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

Dream International Limited

2011 Annual Report 年報


Dream
International
Limited

Contents

Corporate Information 3
Chairman's Statement 4
Management Discussion and Analysis 6
Directors and Senior Management 9
Report of the Directors 11
Corporate Governance Report 21
Independent Auditor's Report 28
Consolidated Income Statement 29
Consolidated Statement of Comprehensive Income 30
Consolidated Balance Sheet 31
Balance Sheet 33
Consolidated Statement of Changes in Equity 34
Consolidated Cash Flow Statement 35
Notes to the Consolidated Financial Statements 36
Five Year Financial Summary 118

Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr Kyoo Yoon CHOI *(Chairman and executive director)*
Mr Young M. LEE
(Vice President and Chief Financial Officer)
Mr James Chuan Yung WANG
Mr Hyun Ho KIM

Independent non-executive directors

Professor Cheong Heon YI
Professor Byong Hun AHN
Mr Tae Woong KANG

AUDIT COMMITTEE

Professor Cheong Heon YI *(Chairman)*
Professor Byong Hun AHN
Mr Tae Woong KANG

REMUNERATION COMMITTEE

Professor Byong Hun AHN *(Chairman)*
Professor Cheong Heon YI
Mr Tae Woong KANG
Mr Young M. LEE

NOMINATION COMMITTEE

Mr Tae Woong KANG *(Chairman)*
Professor Cheong Heon YI
Professor Byong Hun AHN
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

Citibank, N.A.
Shinhan Bank
Bank of China

SHARE REGISTRAR

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

FINANCIAL RELATIONS CONSULTANT

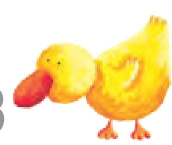
Strategic Financial Relations Limited
Unit A, 29/F., Admiralty Centre I
18 Harcourt Road, Hong Kong

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

Kyoo Yoon Choi
Chairman

Dear Shareholders,

After an exceptional year in 2010, a series of unanticipated crises hit the global toy industry in 2011 as well as the performance of Dream International Limited (the "Company") and its subsidiaries (collectively the "Group"). The 311 earthquake and tsunami in Japan and the sovereign debt crises in Europe during the second half of the year weakened the economies in Japan, Europe and the US as well as dampened consumer confidence. On the operations front, the expected continuously rising labour and raw material cost, together with Renminbi appreciation combined to present challenges for the Group. Moreover, a large order from a Brazilian client was postponed due to the client's adjusted promotion programme. As the largest plush stuffed toy manufacturer in the world, the Group demonstrated great resilience amidst adversity, overcoming challenges and still managing to deliver reasonable financial results amidst the economic volatility during the year under review.

Early in 2004, the management already foresaw potential challenges and took decisive action to restructure our business model to alleviate the incessant cost pressure. Apart from streamlining the business structure and workforce to enhance overall efficiency, we relocated our production to inland China and Vietnam, both of which offer a lower production cost. The latter also helps diversify our production base and enjoys less pressure on currency appreciation. The solid foundation built over past years has enabled Dream International Limited to maintain its industry leading position and overcome economic difficulties during the past years. In particular, in the second half of 2011, the credit tightening measures within China affected the toy industry, consequently leading to acceleration of industry consolidation that eliminated weaker players. Supported by our broad customer base and healthy financial position, we were able to take advantage of this opportunity to secure more orders to achieve further growth.

Under an unfavourable macroeconomic environment, our strategies were to continuously nurture the relationship with existing customers and proactively seek new opportunities. We successfully secured more cartoon characters from Korea and Japan to create a more diversified income stream. We also made progress to restart the delivery of the delayed order from a Brazilian client through setting a more concrete schedule. Benefitting from our good relationship with existing customers who are owners and licensors of world-renowned characters, we were consigned to start a new product line – plastic figures – to enrich our product mix, and a pilot factory for this business started operation during the year. The new business is expected to be a new growth engine for the Group in the near future.

Looking ahead, the market in Japan is on the way to recovery while the US economy is improving with the lower unemployment rate that stimulates consumer sentiment. Both

of these trends bode well for some of the largest markets of the toy industry. However, the EURO zone sovereign debt crisis continues to be a critical variable for the world economy at large. Facing uncertainties and opportunities, we are committed to devote more efforts to lay a solid foundation in the coming year for future growth.

