy industry. However, the group also sees factors working in its favour, hence is cautiously optimistic about the prospects of its business.

The economic downturn has speeded up consolidation of the toy industry benefitting established players like the group in terms of landing more sales orders and enjoying stronger bargaining power. With the value of the Renminbi and material prices stabilising, and the impact of the new labour law in Mainland China already reflected in the current financial year, the group expects pressure on production costs to alleviate in 2009. Furthermore, with two plants closed in 2008, the group's overall labour costs and administrative expenses will decrease. The increased value-added tax rebate for toy exporters in Mainland China from 11% to 14% will also be reflected in the coming year.

Armed with the different licence agreements, the group will design and launch new products with market appeal to broaden its income sources and enhance overall profitability. For example, new bicycle and tricycle products associated with a renowned Japanese character will be launched in the second quarter of 2009 to meet market demand. The group will also invest more resources in product design and development. Scooters manufactured with patented technology will be developed and a series of new products will be launched with the support of more aggressive marketing strategies in the coming year. The group will also set up showrooms in Hong Kong and the US to promote its products. With trading activities around the world especially exports to the US slowing down because of the global economic downturn, the group will strengthen its presence in Mainland China to capture business opportunities in the country.

In the coming year, the group will continue to tighten cost control. On top of enjoying relatively lower labour costs in inland areas of Mainland China and Vietnam, with the new fabric plant in Vietnam to commence full operation in 2009, the group will have a vertically integrated production line that boasts lower production costs. These measures will enhance the group's production efficiency and cost effectiveness and thus help stabilise product prices and raise its competitiveness in tackling challenging market conditions.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

The group's liquidity and financial resources position remained balanced. The group's cash and bank deposits as at 31 December 2008 amounted to HK$196.4 million (2007: HK$182.6 million). This amount included the long-term structured deposit of US$12 million at a major bank with a carrying amount of HK$74.0 million as at 31 December 2008 (2007: HK$75.4 million).

As at 31 December 2008, the ratio of current assets to current liabilities was 1.5 times (2007: 1.6 times). The total borrowings of the group as at 31 December 2008 amounted to HK$145.7 million (2007: HK$114.7 million). As a result, the group's net cash and bank position as at 31 December 2008 including the long-term structured deposit was maintained at a healthy level of HK$50.7 million (2007: HK$67.9 million).

The group's gearing ratio, calculated on the basis of total borrowings over the total shareholders' equity, increased to 38.5% (2007: 25.5%). This is mainly due to increase in bank borrowing to finance the group's expansion in Vietnam.

PLEDGE ON GROUP ASSETS AND BANK COVENANTS

As at 31 December 2008, the banking facilities of certain subsidiaries were secured by mortgages over their land use rights, buildings and long-term structured deposit with an aggregate carrying value of HK$134.4 million (2007: HK$173.3 million). Such banking facilities were utilised to the extent of HK$49.2 million (2007: HK$67.2 million).

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Kyoo Yoon Choi, aged 60, is the Chairman and Executive Director of the company and the founder of the group. He studied at Seoul National University in Korea between 1968 and 1972 and graduated with a bachelor's degree in engineering. Prior to setting up the group in Korea in 1984, Mr. Choi had over eight years of experience in the plush toy business at Daewoo Corporation, which was one of the leading conglomerates in Korea at the time. Mr. Choi is responsible for the strategic planning and overall business development of the group.

Mr. Young M. Lee, aged 53, is the Executive Managing Director and the Chief Financial Officer of the company. Mr. Lee has 20 years of working experience in the US in the areas of accounting and finance such as public accounting, consulting to financial institutions, mergers and acquisitions, corporate controllership and investment banking. Prior to joining the group in May 2001, Mr. Lee was the Managing Director of Kohap (Hong Kong) Ltd., which is the trading and financing arm of a Korean conglomerate, Kohap Ltd.. He is responsible for the overall financial management, strategic and business planning of the group.

Mr. James Wang, aged 47, is the Managing Director of Dream International USA. He joined Dream International USA on 1 July 1991 and has been in charge of the group's marketing function in the US. Mr. Wang graduated from the University of California, Los Angeles, with a bachelor's degree in business administration in 1986. Prior to joining the group, Mr. Wang had extensive experience in the fields of logistics and trading from his previous employments with Trans-union Line, KAL Trading Co. and Daewoo America Corp. He was appointed as an Executive Director on 1 April 2005.

Mr. Hyun Ho Kim, aged 43, is currently the head of accounting department of the company. He joined the accounting department of C & H Co., Ltd. in October 1994. After nine years of service, Mr. Kim was gradually promoted to the position of general manager before he was relocated to Hong Kong to take charge of the accounting department of the company in October 2003. Prior to joining C & H Co., Ltd., Mr. Kim acquired eight years of comprehensive accounting experience in Poong Han Co., Ltd., a manufacturer of fabric and yarn, in South Korea. Mr. Kim graduated from the Seok-Yeong University in South Korea, with a bachelor's degree of Economics in 1995.

Mr. Sang Hee Jung, aged 43, Mr. Jung graduated from Yonsei University in South Korea, with a bachelor's degree in Business and Administration in 1989. Mr. Jung is currently the Managing Director of C & H Vina Co., Ltd. and Dream Vina Co., Ltd.. He first joined C & H Co., Ltd. in August 2005 and was employed in the internal audit function. Prior to joining C & H Co., Ltd., Mr. Jung gained about 10 years of experience in the Finance and Restructure Division of Samsung Group and about 3 years of experience in Korea-E platform Co., Ltd., a consulting firm as Chief Consultant.

DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Cheong Heon Yi, aged 44, received his bachelor's degree and master's degree in business administration from Seoul National University in Korea. Professor Yi was also awarded a philosophy of doctorate degree in accounting in 1997 from the University of California, Los Angeles. Professor Yi taught at the University of California, Los Angeles for a year before joining the Hong Kong Polytechnic University in 1997. Professor Yi's research interests include financial reporting and corporate governance. His teaching focuses on financial accounting at the undergraduate level and financial reporting and corporate governance at the postgraduate level. He was appointed as the company's Independent Non-Executive Director on 22 November 2003.

Professor Byong Hun Ahn, aged 62, received his bachelor's degree in Mechanical Engineering from Seoul National University in Korea. Professor Ahn awarded a philosophy of doctorate degree in Engineering Economic Systems in 1978 from Stanford University. Professor Ahn has taught at the Korea Advanced Institute of Science and Technology ("KAIST") since 1978 and he is currently teaching at the KAIST Graduate School of Management and acting as a director of the Corporate Social Responsibility Research Center of KAIST. His research interests focus on Economic of Strategy and Stakeholder Theory of Firms, and Corporate Social Responsibility. He is also a consultant of Hynix Corporation in Seoul.

Mr. Oliver, Shing Kay Wong, aged 57, obtained his professional accounting qualifications in both Hong Kong and Canada. Mr. Wong is an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Wong is also a fellow member of the Hong Kong Institute of Certified Public Accountants, an ordinary member of The Society of Chinese Accountants and Auditors and an associate member of Certified General Accountants of Canada. Mr. Wong had worked in various renowned auditing firms in Hong Kong with over 17 years of experience in handling auditing, financial accounting and taxation matters. Mr. Wong is currently an independent non-executive director of three listed companies in Hong Kong — Hopson Development Holdings Limited, Deson Development International Holdings Limited and New City (China) Development Limited and was an independent non-executive director of Chinese People Holdings Company (formerly known as Chinese People Gas Holdings Company Limited and KEL Holdings Limited) from September 2004 to October 2006. He also assumed the duty of financial controller for many listed companies in both Hong Kong and Canada during the past years. Mr. Wong is presently practicing as a Certified Public Accountant in Hong Kong. He is knowledgeable with expertise in financial accounting, taxation, import-export business and company management.

SENIOR MANAGEMENT

Mr. Dong Wook Cha, aged 48, is the Head of accounting and administration department of the company. Mr. Cha has over seven years of experience in the field of accounting from his employments with Dongkook Trading Co. and Hyundai Heavy Industrial Co., Ltd. He joined C & H Korea on 1 February 1986 and has been working in the accounting and administrative department of the group since 1996.

REPORT OF THE DIRECTORS

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2008.

PRINCIPAL PLACE OF BUSINESS

Dream International Limited (the "company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 8th Floor, Tower 5, China HK City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the company are the design, development, manufacture and sale of plush stuffed and steel and plastic toys and investment holding. The principal activities and other particulars of the subsidiaries are set out in note 15 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the company and its subsidiaries (the "group") during the financial year are set out in note 12 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the group's total	
	Sales	**Purchases**
The largest customer	17.5%	
Five largest customers in aggregate	65.3%	
The largest supplier		4.7%
Five largest suppliers in aggregate		21.4%

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

CONNECTED TRANSACTIONS

During the year, the group has entered into connected transactions and continuing connected transaction with connected persons and has complied with the disclosure requirements in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") ("the Listing Rules"). The directors, including the independent non-executive directors, of the company confirmed that the aforesaid connected transactions were entered into:

(i) in the ordinary and usual course of business;

(ii) either on normal commercial terms or, on terms no less favourable to the group than available to or from independent third parties; and

REPORT OF THE DIRECTORS *(Continued)*

CONNECTED TRANSACTIONS *(Continued)*

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the company as a whole.

During the year, the details of the continuing connected transactions, which was exempted from the approval of independent shareholders but was subject to the announcement and reporting requirements under the Listing Rules, with C & H Co., Ltd. and its subsidiaries excluding those which are part of the group ("C & H Korea Group") was as follows:

(1) On 4 September 2008, the group renewed its property lease agreement with C & H Co., Ltd. for Dream INKO Co., Ltd's ("Dream INKO") principal place of business in Seoul, Korea. The property lease agreement is renewable upon its expiry in July 2009. The terms of the property lease agreement were agreed after arm's length negotiation by reference to enquiries made with other landlords, tenants and real estate agents in the nearby area.

During the year ended 31 December 2008, the rental paid amounted to HK$2,595,000 (2007: HK$3,146,000).

Details of other connected or related party transactions are set out in note 30 to the financial statements.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2008, the company has fully complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules.

FINANCIAL STATEMENTS

The loss of the group for the year ended 31 December 2008 and the state of the company's and the group's affairs as at that date are set out in the financial statements on pages 30 to 100.

TRANSFER TO RESERVES

Loss attributable to shareholders, before dividends, of HK$56,319,000 (2007: HK$8,229,000) have been transferred to reserves. Other movements in reserves are set out in note 26 to the financial statements.

The board of directors do not declare or propose any dividend for the year ended 31 December 2008 (2007: HK$Nil).

FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the share capital of the company are set out in note 26 to the financial statements. There was no change in the authorised and issued share capital during the year.

There were no purchase, sales or redemptions of the company's listed securities by the company or any of its subsidiaries during the year.

REPORT OF THE DIRECTORS *(Continued)*

DIRECTORS

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

Chairman and executive director

Kyoo Yoon Choi

Executive directors

Young M. Lee	
James Wang	
Hyun Ho Kim	
Sang Hee Jung	(appointed on 7 November 2008)
Jung Kuk Lee	(resigned on 7 November 2008)

Independent non-executive directors

Cheong Heon Yi	
Byong Hun Ahn	(appointed on 30 May 2008)
Oliver, Shing Kay Wong	(appointed on 1 September 2008)
Valiant, Kin Piu Cheung	(resigned on 30 May 2008)
Chan Yoo	(resigned on 30 September 2008)

In accordance with Article 92 of the Articles of Association, Mr. Sang Hee Jung, Professor Byong Hun Ahn and Mr. Oliver, Shing Kay Wong being eligible, offered themselves for re-election at the Annual General Meeting.

In accordance with Article 101 of the Articles of Association, Mr. Kyoo Yoon Choi and Professor Cheong Heon Yi shall retire by rotation, and being eligible, offered themselves for re-election at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

The service contract of Professor Cheong Heon Yi, the independent non-executive director, was renewed by the Board of Directors on 21 November 2007 for a term of 2 years commencing on 22 November 2007.

Professor Byong Hun Ahn, the independent non-executive director, was appointed by the Board of Directors on 30 May 2008 for a term of 2 years commencing on 30 May 2008.

Mr. Oliver, Shing Kay Wong, the independent non-executive director, was appointed by the Board of Directors on 1 September 2008 for a term of 2 years commencing on 1 September 2008.

Their remuneration is determined by the Board of Directors on the renewal of their service contracts.

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

REPORT OF THE DIRECTORS *(Continued)*

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

The directors of the company who held office at 31 December 2008 had the following interests in the shares of the company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO or otherwise notified to the company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Long positions in ordinary shares of US$0.01 each

	Number of shares held				
	Personal interests (Note 1)	**Family interests**	**Corporate interests**	**Total**	**Percentage of issued share capital of the company**
The company					
— Kyoo Yoon Choi	—	—	455,000,000 (Note 2)	455,000,000	68.06%
— Young M. Lee	1,740,000	—	—	1,740,000	0.26%
C & H Co., Ltd.					
— Kyoo Yoon Choi	189,917	124,073 (Note 3)	—	313,990	61.03%

Notes:

(1) The shares are registered under the names of the directors and chief executives of the company who are the beneficial owners.

(2) Kyoo Yoon Choi in his own name holds approximately 36.91% of the issued share capital of C & H Co., Ltd. and together with his wife, Woul Hee Cha, hold approximately 61.03% of the issued share capital of C & H Co., Ltd. which owned 382,850,000 shares in the company. In addition, Kyoo Yoon Choi beneficially owns 100% of interest of Uni-Link Technology Limited which owned 72,150,000 shares of the company.

(3) The wife of Kyoo Yoon Choi, Woul Hee Cha, holds approximately 24.12% of the issued share capital of C & H Co., Ltd.

REPORT OF THE DIRECTORS *(Continued)*

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

(ii) Long positions in underlying shares of the company

The directors and chief executives of the company have been granted options under the company's share option scheme, details of which are set out in the section "Share option scheme" below.

Save as disclosed above, at no time during the period was the company, its holding company, its associates or fellow subsidiaries a party to any arrangement to enable the director and chief executive of the company (including their spouses and children under 18 years of age) to hold any interests or short positions in the shares in or underlying shares in, or debentures of, the company and its associated corporations required to be disclosed pursuant to Section 352 of the SFO or otherwise notified to the company and the SEHK pursuant to the Model Code.

SHARE OPTION SCHEME

The company has a share option scheme which was adopted on 22 January 2002 whereby the directors of the company are authorised, at their discretion, to invite employees of the group, including directors of any company in the group, to take up options to subscribe for shares of the company. The exercise price of the options is the highest of (i) the nominal value of the shares; (ii) the closing price of the shares on the SEHK on the date of grant; and (iii) the average closing price of the shares on the SEHK for the five business days immediately preceding the date of grant. The options may be exercised progressively after one to three years from the date of grant and are exercisable for a period to be notified by the directors to each option holder upon the grant of the option. Such period will not exceed ten years from the date on which the option is granted.

The maximum number of shares which may be issued upon the exercise of all outstanding options and yet to be exercised under the share option scheme shall not exceed 30% of the issued share capital of the company from time to time. Subject always to the above overall limit, the directors may grant options under the share option scheme, generally and without further authority, in respect of such number of shares which may be issued upon exercise of all options to be granted under the share option scheme not exceeding 10% of the issued share capital of the company as at 7 February 2002, being the date on which the company's shares were listed on the SEHK. For the purpose of calculating the above, options lapsed in accordance with the share option scheme shall not be counted.

The total number of securities available for issue under the share option scheme as at 31 December 2008 was 46,471,000 shares (including options for 12,086,000 shares that have been granted but not yet lapsed or exercised) which represented 6.95% of the issued share capital of the company at 31 December 2008. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the company's ordinary shares in issue.

At 31 December 2008, the directors and employees of the company had the following interests in options to subscribe for shares of the company granted at nominal consideration under the share option scheme of the company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of par value US$0.01 each of the company.

REPORT OF THE DIRECTORS *(Continued)*

SHARE OPTION SCHEME *(Continued)*

	Date granted	Period during which options are exercisble (Note 1)	Exercise price per share	Number of options: Balance at 1 January 2008	Lapsed during the year (Note 2)	Balance at 31 December 2008
Directors:						
Young M. Lee	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	1,360,000	–	1,360,000
James Wang	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	520,000	–	520,000
Jung Kuk Lee (resigned on 7 November 2008)	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	520,000	– (Note 3)	520,000
Employees in aggregate:	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	3,641,000	1,560,000 (Note 4)	2,081,000
	15 April 2013	15 April 2004 to 15 April 2013	HK$1.43	455,000	–	455,000
	2 January 2004	2 January 2005 to 2 January 2014	HK$1.87	7,850,000	700,000 (Note 4)	7,150,000
				14,346,000	2,260,000	12,086,000

REPORT OF THE DIRECTORS *(Continued)*

SHARE OPTION SCHEME *(Continued)*

Notes:

(1) The maximum percentage of the share options that may be exercised is determined in stages as follows:

	Percentage of share options granted
On or after 1st year anniversary of the date of grant	30%
On or after 2nd year anniversary of the date of grant	another 30%
On or after 3rd year anniversary of the date of grant	another 40%

(2) Pursuant to the conditions of the share option scheme, any unexercised number of options granted to any employee will lapse three months after the employee ceases their employment relationship with the company.

(3) These 520,000 shares options related to Mr Jung Kuk Lee who resigned as director of and ceased employment relationship with the company on 7 November 2008. These outstanding share options were lapsed by 7 February 2009.

(4) These 2,260,000 shares options related to various employees who left the group on or before 30 September 2008. These outstanding share options were lapsed by 31 December 2008.

(5) The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

The life of the above granted share options is ten years commencing on the date on which an option is granted in accordance with the scheme.

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

The register of substantial shareholders required to be kept under Section 336 of the Part XV of the SFO shows that as at 31 December 2008, the company has been notified of the following interests in the company's issued shares at 31 December 2008 amounting to 5% or more of the ordinary shares in issue:

Name	Capacity in which shares held	Number of shares held	Percentage of the issued share capital of the company
C & H Co., Ltd	Beneficial owner	382,850,000	57.27%
Uni-Link Technology Limited	Beneficial owner	72,150,000	10.79%

REPORT OF THE DIRECTORS *(Continued)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Kyoo Yoon Choi, being a director of C & H Co., Ltd., together with his wife, Woul Hee Cha, hold approximately 61.03% of the issued share capital of C & H Co., Ltd. and Kyoo Yoon Choi benefically owns 100% of the issued share capital of Uni-Link Technology Limited. Kyoo Yoon Choi is considered to have deemed interests in the 455,000,000 ordinary shares as to approximately 68.06% of the issued shares of the company. James Wang, being a director of the company, is also a director of Uni-Link Technology Limited.

Save as disclosed above, as at 31 December 2008, the company is not aware of any other registered substantial shareholder who holds 5% or more of the issued share capital of the company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the company and within the knowledge of the directors of the company as at the date of this annual report, the company has maintained the prescribed public float under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the related party transactions as disclosed in note 30 to the financial statements, no contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2008, C & H Korea Group, as set out below, is principally engaged in the business of property investment in Seoul, leather goods and accessories agency, fabric and textile manufacturing and investment holding in the People's Republic of China ("the PRC"), Vietnam and Sri Lanka through its wholly owned subsidiaries C & H Hitex Co., Ltd., Jung Yoon Textiles (Private) Limited, Vina Tarpaulin Inc. and C & H Lanka I (PVT) Ltd. Mr Kyoo Yoon Choi, Mrs Shin Hee Cha and Mr Tae Sub Choi are deemed to be interested in these businesses some of which may compete with the group's businesses as they are shareholders of C & H Co., Ltd. and Mr Kyoo Yoon Choi is also a director of C & H Co., Ltd.

Name of company	Nature of competing business	Remarks
C & H Lanka (PVT) Ltd. ("C & H Lanka")	C & H Lanka is a wholly owned subsidiary of C & H Korea. The directors of C & H Lanka are Mr Kyoo Yoon Choi, Ms Shin Hee Cha, and Mr Young Dae Noh. C & H Lanka was engaged in the manufacturing of plush stuffed toys in Sri Lanka and is undergoing winding-up procedures. The local court has appointed liquidators Mr J David & M.S. layawickrama of MS SMIS Associates as directors of the company.	Pursuant to the Deed of Undertaking (Note), C & H Lanka agreed not to engage or otherwise be involved in any business which competes or is likely to compete with the group's business in any of the regions that the group engages business in. Its business was limited to production of quota related plush stuffed toys and orders that could not be handled by the group.
Jung Yoon Textiles (Private) Ltd. ("JY Textile")	JY Textile is a wholly owned subsidiary of C & H Korea. The directors of JY Textile are Mr Kyoo Yoon Choi and Mr Kyung Soon Song. JY Textile is engaged in the manufacturing and dyeing of fabrics.	JY Textile is engaged in the manufacturing of fabrics and dyeing of fabrics for local customers in Sri Lanka.

The transactions with the above companies are set out in the paragraph headed "Connected transactions".

REPORT OF THE DIRECTORS *(Continued)*

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(Continued)*

Note: In relation to the listing of the company's shares on the Main Board of the SEHK, C & H Co., Ltd. has entered into the Deed of Undertaking in favour of the company to effect that, for so long as C & H Co., Ltd. and its associates are beneficially interested, directly or indirectly, whether individually or taken together, in 30% or more of the issued capital of the company, C & H Co., Ltd. will not, and C & H Co., Ltd. will procure that none of its subsidiaries, other than the group, will engage or otherwise be involved in any business which competes or is likely to compete, either directly or indirectly, with any of the restricted business in any of the regions in which the group engages in and undertakes the restricted business (such regions include the PRC, Taiwan, Europe, the US and Japan). Such an undertaking shall extend to all subsidiaries of C & H Korea Group.

BANK LOANS

Particulars of the bank loans of the company and the group as at 31 December 2008 are set out in note 22 to the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on pages 101 and 102 of the annual report.

RETIREMENT SCHEMES

The group operates a defined benefit retirement scheme which covers 1.2% of the group's employees.

The employees of the subsidiaries in the PRC are members of the state-sponsored retirement schemes organised by the government of the PRC. The subsidiaries are required to contribute a certain percentage of payroll to the retirement scheme to fund the benefits. The only obligation of the subsidiaries with respect to the retirement schemes is the required contributions under the retirement schemes.

Particulars of these retirement schemes are set out in note 23 to the financial statements.

CONFIRMATION OF INDEPENDENCE

The company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES

The company has adopted a code of conduct regarding securities transactions by Directors as set out in Appendix 10 of the Listing Rules. The company has made specific enquiries of all Directors and all Directors have confirmed that they complied with the required standard of dealings set out therein during the year.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting policies, principles and practices adopted by the group and discussed internal control and financial reporting matters, including a review of the annual results for year ended 31 December 2008.

REPORT OF THE DIRECTORS *(Continued)*

AUDITORS

KPMG were appointed as auditors of the company in 2008 upon the retirement of PricewaterhouseCoopers.

KPMG will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Young M. Lee
Director

Hong Kong, 28 April 2009

CORPORATE GOVERNANCE REPORT

The board of directors of the company (the "Board") believes that corporate governance is essential to the sustainable success of the company and trust that all stakeholders of the company can benefit from increased transparency and accountability, and a high standard of corporate governance.

In the opinion of the Board, the company has applied the principles and complied with the code provisions contained in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") ("the Listing Rules") during the year ended 31 December 2008.

DIRECTORS' SECURITIES TRANSACTIONS

The company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. All the directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

BOARD OF DIRECTORS

As at 31 December 2008, the Board consisted of five executive directors, namely Mr. Kyoo Yoon Choi (Chairman), Mr. Young M. Lee (Executive Managing Director and Chief Financial Officer ("CFO")), Mr. James Wang, Mr. Hyun Ho Kim and Mr. Sang Hee Jung, and three independent non-executive directors ("INEDs") (collectively the "Directors"), namely Professor Cheong Heon Yi, Professor Byong Hun Ahn and Mr. Oliver, Shing Kay Wong. There is no financial, business, family or other material/relevant relationship. The principal functions of the Board are to supervise the management of the business and affairs; to approve strategic plans, investment and funding decisions; and to review the group's financial performance and operating initiatives. The role of INEDs is to bring an independent and objective view to the Board's deliberations and decisions. Professor Yi is currently teaching financial accounting and corporate governance in the Accountancy Faculty of the Hong Kong Polytechnic University and Mr. Oliver Wong is presently practicing as a Certified Public Accountant in Hong Kong. The Board considers both of them to have profound professional qualifications and expertise in accounting and financial management so that they are of sufficient caliber and number for their independent views to carry weight. The company has received from each of the INEDs, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The company considers all of the INEDs to be independent.

The company has arranged for appropriate liability insurance since 2002 to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

The Board will conduct meetings on a regular basis and on an ad hoc basis so far as the business requires. The Board held a total of eleven board meetings during the year. The INEDs may take independent professional advice at the company's expense in carrying out their functions. The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the group before each regular board meeting. At least 14 days notice of a regular board meeting is given to all directors to give them the opportunity to attend. Board papers are dispatched to the directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting.

CORPORATE GOVERNANCE REPORT *(Continued)*

BOARD OF DIRECTORS *(Continued)*

Directors' attendance at the Board meetings held during the year:

Name of director	Number of attendance
Kyoo Yoon Choi *(Chairman)*	5/11
Young M. Lee	11/11
James Wang	7/11
Hyun Ho Kim	11/11
Sang Hee Jung (appointed on 7 November 2008)	0/11
Jung Kuk Lee (resigned on 7 November 2008)	6/11
Cheong Heon Yi	7/11
Byong Hun Ahn (appointed on 30 May 2008)	4/11
Oliver, Shing Kay Wong (appointed on 1 September 2008)	4/11
Valiant, Kin Piu Cheung (resigned on 30 May 2008)	3/11
Chan Yoo (resigned on 30 September 2008)	6/11

DELEGATION BY THE BOARD

The Board is responsible for determining the overall strategy and approving the annual business plan of the group, and ensuring the business operations are properly planned, authorised, undertaken and monitored. All policy matters of the group and material transactions where there is conflict of interests, considered as being notifiable or connected transactions within the meaning ascribed to by the Listing Rules, should be reserved to the decision of the Board.

The Board has delegated functions that are necessary and incidental to carry out the decisions of the Board or to facilitate the day-to-day operations of the group in ordinary course of business, to the executive management and divisional heads of different business units under the instruction/supervision of the Chief Executive Officer ("CEO"), CFO and Chief Operations Officer. The Board and the management will also seek advice from the Audit Committee and Remuneration Committee. These committees are mainly composed of and chaired by INEDs. In case of urgency, executive management is empowered to make any decisions in prompt response to the any opportunities or threats that might arise from time to time. However, those emergency decisions or any other exceptional decisions made by management should be reported back to the Board for ratification as soon as practical.

The three independent non-executive directors are persons of high calibre, with academic and professional qualifications in the fields of finance, accounting and business management. With their experience gained from senior positions held in other companies, they provide valuable support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive director gives an annual confirmation of his independence to the company, and the company considers these directors to be independent under Rule 3.13 of the Listing Rules. These three INEDs comprise the Audit and Remuneration Committees formed by the Board.

CORPORATE GOVERNANCE REPORT *(Continued)*

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The posts of the Chairman and CEO are separated and are not held by the same individual to ensure their independence, accountability and responsibility. The Chairman of the Board, Mr. Kyoo Yoon Choi, is responsible for formulating the strategic planning, business development, overall leadership and effective running of the Board, by ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner.

The CEO, supported by other chief executives, is delegated with the authority and responsibility for running the group's business and implementation of the group's strategy in achieving the overall commercial objectives. Upon the resignation of Mr. Min on 31 December 2005, the current duties of the CEO is temporarily shared by other executive directors and key executives except the Chairman until a suitable successor is found by the company.

NOMINATION, APPOINTMENT AND RE-ELECTION OF DIRECTORS

The company does not have a Nomination Committee. The Board as a whole is responsible for agreeing to the appointment of its members and for nominating appropriate persons for election by shareholders at general meeting, either to fill a casual vacancy or as an addition to the existing Directors.

Those directors appointed by the Board during the year shall hold office only until the next following general meeting of the company and shall then be eligible for re-election. The circular dispatched to the shareholders before the general meeting contains, inter alia, detailed information on election of directors including detailed biography of all directors standing for election or re-election to ensure shareholders are able to make an informed decision on their election.

The company has specified a term of two years appointment for INEDs who are the only non-executive directors of the company. None of the INEDs has entered into any service contracts with the company which is not determinable by the company within one year without payment of compensation, other than statutory compensation. Moreover, INEDs are also subject to retirement by rotation and re-election at the Annual General Meeting of the company in accordance with the Articles of Association.

According to the Articles of Association of the company, (i) any director appointed to fill a casual vacancy shall be subject to re-election by Shareholders at the company's next following general meeting after the appointment rather than the company's next following Annual General Meeting after the appointment, (ii) every director shall be subject to retirement by rotation at least once every three years and directors holding office as the Chairman of the Board or the Managing Director shall also be subject to retirement by rotation, and (iii) the company may remove any Director by an ordinary resolution instead of special resolution.

CORPORATE GOVERNANCE REPORT *(Continued)*

REMUNERATION COMMITTEE

The Remuneration Committee of the company comprises one executive director and three INEDs. The Remuneration Committee was formed in January 2005 and meetings are held at least once a year. Two meetings were held in 2008. The attendance of each member is set out as follows:

Directors' attendance at the Remuneration Committee meetings held during the year:

Name of Director	Number of attendance
Chan Yoo (resigned on 30 September 2008) *(Chairman)*	2/2
Cheong Heon Yi	1/2
Oliver, Shing Kay Wong (appointed on 1 September 2008)	1/2
Byong Hun Ahn (appointed on 30 May 2008)	0/2
Valiant, Kin Piu Cheung (resigned on 30 May 2008)	1/2
Young M. Lee	2/2

At the meetings held during the year, the retirement compensation and incentive bonus for directors were reviewed and discussed. The company adopted a share option scheme on 22 January 2002, which serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Details of the share option scheme are set out in note 24 to the financial statements. The emolument payable to directors will depend on their respective contractual terms and nature under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in note 7 to the financial statements. The major roles and functions of the group's Remuneration Committee are as follows:

1. To review annually and recommend to the Board the overall remuneration policy for the directors and key senior management officers;

2. To review annually the performance of the executive directors and key senior management officers and recommend to the Board specific adjustments in remuneration and/or reward payments;

3. To ensure that the level of remuneration for Non-executive Directors and INEDs are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board of the respective companies in the group; and

4. To ensure that no director is involved in deciding his own remuneration.

The terms of reference of the Remuneration Committee are posted on the company's website.

CORPORATE GOVERNANCE REPORT *(Continued)*

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the approval by the Board.

The Directors acknowledge their responsibility to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the group and in presenting the interim and annual financial statements, and announcements to shareholders in a timely manner. The Directors are responsible for ensuring that the group maintains accounting records which disclose with reasonable accuracy the financial position of the group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and all applicable disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2008, the directors have selected suitable accounting policies and have applied them consistently, adopted appropriate HKFRSs which are pertinent to its operations and relevant to the financial statements, and made judgements and estimates that are prudent and reasonable. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the group's ability to continue as a going concern, the Board therefore continues to adopt the going concern basis in preparing the financial statements.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the company's annual and interim reports, other price-sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The auditor's responsibilities are set out in the Independent Auditor's Report.

AUDIT COMMITTEE

The Audit Committee of the company comprises three INEDs. The Audit Committee shall meet at least twice a year. Three meetings were held during the year. A report of the major findings raised in Audit Committee meeting are presented by the Chairman of the Audit Committee to the Board immediately in the subsequent Board meeting. The minutes of the Audit Committee meetings were circulated to the Board for information and for action by the Board where appropriate. The attendance of each member is set out as follows:

Directors' attendance at the Audit Committee meetings held during the year:

Name of director	Number of attendance
Oliver, Shing Kay Wong (appointed on 1 September 2008) (Chairman)	1/3
Cheong Heon Yi	2/3
Young M. Lee	2/3
Byong Hun Ahn (appointed on 30 May 2008)	0/3
Valiant, Kin Piu Cheung (resigned on 30 May 2008)	1/3
Chan Yoo (resigned on 30 September 2008)	3/3

CORPORATE GOVERNANCE REPORT *(Continued)*

AUDIT COMMITTEE *(Continued)*

During the year ended 31 December 2008, the Audit Committee performed the following work:

(i) reviewed the interim financial report for the six months ended 30 June 2008 and annual financial report for the year ended 31 December 2008;

(ii) reviewed the major impact of the changes in accounting policies and practices and Listing Rules on the accounting treatment and financial reporting of the company;

(iii) reviewed the effectiveness of internal control system;

(iv) discussed the nature and scope of the external audit and reporting obligations and reviewed the external auditors' statutory audit plan;

(v) reviewed the findings and recommendations of the management letter from the external auditors in relation to the interim review and audit of the group;

(vi) reviewed and recommended the Board for approval of the 2008 audit scope, fee and supply of any non-audit services; and

(vii) reviewed the connected transactions entered into by the group during the year.

The major roles and functions of the Audit Committee are as follows:

1. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the group.

2. To discuss with the internal and external auditors the nature and scope of the audit.

3. To review the interim and annual financial statements before submission to the Board.

4. To discuss problems and reservations arising from the interim review and final audit, and any matters the auditors may wish to discuss.

5. To review the external auditors' management letters and management's response.

6. To supervise the performance of the internal auditor's review of the group's financial control, internal control and risk management systems.

7. To consider the major findings of internal investigations and management's response.

The terms of reference of the Audit Committee are posted on the company's website.

CORPORATE GOVERNANCE REPORT *(Continued)*

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the company's auditors, Messrs KPMG, is set out as follows:

Service rendered	Fees paid/payable
	HK$'000
Audit services	2,750
Non-audit services	—
	2,750

INTERNAL CONTROLS

The company set up an internal audit department in May 2006. The head of the internal audit department was appointed by the Board to head the review of the effectiveness of the internal control system of the group which covers all material controls, including financial, operational and compliance controls as well as risk management functions. The internal auditor has performed a review of the internal control system of the group for the year ended 31 December 2008 and the relevant review report has been submitted to the Audit Committee in April 2009 for consideration. The Board, through the reviews made by the internal auditor and the Audit Committee, considers that the group's internal control system has operated effectively.

COMMUNICATIONS WITH SHAREHOLDERS

The Board recognises the importance of good communication with all shareholders. The company's Annual General Meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board as well as Chairman of the Audit and Remuneration Committees together with the external auditors are present to answer shareholders' questions. An Annual General Meeting circular is distributed to all shareholders at least 21 days before the Annual General Meeting. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the group. The company has announced all its price-sensitive information, announcements, interim and annual results in a timely manner in compliance with the Listing Rules.

CORPORATE GOVERNANCE REPORT *(Continued)*

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by a poll.

The chairman of the Annual General Meeting shall therefore demand voting on all resolutions set out in the notice of the Annual General Meeting be taken by way of poll pursuant to Article 73 of the Articles of Association.

On a poll, every shareholder present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for each share registered in his/her name in the register. A shareholder entitled to more than one vote needs not use all his votes or cast all the votes he uses in the same way.

The results of the poll will be published on the website of the SEHK at www.hkexnews.hk and the company's website at www.dream-i.com.hk on the same day after the Annual General Meeting.

INDEPENDENT AUDITOR'S REPORT

KPMG

To the shareholders of Dream International Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Dream International Limited (the "company") set out on pages 30 to 100, which comprise the consolidated and company balance sheets as at 31 December 2008, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, 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 auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

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

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Turnover	3, 12	**1,048,589**	946,328
Cost of sales		**(861,252)**	(798,360)
Gross profit		**187,337**	147,968
Other revenue	4(a)	**13,430**	9,473
Other net (loss)/gain	4(b)	**(3,570)**	2,395
Distribution costs		**(80,876)**	(37,444)
Administrative expenses		**(145,979)**	(134,459)
Impairment of fixed assets	13(a)	**(5,837)**	—
Loss from operations		**(35,495)**	(12,067)
Finance costs	5(a)	**(6,888)**	(8,132)
Share of loss of associates	16	**(509)**	(16)
Loss before taxation	5	**(42,892)**	(20,215)
Income tax (expense)/credit	6	**(13,427)**	11,986
Loss for the year		**(56,319)**	(8,229)
Attributable to:			
— Equity shareholders of the company	9, 26(a)	**(41,929)**	(4,831)
— Minority interests	26(a)	**(14,390)**	(3,398)
Loss for the year	26(a)	**(56,319)**	(8,229)
Loss per share	11		
Basic		**6.27¢**	0.72¢
Diluted		**N/A**	N/A

The notes on pages 38 to 100 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Fixed assets			
— Interests in leasehold land held for own use under operating leases	13(a)	**21,396**	15,153
— Other property, plant and equipment	13(a)	**171,933**	182,022
		193,329	197,175
Intangible assets	14	**12,516**	16,623
Investments in associates	16	**950**	1,373
Other financial assets	17	**—**	76,284
Deferred tax assets	25(b)	**503**	3,826
		207,298	295,281
Current assets			
Inventories	18	**132,909**	156,637
Trade and other receivables	19	**199,889**	168,393
Current tax recoverable	25(a)	**255**	591
Other financial assets	17	**73,954**	—
Cash and cash equivalents	20	**122,370**	107,222
		529,377	432,843
Current liabilities			
Trade and other payables	21	**198,332**	149,845
Bank loans	22	**145,692**	113,884
Current tax payable	25(a)	**6,976**	2,467
		351,000	266,196
Net current assets		**178,377**	166,647
Total assets less current liabilities		**385,675**	461,928
Non-current liabilities			
Bank loans	22	**—**	780
Net defined benefit retirement obligation	23	**6,978**	10,689
Deferred tax liabilities	25(b)	**—**	248
		6,978	11,717
NET ASSETS		**378,697**	450,211

CONSOLIDATED BALANCE SHEET *(Continued)*

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
CAPITAL AND RESERVES	26(a)		
Share capital		**52,019**	52,019
Reserves		**322,123**	379,972
Total equity attributable to equity shareholders of the company		**374,142**	431,991
Minority interests		**4,555**	18,220
TOTAL EQUITY		**378,697**	450,211

Approved and authorised for issue by the board of directors on 28 April 2009

Young M. LEE
Director

Hyun Ho KIM
Director

The notes on pages 38 to 100 form part of these financial statements.

BALANCE SHEET

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	13(b)	**9,117**	12,974
Intangible assets	14	**339**	315
Investments in subsidiaries	15	**290,132**	226,734
Investments in associates	16	**1,248**	1,248
Other financial assets	17	**—**	75,373
Deferred tax assets	25(b)	**6**	—
		300,842	316,644
Current assets			
Inventories	18	**32,150**	39,648
Trade and other receivables	19	**189,209**	143,202
Current tax recoverable	25(a)	**—**	524
Other financial assets	17	**73,954**	—
Cash and cash equivalents	20	**40,503**	34,061
		335,816	217,435
Current liabilities			
Trade and other payables	21	**140,953**	96,832
Bank loans	22	**112,706**	59,404
Current tax payable	25(a)	**1,038**	—
		254,697	156,236
Net current assets		**81,119**	61,199
Total assets less current liabilities		**381,961**	377,843
Non-current liabilities			
Deferred tax liabilities	25(b)	**—**	248
Net defined benefit retirement obligation	23	**9,101**	9,073
		9,101	9,321
NET ASSETS		**372,860**	368,522

BALANCE SHEET *(Continued)*

As at 31 December 2008

	Note	**2008 HK$'000**	2007 HK$'000
CAPITAL AND RESERVES	26(b)		
Share capital		**52,019**	52,019
Reserves		**320,841**	316,503
TOTAL EQUITY		**372,860**	368,522

Approved and authorised for issue by the board of directors on 28 April 2009.

Young M. LEE
Director

Hyun Ho KIM
Director

The notes on pages 38 to 100 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity shareholders of the company				
	Share capital HK$'000	Reserves HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2007	52,019	369,618	421,637	20,474	442,111
Net income/(loss) recognised directly in equity:					
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	—	15,185	15,185	1,144	16,329
Net loss for the year	—	(4,831)	(4,831)	(3,398)	(8,229)
Total recognised income and expense for the year	—	10,354	10,354	(2,254)	8,100
Balance at 31 December 2007	52,019	379,972	431,991	18,220	450,211
Balance at 1 January 2008	**52,019**	**379,972**	**431,991**	**18,220**	**450,211**
Net (loss)/income recognised directly in equity:					
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**—**	**(15,920)**	**(15,920)**	**725**	**(15,195)**
Net loss for the year	**—**	**(41,929)**	**(41,929)**	**(14,390)**	**(56,319)**
Total recognised income and expense for the year	**—**	**(57,849)**	**(57,849)**	**(13,665)**	**(71,514)**
Balance at 31 December 2008	**52,019**	**322,123**	**374,142**	**4,555**	**378,697**

The notes on pages 38 to 100 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	**2008 HK$'000**	2007 HK$'000
Operating activities			
Loss before taxation		**(42,892)**	(20,215)
Adjustments for:			
— Depreciation	5(c)	**30,550**	30,105
— Amortisation of land lease premium	5(c)	**426**	440
— Loss on disposal of leasehold land	4(b)	**—**	1,278
— Loss on disposal of club memberships	4(b)	**106**	32
— Amortisation of intangible assets	5(c)	**676**	676
— Impairment of intangible assets	5(c)	**173**	10
— Impairment of fixed assets	5(c)	**5,837**	—
— Impairment of interest in unlisted equity securities	5(c)	**911**	—
— Loss/(gain) on disposal of property, plant and equipment	4(b)	**4,206**	(469)
— Net realised and unrealised loss/(gain) on other financial assets	4(b)	**1,419**	(5,947)
— Bank interest income	4(a)	**(1,882)**	(3,116)
— Interest income from other financial assets	4(a)	**(3,141)**	(1,659)
— Finance costs	5(a)	**6,888**	8,132
— Share of loss of associates		**509**	16
— Foreign exchange (gain)/loss		**(14,910)**	5,083
Operating (loss)/profit before changes in working capital		**(11,124)**	14,366
Decrease in inventories		**23,728**	9,486
(Increase)/decrease in trade and other receivables		**(39,796)**	44,479
Increase/(decrease) in trade and other payables		**48,487**	(26,063)
Decrease in defined benefit obligations		**(3,711)**	(14)
Cash generated from operations		**17,584**	42,254
Tax (paid)/refunded			
— Hong Kong profits tax (paid)/refunded		**(1,206)**	3,401
— Tax paid outside Hong Kong		**(3,382)**	(2,274)
Net cash generated from operating activities		**12,996**	43,381

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Investing activities			
Payment for purchase of property, plant and equipment		**(37,652)**	(14,528)
Proceeds from the disposal of property, plant and equipment		**8,076**	12,654
Proceeds from disposal of club memberships		**177**	1,260
Payment for purchase of club memberships		**—**	(753)
Loan repaid by/(granted to) a fellow subsidiary		**8,300**	(8,300)
Interest received		**5,023**	4,775
Net cash used in investing activities		**(16,076)**	(4,892)
Financing activities			
Interest paid		**(6,888)**	(8,132)
Proceeds from borrowings		**142,709**	100,162
Repayment of borrowings		**(112,754)**	(101,043)
Net cash generated from/(used in) financing activities		**23,067**	(9,013)
Net increase in cash and cash equivalents		**19,987**	29,476
Cash and cash equivalents at 1 January		**107,222**	74,836
Effect of foreign exchange rate changes		**(4,839)**	2,910
Cash and cash equivalents at 31 December	20	**122,370**	107,222

The notes on pages 38 to 100 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual 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 requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group and the company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group and the company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and minority interests *(Continued)*

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the company, whether directly or indirectly through subsidiaries, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)(ii)).

(d) Associates

An associate is an entity in which the group has significant influence, but not control or joint control, over its management, including participation in financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the associate's net assets. The consolidated income statement includes the group's share of the post-acquisition and post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see note 1(i)(ii)).

When the group's share of losses exceeds its interest in the associate, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the group's interest in the associate is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the associate.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates *(Continued)*

Unrealised profits and losses resulting from transactions between the group and its associates are eliminated to the extent of the group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(i)(ii)).

(e) Other investments in debt and equity securities

The group's and the company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include any data from observable markets. Cost includes attributable transaction costs.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(i)(i)).

Debt securities that include embedded derivatives with economic characteristics and risks different from that of the host contracts are designated as at fair value through profit and loss. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the income statement.

Investments are recognised/derecognised on the date the group commits to purchase/sell the investments or they expire.

(f) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)(ii)):

— freehold land and buildings;

— land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 1(h));

— buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease; and

— other items of plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Freehold land is not depreciated.

— Buildings situated on freehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion.

— Land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

— Plant and machinery 5-10 years

— Other fixed assets 3-10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Intangible assets

Intangible assets that are acquired by the group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)(ii)).

Acquired patents are shown at historical cost. Patents have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives of five years.

Club memberships with indefinite useful lives are stated in the balance sheet at cost less accumulated impairment losses, and are tested annually for impairment.

Both the period and method of amortisation are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Intangible assets *(Continued)*

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the group

Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases, with the following exception:

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries and associates: see note 1(i)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

— For other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— intangible assets; and

— investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) ***Impairment of other assets*** *(Continued)*

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) ***Interim financial reporting and impairment***

Under the Rules Governing the Listing of Securities on the SEHK, the group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(i)(i) and (ii)).

Impairment losses recognised in an interim period in respect of unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories *(Continued)*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(ii) Defined benefit retirement plan obligations

The group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

In calculating the group's obligation in respect of a plan, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(iv) Termination benefits

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

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Commission income

Commission income on sales referred to manufacturers is recognised when the goods are delivered by the manufacturers to the ultimate customers.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of operations outside Hong Kong are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences recognised in equity which relate to that operation outside Hong Kong is included in the calculation of the profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(u) Related parties

For the purposes of these financial statements, a party is considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the group;

(ii) the group and the party are subject to common control;

(iii) the party is an associate of the group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(v) Segment reporting

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

In accordance with the group's internal financial reporting system, the group has chosen business segment information as the primarily reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Segment reporting *(Continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise cash and cash equivalents, financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following new Interpretation and amendments to HKFRSs that are first effective for the current accounting period of the group and the company:

— HK(IFRIC) 14, *HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction*

— Amendment to HKAS 39, *Financial instruments: Recognition and measurement*, and HKFRS 7, *Financial instruments: Disclosures - Reclassification of financial assets*

These HKFRS developments have had no material impact on the group's financial statements as they were consistent with accounting policies already adopted by the group.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

3 TURNOVER

The principal activities of the group are the design, development, manufacture and sale of plush stuffed and, steel and plastic toys. Turnover represents the sales value of goods supplied to customers and excludes value added tax or other sales taxes and is after deduction of any trade discounts.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

4 OTHER REVENUE AND NET (LOSS)/GAIN

(a) Other revenue

	2008 **HK$'000**	2007 HK$'000
Bank interest income	**1,882**	3,116
Interest income from other financial assets	**3,141**	1,659
Reversal of trade and other payables	**—**	1,065
Interest income from tax certificates	**—**	846
Commission income	**5,193**	341
Sales of scrap materials	**988**	163
Sundry income	**2,226**	2,283
	13,430	9,473

(b) Other net (loss)/gain

	2008 **HK$'000**	2007 HK$'000
Net (loss)/gain on disposal of property, plant and equipment	**(4,206)**	469
Net loss on disposal of leasehold land	**—**	(1,278)
Net realised and unrealised (loss)/gain on other financial assets	**(1,419)**	5,947
Net exchange gain/(loss)	**1,646**	(3,982)
Loss on disposal of club memberships	**(106)**	(32)
Others	**515**	1,271
	(3,570)	2,395

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

		Note	2008 HK$'000	2007 HK$'000
(a)	**Finance costs**			
	Interest expense on bank borrowings wholly repayable within five years		**6,888**	8,132
(b)	**Staff costs #**			
	Expenses recognised in respect of defined benefit retirement plan (note 23(a)(v))		**3,321**	3,943
	Contributions to defined contribution retirement plans		**12,143**	5,204
	Total retirement costs		**15,464**	9,147
	Salaries, wages and other benefits		**221,826**	220,552
			237,290	229,699
(c)	**Other items**			
	Amortisation #			
	— land lease premium	13(a)	**426**	440
	— intangible assets	14	**676**	676
	Depreciation #	13(a)	**30,550**	30,105
	Impairment losses			
	— trade receivables	19(b)	**14,509**	3,163
	— other receivables		**300**	—
	— fixed assets	13(a)	**5,837**	—
	— intangible assets	14	**173**	10
	— other financial assets	17(ii)	**911**	2,315
	Reversal of impairment loss on trade receivables	19(b)	**(2,199)**	(462)
	Auditors' remuneration		**3,670**	3,922
	Operating lease charges: minimum lease payments in respect of property rentals #		**22,196**	22,684
	Cost of inventories #	18(b)	**861,252**	798,360

Cost of inventories includes HK$207,454,000 (2007: HK$205,253,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX EXPENSE/(CREDIT)

(a) Taxation in the consolidated income statement represents:

	2008 HK$'000	2007 HK$'000
Current tax - Hong Kong Profits tax		
Provision for the year	**2,319**	1,140
Under/(over)-provision in respect of prior years	**706**	(12,942)
	3,025	(11,802)
Current tax - Outside Hong Kong		
Provision for the year	**7,371**	2,081
Over-provision in respect of prior years	**—**	(1,744)
	7,371	337
Deferred tax		
Origination and reversal of temporary differences (note 25(b)(i))	**3,031**	(521)
Income tax expense/(credit)	**13,427**	(11,986)

In February 2008, the Hong Kong Government announced a decrease in the Profits Tax rate from 17.5% to 16.5% applicable to the group's operations in Hong Kong as from the year ended 31 December 2008. This decrease is taken into account in the preparation of the group's and the company's 2008 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year and the opening balance of deferred tax has been re-estimated accordingly.

Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law ("the new tax law") of The People's Republic of China ("the PRC") which became effective on 1 January 2008. Under the new tax law, the statutory income tax rate applicable to the PRC subsidiaries has changed from 33% to 25%.

Under the new tax law, a 10% withholding tax will also be levied on dividends declared to foreign investors from the PRC, however, only the dividends attributable to the profits of the financial period starting from 1 January 2008 will be subject to the withholding tax. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign investor. Pursuant to a double tax arrangement between the PRC and Hong Kong, the group is subject to a withholding tax at the rate of 5% for any dividend payments from the group's PRC subsidiaries (see note 25(d)).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX EXPENSE/(CREDIT) *(Continued)*

(b) Reconciliation between tax expense/(credit) and accounting loss at applicable tax rates:

	2008 **HK$'000**	2007 HK$'000
Loss before taxation	**(42,892)**	(20,215)
Notional tax on loss before taxation calculated at the rates applicable to profits in the jurisdictions concerned	**(7,845)**	(5,709)
Tax effect of non-deductible expenses	**12,142**	6,016
Tax effect of non-taxable income	**(6,531)**	(3,199)
Tax effect of utilisation of previously unrecognised tax losses	**(3,040)**	(584)
Tax effect of unused tax losses not recognised	**17,995**	6,176
Under/(over)-provision in prior years	**706**	(14,686)
Income tax expense/(credit)	**13,427**	(11,986)

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees HK$'000	**Salaries, allowances and benefits in kind** HK$'000	**Retirement scheme contributions** HK$'000	**2008 Total** HK$'000
Chairman and executive director				
Kyoo Yoon Choi	240	–	–	240
Executive directors				
Young M Lee	–	1,088	–	1,088
James Wang	–	1,017	–	1,017
Hyun Ho Kim	–	942	–	942
Sang Hee Jung (appointed on 7 November 2008)	–	144	–	144
Jung Kuk Lee (resigned on 7 November 2008)	–	800	–	800
Independent non-executive directors				
Cheong Heon Yi	132	–	–	132
Byong Hoo Ahn (appointed on 30 May 2008)	70	–	–	70
Oliver, Shing Kay Wong (appointed on 1 September 2008)	40	–	–	40
Valiant, Kin Piu Cheung (resigned on 30 May 2008)	60	–	–	60
Chan Yoo (resigned on 30 September 2008)	95	–	–	95
	637	3,991	–	4,628

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' REMUNERATION *(Continued)*

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows: *(Continued)*

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	2007 Total HK$'000
Chairman and executive director				
Kyoo Yoon Choi	240	1,123	—	1,363
Executive directors				
Young M Lee	—	1,507	—	1,507
James Wang	—	856	—	856
Jung Kuk Lee (appointed on 31 May 2007)	—	479	—	479
Hyun Ho Kim (appointed on 31 May 2007)	—	497	—	497
Shin Hee Cha (resigned on 31 May 2007)	—	693	—	693
Tae Sub Choi (resigned on 31 May 2007)	—	454	—	454
Independent non-executive directors				
Valiant, Kin Piu Cheung	140	—	—	140
Cheong Heon Yi	127	—	—	127
Chan Yoo	126	—	—	126
	633	5,609	—	6,242

Mr. Kyoo Yoon Choi waived his entitlement for retirement benefits with effect from 1 January 2004 which amounted to HK$778,000 (2007: HK$907,000) for the year. The retirement benefits entitlement waived for the year ended 31 December 2007 in respect of other directors who retired during that year amounted to HK$944,000.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2007: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2007: three) individuals are as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other emoluments	**3,186**	4,172

The emoluments of the three (2007: three) individuals with the highest emolument are within the following bands:

	2008 No. of individuals	2007 No. of individuals
HK$		
500,001 - 1,000,000	**1**	—
1,000,001 - 1,500,000	**2**	1
1,500,001 - 2,000,000	**—**	2

9 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the company includes a profit of HK$4,338,000 (2007: HK$25,462,000) which has been dealt with in the financial statements of the company.

10 DIVIDEND

The board of directors do not declare or propose any dividend for the year ended 31 December 2008 (2007: HK$Nil).

11 LOSS PER SHARE

(a) Basic

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the company of HK$41,929,000 (2007: HK$4,831,000) and the 668,529,000 ordinary shares (2007: 668,529,000 ordinary shares) in issue during the year.

(b) Diluted

The diluted loss per share is not presented as the company did not have dilutive potential ordinary shares outstanding during both 2007 and 2008.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

12 SEGMENT INFORMATION

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

Business segments

The group comprises the following main business segments:

Plush stuffed toys - the design, development, manufacture and sale of such toys.

Steel and plastic toys - the design, development, manufacture and sale of such toys.

	Plush stuffed toys		Steel and plastic toys		Unallocated		Total	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Revenue from external customers	**875,499**	801,339	**173,090**	144,989	**–**	–	**1,048,589**	946,328
Other revenue from external customers	**7,200**	3,681	**1,207**	1,017	**5,023**	4,775	**13,430**	9,473
Total	**882,699**	805,020	**174,297**	146,006	**5,023**	4,775	**1,062,019**	955,801
Segment result	**4,444**	(9,230)	**(44,962)**	(7,612)	**5,023**	4,775	**(35,495)**	(12,067)
Loss from operations							**(35,495)**	(12,067)
Finance costs							**(6,888)**	(8,132)
Share of loss of associates	**(509)**	(16)	**–**	–	**–**	–	**(509)**	(16)
Loss before taxation							**(42,892)**	(20,215)
Income tax (expense)/credit							**(13,427)**	11,986
Loss after taxation							**(56,319)**	(8,229)
Depreciation for the year	**23,345**	23,398	**7,205**	6,707	**–**	–	**30,550**	30,105
Impairment of fixed assets	**–**	–	**(5,837)**	–	**–**	–	**(5,837)**	–
Amortisation for the year								
— interest in leasehold land	**315**	337	**111**	103	**–**	–	**426**	440
— intangible assets	**–**	–	**676**	676	**–**	–	**676**	676

	Plush stuffed toys		Steel and plastic toys		Total	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Segment assets	**427,692**	401,473	**110,951**	137,355	**538,643**	538,828
Investments in associates	**950**	1,373	**–**	–	**950**	1,373
Unallocated assets					**197,082**	187,923
Total assets					**736,675**	728,124
Segment liabilities	**148,881**	105,222	**56,429**	55,312	**205,310**	160,534
Unallocated liabilities					**152,668**	117,379
Total liabilities					**357,978**	277,913
Capital expenditure incurred during the year	**36,077**	11,536	**1,575**	2,992	**37,652**	14,528

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

12 SEGMENT INFORMATION *(Continued)*

Geographical segments

The group's business is managed on a worldwide basis but participates in six principal economic environments. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	Revenue from external customers		Segment assets		Capital expenditure incurred during the year	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
North America	**433,999**	419,357	**12,182**	505	**98**	65
Japan	**333,774**	283,074	**4,067**	4,182	**—**	—
Europe	**170,826**	170,576	**—**	—	**—**	—
South Korea	**869**	5,272	**29,512**	43,362	**110**	630
Hong Kong and the rest of the PRC	**107,715**	65,363	**396,420**	429,379	**4,690**	11,996
Vietnam	**—**	185	**96,462**	61,400	**32,754**	1,837
Others	**1,406**	2,501	**—**	—	**—**	—
	1,048,589	946,328	**538,643**	538,828	**37,652**	14,528

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

13 FIXED ASSETS

(a) The group

	Freehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Sub-total HK$'000	Interests in leasehold land held for own use under operating leases HK$'000	Total HK$'000
Cost:									
At 1 January 2007	103,985	23,960	166,756	28,954	12,576	660	336,891	17,114	354,005
Exchange adjustments	5,678	440	7,053	789	489	39	14,488	763	15,251
Additions	1,220	1,516	7,113	1,051	2,274	1,354	14,528	–	14,528
Disposals	(5,556)	(10,542)	(16,023)	(2,683)	(5,919)	–	(40,723)	(1,329)	(42,052)
Transfers	–	1,552	–	–	–	(1,552)	–	–	–
At 31 December 2007	105,327	16,926	164,899	28,111	9,420	501	325,184	16,548	341,732
At 1 January 2008	105,327	16,926	164,899	28,111	9,420	501	325,184	16,548	341,732
Exchange adjustments	4,667	414	5,440	(824)	223	(2)	9,918	600	10,518
Additions	16,469	1,931	10,088	1,562	1,126	347	31,523	6,129	37,652
Disposals	–	(1,138)	(49,018)	(4,351)	(3,561)	–	(58,068)	–	(58,068)
Transfers	–	501	–	–	–	(501)	–	–	–
At 31 December 2008	126,463	18,634	131,409	24,498	7,208	345	308,557	23,277	331,834
Accumulated amortisation, depreciation and impairment loss:									
At 1 January 2007	13,171	19,535	77,519	19,645	7,143	–	137,013	946	137,959
Exchange adjustments	995	239	2,707	398	243	–	4,582	60	4,642
Charge for the year	4,914	2,130	17,728	3,285	2,048	–	30,105	440	30,545
Written back on disposal	(191)	(10,411)	(11,274)	(2,458)	(4,204)	–	(28,538)	(51)	(28,589)
At 31 December 2007	18,889	11,493	86,680	20,870	5,230	–	143,162	1,395	144,557
At 1 January 2008	18,889	11,493	86,680	20,870	5,230	–	143,162	1,395	144,557
Exchange adjustments	978	221	2,229	(693)	126	–	2,861	60	2,921
Charge for the year	5,724	2,723	17,715	3,091	1,297	–	30,550	426	30,976
Impairment loss	–	–	5,837	–	–	–	5,837	–	5,837
Written back on disposal	–	(549)	(38,091)	(3,985)	(3,161)	–	(45,786)	–	(45,786)
At 31 December 2008	25,591	13,888	74,370	19,283	3,492	–	136,624	1,881	138,505
Net book value:									
At 31 December 2008	100,872	4,746	57,039	5,215	3,716	345	171,933	21,396	193,329
At 31 December 2007	86,438	5,433	78,219	7,241	4,190	501	182,022	15,153	197,175

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

13 FIXED ASSETS *(Continued)*

(a) The group *(Continued)*

Impairment loss

During 2008, due to the operating losses at certain of the group's factories, the group assessed the recoverable amounts of the fixed assets at those factories. Based on this assessment, the carrying amount of the fixed assets was written down by HK$5,837,000 (included in "administrative expenses"). The estimates of recoverable amount were based on discounted cash flow forecasts for each cash generating unit.

(b) The company

	Freehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 1 January 2007	4,603	17,093	34,407	12,615	1,540	70,258
Additions	—	1,025	190	183	—	1,398
Disposals	—	(10,030)	(4,810)	(1,457)	(133)	(16,430)
At 31 December 2007	4,603	8,088	29,787	11,341	1,407	55,226
At 1 January 2008	4,603	8,088	29,787	11,341	1,407	55,226
Additions	—	1,142	159	31	160	1,492
Disposals	—	—	—	—	(626)	(626)
At 31 December 2008	4,603	9,230	29,946	11,372	941	56,092
Accumulated depreciation:						
At 1 January 2007	306	15,026	24,538	11,008	1,169	52,047
Charge for the year	115	1,139	3,976	744	202	6,176
Written back on disposal	—	(9,855)	(4,526)	(1,457)	(133)	(15,971)
At 31 December 2007	421	6,310	23,988	10,295	1,238	42,252
At 1 January 2008	421	6,310	23,988	10,295	1,238	42,252
Charge for the year	115	1,304	3,177	572	151	5,319
Written back on disposal	—	—	—	—	(596)	(596)
At 31 December 2008	536	7,614	27,165	10,867	793	46,975
Net book value:						
At 31 December 2008	4,067	1,616	2,781	505	148	9,117
At 31 December 2007	4,182	1,778	5,799	1,046	169	12,974

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

13 FIXED ASSETS *(Continued)*

(c) The analysis of net book value of properties is as follows:

	The group		The company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Outside Hong Kong				
— medium-term leases	**118,201**	97,409	**—**	—
— freehold	**4,067**	4,182	**4,067**	4,182
	122,268	101,591	**4,067**	4,182
Representing:				
Land and buildings carried at cost	**100,872**	86,438	**4,067**	4,182
Interest in leasehold land held for own use under operating leases	**21,396**	15,153	**—**	—
	122,268	101,591	**4,067**	4,182

(d) Pledged assets

Certain fixed assets of the group were pledged to various banks to secure bank loans granted to the group, see note 22.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

14 INTANGIBLE ASSETS

	The group		
	Club memberships	**Patent**	**Total**
	HK$'000	HK$'000	HK$'000
Cost:			
At 1 January 2007	16,147	3,382	19,529
Additions	753	—	753
Disposals	(1,292)	—	(1,292)
Exchange adjustment	581	—	581
At 31 December 2007	16,189	3,382	19,571
At 1 January 2008	16,189	3,382	19,571
Disposals	(903)	—	(903)
Exchange adjustment	(2,975)	—	(2,975)
At 31 December 2008	12,311	3,382	15,693
Accumulated amortisation and impairment losses:			
At 1 January 2007	1,586	676	2,262
Charge for the year	—	676	676
Impairment loss	10	—	10
At 31 December 2007	1,596	1,352	2,948
At 1 January 2008	1,596	1,352	2,948
Charge for the year	—	676	676
Impairment loss	10	163	173
Written bank on disposal	(620)	—	(620)
At 31 December 2008	986	2,191	3,177
Net book value:			
At 31 December 2008	11,325	1,191	12,516
At 31 December 2007	14,593	2,030	16,623

The amortisation charge for the year is included in "administrative expenses" in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

14 INTANGIBLE ASSETS *(Continued)*

	The company Club memberships HK$'000
Cost:	
At 1 January 2007	1,875
Exchange adjustment	7
At 31 December 2007	1,882
At 1 January 2008	1,882
Disposals	(620)
Exchange adjustment	24
At 31 December 2008	1,286
Accumulated impairment losses:	
At 1 January 2007 and 31 December 2007	1,567
At 1 January 2008	1,567
Written back on disposal	(620)
At 31 December 2008	947
Net book value:	
At 31 December 2008	339
At 31 December 2007	315

Club memberships are assessed to have indefinite useful lives and, accordingly, no amortisation is charged.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES

	The company	
	2008	2007
	HK$'000	HK$'000
Unlisted equities, at cost	**223,851**	198,766
Less: impairment loss	**(57,956)**	(57,956)
	165,895	140,810
Loans to subsidiaries	**214,237**	175,924
Less: impairment loss	**(90,000)**	(90,000)
	124,237	85,924
	290,132	226,734

During the year ended 31 December 2008, the company contributed additional capital of HK$25,085,000 (2007: HK$5,852,000) in respect of a subsidiary incorporated in Vietnam.

Loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for loans to subsidiaries of HK$62,690,000 (2007: HK$24,186,000) which are unsecured, interest-bearing at LIBOR or HIBOR plus a margin per annum and fall due for repayment from August 2009 to July 2011. Loans falling due within 2009 will be rolled over and, accordingly, have been classified as non-current. The interest rates charged for the year ended 31 December 2008 ranged from 2.84% to 5.50% (2007: ranged from 5.74% to 6.01%).

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ registration and operation	Particulars of issued share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activities
Dream International USA, Inc. *	United States of America	US$1,000,000	100%	100%	—	Trading of plush stuffed toys
J.Y. Toys Co., Limited	Hong Kong	US$1,500,000	100%	100%	—	Trading and manufacture of steel and plastic toys

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated. *(Continued)*

Name of company	Place of incorporation/ registration and operation	Particulars of issued share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activities
J.Y. International Company Limited	Hong Kong	US$500,000	100%	100%	—	Trading of plush stuffed toys and investment holding
Jung Yoon Toys (Shanghai) Co., Limited *#	The PRC	US$420,000	100%	100%	—	Manufacture of plush stuffed toys
C & H Toys (Suzhou) Co., Ltd. *#	The PRC	US$9,200,000	100%	100%	—	Manufacture of plush fabrics and plush stuffed toys
Dream Inko Co., Ltd *	South Korea	KRW100,000,000	100%	—	100%	Design, development and trading of plush stuffed toys
Dream Vina Co., Ltd *	Vietnam	US$10,512,150	100%	71.46%	28.54%	Manufacture of plush stuffed toys
Dream Vina II Co., Ltd *	Vietnam	US$460,719	100%	—	100%	Manufacture of plush stuffed toys
Dream Textile Co., Ltd *	Vietnam	US$1,500,000	100%	—	100%	Manufacture of fabrics and dyeing

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated. *(Continued)*

Name of company	Place of incorporation/ registration and operation	Particulars of issued share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the company	Proportion of ownership interest: Held by a subsidiary	Principal activities
C & H Toys (Shuyang) Co., Ltd *#	The PRC	US$1,200,000	100%	100%	—	Manufacture of plush stuffed toys
C & H HK Corp., Ltd	Hong Kong	US$8,500,000	66.47%	66.47%	—	Trading of steel and plastic toys and investment holding
J.Y. Plasteel (Suzhou) Co., Ltd *#	The PRC	US$7,500,000	66.47%	—	66.47%	Manufacture of bicycles and steel and plastic toys
Guangxi Beiliu Zhengrun Toys Co., Ltd *#	The PRC	HK$1,670,000	100%	100%	—	Manufacture of plush stuffed toys
C & H Toys (Mingguang) Co., Ltd *#	The PRC	US$1,000,000	100%	100%	—	Manufacture of plush stuffed toys
C & H Toys (Chaohu) Co., Ltd *#	The PRC	US$2,000,000	100%	—	100%	Manufacture of plush stuffed toys

* KPMG are not the statutory auditors of these companies. The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total turnover constituting approximately 29% and 28% respectively of the related consolidated totals.

\# These are wholly-owned foreign investment enterprises registered in the PRC.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INVESTMENTS IN ASSOCIATES

	The group		The company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted equities, at cost	**—**	—	**1,248**	1,248
Share of net assets	**950**	1,373	**—**	—
	950	1,373	**1,248**	1,248

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the group:

			Proportion of ownership interest			
Name of associate	**Place of incorporation/ establishment**	**Particulars of issued share capital/ registered capital**	**Group's effective interest**	**Held by the company**	**Held by a subsidiary**	**Principal activities**
Kedington Enterprises Inc.	British Virgin Islands	US$800,000	20%	20%	—	Investment holding
Yuan Lin Toys (Suzhou) Co., Ltd	The PRC	US$1,000,000	20%	—	20%	Manufacture of plush stuffed toys

Summary of financial information on associates

	Assets	**Liabilities**	**Equity**	**Revenue**	**Loss**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008					
100 per cent	**27,995**	**(23,244)**	**4,751**	**55,745**	**(2,544)**
Group's effective interest	**5,599**	**(4,649)**	**950**	**11,149**	**(509)**
2007					
100 per cent	31,625	(24,759)	6,866	49,077	(79)
Group's effective interest	6,325	(4,952)	1,373	9,815	(16)

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

17 OTHER FINANCIAL ASSETS

	The group		The company	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
Long-term structured deposit (note (i))	**73,954**	75,373	**73,954**	75,373
Unlisted equity securities (note (ii))	**–**	911	**–**	–
	73,954	76,284	**73,954**	75,373
Representing				
Non-current	**–**	76,284	**–**	75,373
Current	**73,954**	–	**73,954**	–
	73,954	76,284	**73,954**	75,373

Notes:

(i) The group entered into a contract with a bank in 2005 placing a deposit with principal amount of US$12,000,000 (equivalent to HK$93,300,000) maturing in 2017. Interest is payable quarterly in the first year at 6.5% per annum and in subsequent years at rates based on the spread between the 30 year and 10 year United States dollar swap rates. The bank may elect to early terminate the contract on any interest payment date before the maturity date by repaying the full principal amount plus accrued interest up to the termination date. The company may elect to early terminate the contract on any business day prior to the maturity date.

The long-term structured deposit is a hybrid instrument that includes a non-derivative host contract and an embedded derivative. Upon inception this financial instrument was designated as fair value through profit and loss with changes in fair value recognised in the income statement.

The long term structured deposit was pledged to a bank as at 31 December 2008 and 2007, see note 22.

Prior to 31 December 2008, the company elected to early terminate the contact and redeemed the long-term structured deposit for total proceeds of HK$78,000,000 subsequent to the year end on 15 January 2009. Accordingly, the long-term structured deposit was classified as a current asset as at 31 December 2008.

(ii) As at 31 December 2008 the group's available-for-sale equity securities were individually determined to be impaired on the basis of a material decline in their recoverable amount below cost and adverse changes in the market in which the investee operated which indicated that the cost of the group's investment in it may not be recovered. An impairment loss on this investment of HK$911,000 (2007: HK$911,000) was recognised in profit or loss in accordance with the policy set out in note 1(i)(i) (see note 5(c)).

Impairment loss recognised in respect of other investments in unlisted equity securities during the year ended 31 December 2007 amounted HK$1,404,000.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

18 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The group		The company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Raw materials	**40,821**	71,116	**10,096**	19,155
Work in progress	**40,229**	35,504	**3,548**	4,261
Finished goods	**51,859**	50,017	**18,506**	16,232
	132,909	156,637	**32,150**	39,648

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The group	
	2008	2007
	HK$'000	HK$'000
Carrying amount of inventories sold	**850,544**	797,229
Write-down of inventories	**14,012**	3,718
Reversal of write-down of inventories	**(3,304)**	(2,587)
	861,252	798,360

The reversal of write-down of inventories made in current and prior years arose due to an increase in the estimated net realisable value as a result of sale of aged inventories to customers.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

19 TRADE AND OTHER RECEIVABLES

	The group		The company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors and bills receivable	**157,532**	111,422	**121,335**	66,445
Less: allowance for doubtful debts (note 19(b))	**(8,572)**	(2,955)	**(6,935)**	—
	148,960	108,467	**114,400**	66,445
Other receivables and prepayments	**43,763**	42,402	**9,138**	8,413
Amount due from ultimate holding company	**6,115**	8,194	**—**	8
Amount due from a related company	**—**	328	**—**	—
Amount due from fellow subsidiary	**1,000**	419	**785**	227
Amounts due from subsidiaries	**—**	—	**64,886**	68,109
Amount due from associate (note 16)	**51**	283	**—**	—
Loan to a fellow subsidiary	**—**	8,300	**—**	—
	199,889	168,393	**189,209**	143,202

The amount of the group's and the company's other receivables and prepayments expected to be recovered or charged as expense after more than one year is HK$1,577,000 (2007: HK$619,000) and HK$176,000 (2007: HK$340,000) respectively. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

Amounts due from ultimate holding company, a related company, fellow subsidiary, subsidiaries and associate are trade related, unsecured, interest-free and repayable on demand.

Loan to a fellow subsidiary was unsecured, interest-bearing at 7.5% per annum and repaid on 31 May 2008.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

19 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Aging analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following aging analysis as of the balance sheet date:

	The group		The company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Current	**135,716**	95,243	**108,008**	63,141
Less than 1 month past due	**5,373**	6,735	**3,866**	2,064
1 to 3 months past due	**6,378**	5,001	**2,524**	806
More than 3 months past due but less than 12 months past due	**1,468**	691	**2**	145
More than 12 months past due	**25**	797	**–**	289
	148,960	108,467	**114,400**	66,445

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(i)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The group		The company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
At 1 January	**2,955**	7,353	**–**	–
Impairment loss recognised	**14,509**	3,163	**9,655**	–
Reversal of impairment loss	**(2,199)**	(462)	**–**	–
Uncollectible amounts written off	**(6,798)**	(7,210)	**(2,720)**	–
Exchange differences	**105**	111	**–**	–
At 31 December	**8,572**	2,955	**6,935**	–

At 31 December 2008, the group's and the company's trade debtors and bills receivable of HK$9,636,000 (2007: HK$2,955,000) and HK$6,937,000 (2007: HK$Nil) respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of HK$8,572,000 (2007: HK$2,955,000) and HK$6,935,000 (2007: HK$Nil) respectively were recognised. The group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

19 TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade debtors and bills receivable that are not impaired

The aging analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The group		The company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Neither past due nor impaired	**135,494**	95,243	**108,008**	63,141
Less than 1 month past due	**5,327**	6,735	**3,866**	2,064
1 to 3 months past due	**5,857**	5,001	**2,524**	806
More than 3 months past due but less than 12 months past due	**1,194**	691	**–**	145
More than 12 months past due	**24**	797	**–**	289
	12,402	13,224	**6,390**	3,304
	147,896	108,467	**114,398**	66,445

Receivables that were neither past due nor impaired relate to a wide range of 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, management believes that no impairment allowance is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. The group does not hold any collateral over these balances.

20 CASH AND CASH EQUIVALENTS

	The group		The company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Deposits with banks	**39,807**	27,906	**23,253**	17,162
Cash at bank and in hand	**82,563**	79,316	**17,250**	16,899
	122,370	107,222	**40,503**	34,061

Included in the balance is an amount of approximately HK$24,207,000 (2007: HK$14,422,000) representing Renminbi deposits placed with banks in the PRC by the group. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

21 TRADE AND OTHER PAYABLES

	The group		The company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**91,578**	70,276	**4,950**	5,083
Accrued charges and other payables	**95,822**	76,934	**20,177**	18,671
Amounts due to fellow subsidiaries	**9,079**	2,635	**6,510**	—
Amounts due to subsidiaries	**—**	—	**109,316**	73,078
Amount due to associate	**1,853**	—	—	—
	198,332	149,845	**140,953**	96,832

Amounts due to fellow subsidiaries, subsidiaries and associate are unsecured, interest free and repayable on demand.

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

Included in trade and other payables are trade creditors with the following aging analysis as of the balance sheet date:

	The group		The company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due within 1 month	**59,984**	42,216	**4,950**	5,083
Due after 1 month but within 3 months	**31,484**	17,726	**—**	—
Due after 3 months but within 6 months	**—**	8,718	**—**	—
Due after 6 months but within 1 year	**—**	713	**—**	—
Overdue for more than 1 year	**110**	903	**—**	—
	91,578	70,276	**4,950**	5,083

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

22 BANK LOANS

At 31 December 2008, the bank loans were secured as follows:

	The group		The company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Non-current				
— Secured bank loans	**—**	780	**—**	—
Current				
— Secured bank loans	**126,977**	109,084	**112,706**	54,604
— Guaranteed bank loans	**18,715**	—	**—**	—
— Unsecured bank loans	**—**	4,800	**—**	4,800
	145,692	113,884	**112,706**	59,404
	145,692	114,664	**112,706**	59,404

At 31 December 2008, the bank loans were repayable as follows:

	The group		The company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Within 1 year	**145,692**	113,884	**112,706**	59,404
Between 1 and 2 years	**—**	780	**—**	—
	145,692	114,664	**112,706**	59,404

Bank loans of the group are secured as follows:

(i) A long term structured deposit with a carrying value as at 31 December 2008 of HK$73,954,000 (2007: HK$75,373,000) was pledged to a bank in respect of a loan amounting to HK$34,952,000 (2007: HK$15,604,000).

(ii) Plant and machinery, and land with a carrying value as at 31 December 2008 of HK$28,371,000 (2007: HK$27,610,000) were pledged to a bank in respect of a loan amounting to HK$1,840,000 (2007: HK$12,218,000).

(iii) Land and buildings with a carrying value as at 31 December 2008 of HK$32,043,000 (2007: HK$70,316,000) was pledged to a bank in respect of a loan amounting to HK$12,430,000 (2007: HK$43,042,000).

(iv) A bank loan totalling HK$77,755,000 (2007: HK$39,000,000) was secured on a deposit placed by a director of the company of HK$81,288,000 (2007: HK$40,570,000).

Bank loans of the group are guaranteed as follows:

(i) A bank loan totalling HK$18,715,000 (2007: HK$ Nil) was guaranteed by the group's immediate holding company, C&H Co., Ltd.

As at 31 December 2008, the group's banking facilities were not subject to the fulfilment of financial covenants (2007: Nil).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

23 EMPLOYEES RETIREMENT SCHEMES

(a) Defined benefit retirement plans

The group makes contributions to a defined benefit retirement plan which covers 1.2% of the group's employees. The plans are administered by trustees, who are independent, with their assets held separately from those of the group.

The plans are funded by contributions from the group in accordance with an independent actuary's recommendation based on annual actuarial valuations. The latest independent actuarial valuations of the plans were at 31 December 2008 and were prepared by qualified actuary of Watson Wyatt Hong Kong Limited, who is a fellow of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuarial valuations indicate that the group's obligations under these defined benefit retirement plans are 33.6% (2007: 32.2%) covered by the plan assets held by the trustees.

(i) The amounts recognised in the balance sheet are as follows

	The group		The company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Present value of wholly or partly funded obligations	**13,397**	19,536	**9,101**	9,073
Fair value of plan assets	**(4,502)**	(6,282)	**—**	—
	8,895	13,254	**9,101**	9,073
Net unrecognised actuarial losses	**(1,917)**	(2,565)	**—**	—
	6,978	10,689	**9,101**	9,073

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months. The group expects to pay HK$1,767,000 in contributions to defined benefit retirement plans in 2009.

(ii) Plan assets

As at 31 December 2008 and 2007, the group's liability under this plan is covered by deposits with several insurance companies. There is no plan asset invested in the company's own financial instruments or any property occupied or other assets used by the group.

(iii) Movements in the present value of the defined benefit obligations

	The group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**19,536**	17,903
Benefits paid by the plan	**(3,865)**	(5,144)
Current service cost	**2,339**	3,200
Interest cost	**1,027**	902
Actuarial losses	**474**	2,016
Exchange differences	**(6,114)**	659
At 31 December	**13,397**	19,536

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

23 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

(a) Defined benefit retirement plans *(Continued)*

(iv) Movements in plan assets

	The group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**6,282**	6,608
Group's contributions paid to the plan	**1,440**	1,428
Benefits paid by the plan	**(1,525)**	(2,227)
Actuarial expected return on plan assets	**111**	159
Actuarial gains	**211**	60
Exchange differences	**(2,017)**	254
At 31 December	**4,502**	6,282

(v) Expense recognised in the consolidated income statement is as follows:

	The group	
	2008	2007
	HK$'000	HK$'000
Current service cost	**2,339**	3,200
Interest cost	**1,027**	902
Actuarial expected return on plan assets	**(111)**	(159)
Net actuarial losses recognised	**66**	—
	3,321	3,943

The expense is recognised in the following line items in the consolidated income statement:

	The group	
	2008	2007
	HK$'000	HK$'000
Cost of sales	**555**	876
Administrative expenses	**2,766**	3,067
	3,321	3,943

The actual return on plan assets of the group (taking into account all changes in the fair value of the plan assets excluding contributions paid and received) was net income of HK$322,000 (2007: HK$218,000).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

23 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

(a) Defined benefit retirement plans *(Continued)*

(vi) The principal actuarial assumptions used as at 31 December 2008 (expressed as weighted averages) are as follows:

	2008	2007
Discount rate	**7.8%**	7.0%
Expected rate of return on plan assets	**3.5%**	3.5%
Future salary increases	**5.0%**	5.0%

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Historical information

	The group		
	2008 HK$'000	2007 HK$'000	2006 HK$'000
Present value of the defined benefit obligations	**13,397**	19,536	17,903
Fair value of plan assets	**(4,502)**	(6,282)	(6,608)
Surplus in the plan	**8,895**	13,254	11,295
Experience adjustments arising on plan liabilities	**989**	1,990	1,356
Experience adjustments arising on plan assets	**(211)**	(60)	(18)

(b) Deferred contribution retirement plans

The group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

Subsidiaries incorporated in the PRC participate in the defined contribution retirement schemes operated by the local authorities for employees in the PRC. Contributions to these schemes are charged to the income statement when incurred.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The company has a share option scheme which was adopted on 22 January 2002 whereby the directors of the company are authorised, at their discretion, to invite employees of the group, including directors of any company in the group, to take up options to subscribe for shares of the company. The exercise price of the options is the highest of (i) the nominal value of the shares, (ii) the closing price of the shares on the SEHK on the date of grant and (iii) the average closing price of the shares on the SEHK for the five business days immediately preceding the date of grant. The options are exercisable progressively after one to three years from the date of grant and are exercisable for a period to be notified by the directors to each option holder upon the grant of option. Such period will not exceed ten years from the date on which the option is granted.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

Exercisable period	Exercise price per share	Number of options 2008 '000	2007 '000
Options granted to directors:			
7 February 2003 to 7 February 2012	HK$1.18	**2,400**	2,400
2 January 2005 to 2 January 2014	HK$1.87	**—**	3,500
		2,400	5,900
Options granted to employees:			
7 February 2003 to 7 February 2012	HK$1.18	**2,081**	3,641
15 April 2004 to 15 April 2013	HK$1.43	**455**	455
2 January 2005 to 2 January 2014	HK$1.87	**7,150**	4,350
		12,086	14,346

The movement in the number of options during the year resulted from the resignation of certain employees and a director, who became an employee of the group.

In respect of the options granted, the maximum percentage of the share options which may be exercised is determined in stages as follows:

On or after 1st anniversary	30%
On or after 2nd anniversary	another 30%
On or after 3rd anniversary	another 40%

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(b) The number and weighted average exercise prices of share options are as follows:

	2008 Weighted average exercise price	**2008** Number of options '000	2007 Weighted average exercise price	2007 Number of options '000
Outstanding at the beginning of the period	**HK$1.57**	**14,346**	HK$1.56	17,231
Lapsed	**HK$1.39**	**(2,260)**	HK$1.54	(2,885)
Outstanding at the end of the period	**HK$1.60**	**12,086**	HK$1.57	14,346
Excreisable at the end of the period	**HK$1.60**	**12,086**	HK$1.57	14,346

No options were granted on exercised during the year (2007: Nil).

The options outstanding at 31 December 2008 had an exercise price of HK$1.18, HK$1.43 or HK$1.87 (2007: HK$1.18, HK$1.43 or HK$1.87) and a weighted average remaining contractual life of 4.3 years (2007: 5.3 years).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

25 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The group		The company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Provisional for Hong Kong Profits Tax for the year	**2,319**	1,140	**2,127**	492
Provision Profits Tax paid	**(1,090)**	(1,194)	**(1,089)**	(1,016)
	1,229	(54)	**1,038**	(524)
Balance of Profits Tax provision relating to prior years	**918**	382	**—**	—
Provision for tax outside Hong Kong	**4,574**	1,548	**—**	—
	6,721	1,876	**1,038**	(524)
Representing:				
Tax recoverable	**(255)**	(591)	**—**	(524)
Tax payable	**6,976**	2,467	**1,038**	—
	6,721	1,876	**1,038**	(524)

(b) Deferred tax assets and liabilities recognised:

(i) The group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation in excess of the related depreciation allowances HK$'000	Future benefit of tax losses HK$'000	Defined benefit retirement plan liability HK$'000	General provisions HK$'000	Total HK$'000
At 1 January 2007	736	(690)	(522)	(2,382)	(2,858)
(Credited)/charged to the income statement (note 6(a))	(755)	(43)	824	(547)	(521)
Exchange adjustments	(53)	—	(29)	(117)	(199)
At 31 December 2007	(72)	(733)	273	(3,046)	(3,578)
At 1 January 2008	**(72)**	**(733)**	**273**	**(3,046)**	**(3,578)**
Charged to the income statement (note 6(a))	**227**	**733**	**909**	**1,162**	**3,031**
Exchange adjustments	**(102)**	**—**	**(195)**	**341**	**44**
At 31 December 2008	**53**	**—**	**987**	**(1,543)**	**(503)**

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

25 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

(b) Deferred tax assets and liabilities recognised: *(Continued)*

(ii) The company

The components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation HK$'000	Future benefit of tax losses HK$'000	Total HK$'000
At 1 January 2007	1,012	(690)	322
Credited to the income statement	(31)	(43)	(74)
At 31 December 2007	981	(733)	248
At 1 January 2008	**981**	**(733)**	**248**
(Credited)/charged to the income statement	**(987)**	**733**	**(254)**
At 31 December 2008	**(6)**	**—**	**(6)**

	The group		The company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Net deferred tax asset recognised on the balance sheet	**(503)**	(3,826)	**(6)**	—
Net deferred tax liability recognised on the balance sheet	**—**	248	**—**	248
	(503)	(3,578)	**(6)**	248

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

25 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(p), the group has not recognised deferred tax assets in respect of cumulative tax losses of HK$185,894,000 (2007: HK$115,867,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entity. Tax losses amounting to HK$24,127,000 (2007: HK$23,013,000) do not expire under current tax legislation, while the remaining tax losses amounting to HK$161,767,000 (2007: HK$92,854,000) will expire at various dates up to and including 2013 (2007: 2012) as follows:

	2008 **HK$'000**	2007 HK$'000
2008	—	6,079
2009	1,844	1,856
2010	11,915	11,390
2011	19,268	21,915
2012	47,792	51,614
2013	80,948	-
	161,767	92,854

(d) Deferred tax liabilities not recognised

At 31 December 2008, temporary differences relating to the undistributed profits of subsidiaries based in Mainland China amounted to HK$38,626,000 (2007: HK$Nil). Deferred tax liabilities of HK$1,931,000 (2007: HK$Nil) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

26 CAPITAL AND RESERVES

(a) The group

	Attributalble to equity shareholders of the company								
	Share capital	**Share premium**	**Capital reserve**	**General reserve fund**	**Exchange reserve**	**Retained profits**	**Total**	**Minority interests**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	Note 26(c)	Note 26(d)(i)	Note 26(d)(ii)	Note 26(d)(iii)	Note 26(d)(iv)				
At 1 January 2007	52,019	176,893	6,829	15,045	15,892	154,959	421,637	20,474	442,111
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	–	15,185	–	15,185	1,144	16,329
Loss for the year	–	–	–	–	–	(4,831)	(4,831)	(3,398)	(8,229)
Appropriation to general reserve fund	–	–	–	3,382	–	(3,382)	–	–	–
At 31 December 2007	52,019	176,893	6,829	18,427	31,077	146,746	431,991	18,220	450,211
At 1 January 2008	**52,019**	**176,893**	**6,829**	**18,427**	**31,077**	**146,746**	**431,991**	**18,220**	**450,211**
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**–**	**–**	**–**	**–**	**(15,920)**	**–**	**(15,920)**	**725**	**(15,195)**
Lapse of share options	**–**	**–**	**(2,876)**	**–**	**–**	**2,876**	**–**	**–**	**–**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(41,929)**	**(41,929)**	**(14,390)**	**(56,319)**
At 31 December 2008	**52,019**	**176,893**	**3,953**	**18,427**	**15,157**	**107,693**	**374,142**	**4,555**	**378,697**

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

26 CAPITAL AND RESERVES *(Continued)*

(b) The company

	Share capital HK$'000 Note 26(c)	Share premium HK$'000 Note 26(d)(i)	Capital reserve HK$'000 Note 26(d)(ii)	Retained profits HK$'000	Total HK$'000
At 1 January 2007	52,019	176,893	6,829	107,319	343,060
Profit for the year	—	—	—	25,462	25,462
At 31 December 2007	52,019	176,893	6,829	132,781	368,522
At 1 January 2008	**52,019**	**176,893**	**6,829**	**132,781**	**368,522**
Lapse of share options	**—**	**—**	**(2,876)**	**2,876**	**—**
Profit for the year	**—**	**—**	**—**	**4,338**	**4,338**
At 31 December 2008	**52,019**	**176,893**	**3,953**	**139,995**	**372,860**

(c) Share capital

	Number of shares '000	HK$'000
Authorised:		
Ordinary shares of US$0.01 each		
At 31 December 2008 and 2007	5,000,000	390,000
Issued and fully paid:		
Ordinary shares of US$0.01 each		
At 31 December 2008 and 2007	668,529	52,019

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

26 CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

(ii) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to directors and employees of the group recognised in accordance with the accounting policy adopted for share-based payments in note 1(o)(iii).

(iii) General reserve fund

According to the PRC laws applicable to wholly-owned foreign investment enterprises, the PRC subsidiaries of the company are required to set up a general reserve fund and appropriate at least 10% of their annual net profits after taxation, as determined under PRC accounting regulations, to the general reserve fund until the balance of the fund equals to 50% of the respective enterprise's registered capital. This fund can be used to make good losses and to convert into paid-up capital. Appropriations to the general reserve fund are at the discretion of the respective board of directors of the subsidiaries.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in notes 1(s).

(v) Distributability of reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the company, was HK$139,995,000 (2007: HK$132,781,000)

(vi) Capital management

The group's primary objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

26 CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(vi) Capital management (Continued)

Consistent with industry practice, the group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the group defines net debt as total debt (which includes interest-bearing loans and borrowings and trade and other payables) less cash and cash equivalents.

During 2008, the group's strategy was to maintain the net debt-to-capital ratio under 100%. In order to maintain or adjust the ratio, the group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-adjusted capital ratio at 31 December 2008 and 2007 was as follows:

		The group		The company	
	Note	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Current liabilities:					
Trade and other payables	21	**198,332**	149,845	**140,953**	96,832
Bank loans	22	**145,692**	113,884	**112,706**	59,404
		344,024	263,729	**253,659**	156,236
Non-current liabilities:					
Bank loans	22	**—**	780	**—**	—
Total debt		**344,024**	264,509	**253,659**	156,236
Less: Cash and cash equivalents	20	**(122,370)**	(107,222)	**(40,503)**	(34,061)
Net debt		**221,654**	157,287	**213,156**	122,175
Total equity	26	**378,697**	450,211	**372,860**	368,522
Net debt-to-capital ratio		**59%**	35%	**57%**	33%

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the group's business. The group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The group's exposure to these risks and the financial risk management policies and practices used by the group to manage these risks are described below.

(a) Credit risk

The group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors are due within thirty to sixty days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the group does not obtain collateral from customers. The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the balance sheet date, the group has a certain concentration of credit risk as 19% (2007: 28%) and 47% (2007: 32%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively.

In respect of deposits with banks, the group only places deposits, which are less than three months to maturity when placed with banks which meet certain credit rating criteria.

Investments are normally only entered into for long term strategic purposes.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet, after deducting any impairment provisions.

The group does not provide any guarantees which would expose the group or the company to credit risk.

(b) Liquidity risk

Individual operating entities within the group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to the approval by the parent company's board in respect of borrowings. The group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, if any, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from financial institutions to meet its liquidity requirements in the short and longer term.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the balance sheet date of the group's and the company's non-derivative financial liablities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the group and the company can be required to pay.

The group

		Total contractual undiscounted cash flow in 2008				Total contractual undiscounted cash flow in 2007		
	Balance sheet carrying amount HK$'000	**Total HK$'000**	**Within 1 year or on demand HK$'000**	**More than 1 year but within 2 years HK$'000**	Balance sheet carrying amount HK$'000	Total HK$'000	Within 1 year or on demand HK$'000	More than 1 year but within 2 years HK$'000
Bank loans	**145,692**	**(147,096)**	**(147,096)**	**–**	114,664	(117,362)	(116,576)	(786)
Trade and other payables	**198,332**	**(198,332)**	**(198,332)**	**–**	149,845	(149,845)	(149,845)	–
	344,024	**(345,428)**	**(345,428)**	**–**	264,509	(267,207)	(266,421)	(786)

The company

		Total contractual undiscounted cash flow in 2008				Total contractual undiscounted cash flow in 2007		
	Balance sheet carrying amount HK$'000	**Total HK$'000**	**Within 1 year or on demand HK$'000**	**More than 1 year but within 2 years HK$'000**	Balance sheet carrying amount HK$'000	Total HK$'000	Within 1 year or on demand HK$'000	More than 1 year but within 2 years HK$'000
Bank loans	**112,706**	**(113,135)**	**(113,135)**	**–**	59,404	(60,135)	(60,135)	–
Trade and other payables	**140,953**	**(140,953)**	**(140,953)**	**–**	96,832	(96,832)	(96,832)	–
	253,659	**(254,088)**	**(254,088)**	**–**	156,236	(156,967)	(156,967)	–

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Interest rate risk

The group's interest rate risk arises primarily from short-term borrowings. Borrowings issued at variable rates and at fixed rates expose the group to cash flow interest rate risk and fair value interest rate risk respectively. The group monitors the level of its fixed rate and variable rate borrowings and manages the contractual terms of the interest-bearing financial assets and liabilities. For this purpose the group defines "net borrowings" as being interest-bearing financial liabilities less interest-bearing investments (excluding cash held for short-term working capital purposes). The group's interest rate profile as monitored by management is set out in (i) below.

(i) The following table details the interest rate profile of the group's and the company's net borrowings (as defined above) at the balance sheet date.

The group

	2008 Effective interest rate %	**2008** HK$'000	2007 Effective interest rate %	2007 HK$'000
Fixed rate borrowings:				
Bank loans	**2.61**	**91,294**	4.93	67,445
Variable rate borrowings:				
Bank loans	**4.71**	**54,398**	7.38	47,219
Total borrowings		**145,692**		114,664
Fixed rate borrowings as a percentage of total borrowings		**62.66%**		58.82%

The company

	2008 Effective interest rate %	**2008** HK$'000	2007 Effective interest rate %	2007 HK$'000
Fixed rate borrowings:				
Bank loans	**2.42**	**89,453**	4.55	54,604
Variable rate borrowings:				
Bank loans	**2.50**	**23,253**	5.40	4,800
Total borrowings		**112,706**		59,404
Fixed rate borrowings as a percentage of total borrowing		**79.37%**		91.92%

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the group's loss after taxation and decreased/increased the group's retained profits by approximately HK$1,219,000 (2007: HK$888,000). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the group's loss after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the group which expose the group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the group at the balance sheet date, the impact on the group's loss after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis has been performed on the same basis for 2007.

The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

(d) Currency risk

(i) The group is exposed to foreign currency risk primarily through sales, purchases and cash balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars ("USD"), Renminbi Yuan ("RMB") and Japanese Yen ("JPY").

As the HKD is pegged to the USD, the company does not expect any significant movements in the USD/HKD exchange rate.

The group's operations outside Hong Kong do not undertake significant transactions in a currency other than their respective functional currencies. Funds are retained by the operations outside Hong Kong for use within the respective operations.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Currency risk *(Continued)*

(i) *(Continued)*

The following table details the group's and the company's exposure at the balance sheet date to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

The group	**2008**			2007		
	United States dollars '000	**Renminbi Yuan '000**	**Japanese Yen '000**	United States dollars '000	Renminbi Yuan '000	Japanese Yen '000
Trade and other receivables	**18,242**	**1,014**	**37**	11,289	–	228
Cash and cash equivalents	**9,211**	**548**	**38,901**	7,807	1,800	2,854
Bank loans	**(5,000)**	**–**	**–**	(3,400)	–	–
Trade and other payables	**(4,025)**	**(13,265)**	**(2,928)**	(532)	(18,654)	(1,749)
Net exposure arising from recognised assets and liabilities	**18,428**	**(11,703)**	**36,010**	15,164	(16,854)	1,333
Hong Kong dollars equivalent	**142,836**	**(13,226)**	**3,097**	18,309	(18,033)	93

The company	**2008**			2007		
	United States dollars '000	**Renminbi Yuan '000**	**Japanese Yen '000**	United States dollars '000	Renminbi Yuan '000	Japanese Yen '000
Trade and other receivables	**17,938**	**35,724**	**–**	10,322	47,645	228
Cash and cash equivalents	**5,062**	**541**	**424**	4,070	1,228	1,163
Bank loans	**(5,000)**	**–**	**–**	(3,400)	–	–
Trade and other payables	**(14,374)**	**(13,277)**	**(3,720)**	(9,064)	(18,668)	(288)
Net exposure arising from recognised assets and liabilities	**3,626**	**22,988**	**(3,296)**	1,928	30,205	1,103
Hong Kong dollars equivalent	**28,107**	**25,977**	**(283)**	15,042	32,319	77

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the group's loss after taxation (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

The group	**2008**		2007	
	Increase/ (decrease) in foreign exchange rates	**Effect on loss after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and retained profits
Renminbi Yuan	**10%**	**(1,104)**	10%	(1,488)
	(10)%	**1,104**	(10)%	1,488
Japanese Yen	**10%**	**253**	10%	6
	(10)%	**(253)**	(10)%	(6)

The company	**2008**		2007	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
Renminbi Yuan	**10%**	**2,169**	10%	2,666
	(10)%	**(2,169)**	(10)%	(2,666)
Japanese Yen	**10%**	**(24)**	10%	6
	(10)%	**24**	(10)%	(6)

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Currency risk *(Continued)*

(ii) ***Sensitivity analysis*** *(Continued)*

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' loss after taxation and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the group which expose the group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the group's presentation currency. The analysis is performed on the same basis for 2007. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date.

(e) Fair values

All significant financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007.

(f) Fair value estimation

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

28 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2008 not provided for in the financial statements were as follows:

	2008 **HK$'000**	2007 HK$'000
Contracted for	**4,960**	13,863

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

	2008 **HK$'000**	2007 HK$'000
Within 1 year	**17,158**	15,329
After 1 year but within 5 years	**18,495**	11,212
	35,652	26,541

The group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

29 CONTINGENT LIABILITIES

During the year ended 31 December 2008, a United States company commenced a lawsuit in the State of Texas against the company on the grounds that the company infringed their patent by selling, offering for sale, distributing and importing infringing goods (the "Litigation"). The plaintiff sought an award of damages, no less than a reasonable royalty, attorney's fee, costs and expenses incurred in the Litigation.

Having considered the Litigation with the company's various legal counsels, the management and the board of directors believed that the company's opposition to the plaintiffs' complaint, as well as the company's defences and appeal rights, were meritorious.

On 25 September 2008, the courts entered an interlocutory order of summary judgement of no infringement, and accordingly, no provision has been recorded in the financial statements as at 31 December 2008 in respect of the claim under this litigation. The company has issued a counter claim alleging various matters. In accordance with paragraph 92 of Hong Kong Accounting Standard 37 ("HKAS 37"). *Provisions, Contingent liabilities and contingent assets,* it would be against the interests of the company to make further disclosure of the information required by HKAS 37.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

30 MATERIAL RELATED-PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the group entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel of the group, including amounts paid to the company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2008 HK$'000	2007 HK$'000
Short-term employee benefits	**7,814**	10,626

Total remuneration is included in "staff costs" (see note 5(b)).

	2008 HK$'000	2007 HK$'000
(b) Sales of goods to:		
— ultimate holding company	**—**	72
— a fellow subsidiary	**1,651**	505
— an associate	**327**	732
— a related company	**—**	1,824
(c) Purchase of goods from:		
— a fellow subsidiary	**—**	8,965
— an associate	**14,505**	6,861
(d) Commission received/receivable from:		
— a fellow subsidiary	**3,671**	341
(e) Interest received/receivable from:		
— a fellow subsidiary	**—**	369
(f) Rental paid/payable to:		
— ultimate holding company	**2,595**	3,146
(g) Processing fees received/receivable from:		
— a fellow subsidiary	**—**	646
(h) Processing fees paid/payable to:		
— an associate	**5,921**	7,345
(i) Sales of leasehold land and land use right and property, plant and equipment to:		
— ultimate holding company	**—**	262
— a fellow subsidiary	**—**	9,126

Note: The above transactions were conducted in accordance with the terms of the respective contracts.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

31 NON-ADJUSTING POST BALANCE SHEET EVENT

(i) On 9 January 2009, a wholly owned subsidiary of the company entered into an agreement with a third party pursuant to which the subsidiary conditionally agreed to dispose of property comprising a land of approximately 48,000 square meters and certain buildings with total area of approximately 43,600 square meters situated at Liutai Lukou, Banmao Road, Banqiao Jiedaoban, Taicang City, Jiangsu Province, the PRC ("the Land") for a total consideration of RMB53,000,000 (equivalent to HK$59,360,000). RMB15,000,000 (equivalent to HK$16,800,000) of the total consideration is payable on 30 January 2009, while the remainder is payable by seven monthly instalments commencing in February 2009 of RMB5,000,000 (equivalent to HK$5,600,000) and a final instalment of RMB3,000,000 (equivalent to HK$3,920,000) in September 2009.

The carrying amount of the Land in the consolidated balance sheet as at 31 December 2008 was RMB35,844,000 (equivalent to HK$40,150,000).

(ii) As disclosed in note 17(i), subsequent to the year end on 15 January 2009, the company redeemed the long-term structured deposit for total proceeds of HK$78,000,000.

32 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to better reflect the nature of the transactions and to conform with the current year's presentation, as follows:

(i) bank interest income of HK$3,116,000 for the year ended 31 December 2007 was reclassified from 'Finance costs' to 'Other revenue'; and

(ii) cash and cash equivalents amounting to HK$107,222,000 as at 31 December 2007 was reclassified as 'unallocated assets' for the purposes of the segment information disclosure.

33 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2008, the directors consider the immediate parent and ultimate controlling party of the group to be C&H Co., Ltd., which is incorporated in the Republic of Korea. This entity does not produce financial statements available for public use.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

34 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 23, 24 and 27 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations, fair value of share options granted and financial instruments respectively. Other key areas of estimation uncertainty are as follows:

(a) Impairment of fixed assets

If circumstances indicate that the carrying value of fixed assets may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, *Impairment of assets*. The carrying amounts of fixed assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount is reduced to recoverable amount. The recoverable amount of fixed assets is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the group's asset are not available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(b) Impairment of intangible assets

The group performs an annual review at each balance sheet date to identify indications that there has been an impairment of intangible assets. If any such indications are identified, the recoverable amount is determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the relevant cash-generating unit, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(c) Impairment of receivables

Receivables that are measured at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is a change in the objective evidence of impairment in relation to the debtors, the actual impairment loss would be higher or lower than the allowance for doubtful debts recognised in the financial statements.

(d) Write down of inventories

The group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analyses, projections of, expected future saleability of goods and management experience and judgement. Based on this review, a write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in customers' preferences, actual saleability of goods may be different from estimation and the income statement in future accounting periods could be affected by differences in this estimation.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

34 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(e) Taxation and indirect taxes and duties

Determining the provision for income tax, indirect taxes and duties involves judgement, including the interpretation and application of tax and other legislation, on the future treatment of certain transactions. The group carefully evaluates the tax and other implications of transactions and provisions are set up accordingly. The treatment of such transactions is reconsidered periodically to take into account all changes in, including interpretation of, tax and other legislation. Where the final outcome of these transactions is different from the amounts that were initially recorded, such differences will impact provisions in the year in which such determination is made.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in a restatement of the group's or the company's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

		Effective for accounting periods beginning on or after
HKFRS 8	Operating segments	1 January 2009
HKAS 1 (revised 2007)	Presentation of financial statements	1 January 2009
HKAS 23 (revised)	Borrowing costs	1 January 2009

FIVE YEAR FINANCIAL SUMMARY

	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Results					
Turnover	1,158,107	1,040,444	1,084,357	946,328	**1,048,589**
Profit/(loss) from operations	62,869	(30,367)	(117,732)	(12,067)	**(29,658)**
Finance costs	(830)	(3,339)	(4,842)	(8,132)	**(6,888)**
Share of losses of associates	(142)	652	(237)	(16)	**(509)**
Profit/(loss) before taxation	61,897	(33,054)	(122,811)	(20,215)	**(42,892)**
Income tax (expense)/credit	(12,846)	(3,416)	(8,673)	11,986	**(13,427)**
Profit/(loss) for the year	49,051	(36,470)	(131,484)	(8,229)	**(56,319)**
Attributable to:					
— Equity shareholders of the company	49,051	(36,348)	(129,671)	(4,831)	**(41,929)**
— Minority interests	—	(122)	(1,813)	(3,398)	**(14,390)**
Profit/(loss) for the year	49,051	(36,470)	(131,484)	(8,229)	**(56,319)**
Earnings/(loss) per share					
Basic	HK7.34¢	HK(5.44)¢	HK(19.40)¢	HK(0.72)¢	**HK(6.27)¢**
Diluted	N/A	N/A	N/A	N/A	**N/A**

FIVE YEAR FINANCIAL SUMMARY *(Continued)*

	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008 HK$'000**
Assets and liabilities					
Fixed assets	120,442	158,359	216,046	197,175	**193,329**
Intangible assets	102,739	112,659	17,268	16,623	**12,516**
Investments in associates	809	1,483	1,298	1,373	**950**
Other financial assets	88,022	71,670	71,054	76,284	**—**
Deferred tax assets	5,122	7,460	3,180	3,826	**503**
Net current assets	328,144	217,877	152,974	166,647	**178,377**
Total assets less current liabilities	645,278	569,508	461,820	461,928	**385,675**
Deferred tax liabilities	(926)	(741)	(322)	(248)	**—**
Other non-current liabilities	(40,363)	(10,820)	(19,387)	(11,469)	**(6,978)**
NET ASSETS	603,989	557,947	442,111	450,211	**378,697**