The toy sector is a well-developed industry. As the world's largest plush toy manufacturer, we strive to maximise the current opportunities while exploring new ones. In terms of markets, with a strong foothold in the US, Europe and Japan - the traditional toy markets, we have also targeted emerging economies. We have been seeking to penetrate the PRC market for some years and have achieved an encouraging breakthrough in tapping the high-end market. In addition, we secured orders from a Brazilian customer in the past two years, and we are also closely monitoring other emerging markets such as Russia to enlarge our geographical footprint. As for the product mix, apart from the soon-to-debut plastic figures, we are studying the feasibility of other new product categories, such as educational toys. With a strong customer base, we recognise our potential advantages to cross-sell new products to existing customers and we will exploit this potential.

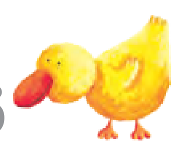
To support our business expansion strategy, we are determined to fully ramp up our production in Vietnam to be prepared for these business opportunities. We are currently constructing a new plant in addition to its three existing facilities there. The current production site in Vietnam has been designed to accommodate expansion when necessary. The flexible arrangement with our network of subcontractors also allows us to supplement our internal production capabilities whenever that is necessary.

With a commitment to deliver the best quality of toys that the market expects and a clear development roadmap, we are confident that Dream International Limited not only can maintain its leading position in the toy industry, but also achieve sustainable growth in the medium to long term.

APPRECIATION

On behalf of the board, I would like to take this opportunity to thank the management team and staff for their dedication and contributions, which have helped the Group to overcome unexpected crises and subsequently realise reasonable results during the year. I would also like to extend my gratitude to our shareholders, business partners and customers for their trust and unwavering support.

Kyoo Yoon Choi
Chairman
23 March 2012



Management Discussion & Analysis

FINANCIAL REVIEW

In 2011, unanticipated challenges emerged and hit the global toy industry as well as the Group which had achieved a record-breaking year in 2010. The global economy was struggling through the turmoil spurred from the European sovereign debt crisis and Japan, a major market of the Group, was struck by the 311 earthquake and tsunami during the first quarter of the year. These adverse factors, in addition to the delay of an order from a Brazilian customer during the year, inevitably led to less satisfactory financial results for the Group during the year under review.

Nonetheless, leveraging an established operational foundation and its leading position in the industry, the Group managed to maintain its business scale and record fair profitability. For the year ended 31 December 2011, the Group's turnover reached HK$1,083.2 million (2010: HK$1,544.9 million). Gross profit amounted to HK$262.7 million (2010: HK$465.5 million), with gross margin at 24.3% (2010: 30.1%). The decrease in gross margin was partly attributable to the Group's shift of focus back to its non-licensing business in response to strong demand in its OEM business. Notwithstanding the decreased sales, the Group still recorded an operating profit of HK$87.9 million (2010: HK$215.0 million), while net profit attributable to equity shareholders was HK$74.7 million (2010: HK$199.6 million).

The Group maintained a healthy financial position with cash and time deposits of HK$215.1 million (31 December 2010: HK$277.5 million) as at 31 December 2011.

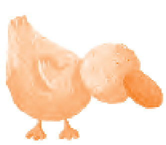
BUSINESS REVIEW

Product Analysis

Plush stuffed toys segment

During the year under review, the plush stuffed toys business recorded a turnover of HK$1,002.8 million, accounting for 92.6% of the Group's total turnover. Original Equipment Manufacturing ("OEM") and the licensed character business remained the core business of the Group, representing 86.5% of plush stuffed toys' sales. Although OEM sales were dragged down by the earthquake in Japan in 2011, in addition to strengthened ties with owners and licensors of the brands of iconic characters, the Group managed to secure orders from more cartoon characters from Korea and Japan to diversify its customer base.

The Original Design Manufacturing ("ODM") business achieved a turnover of HK$135.3 million, which accounted for 13.5% of plush stuffed toys' sales. Overall ODM sales dropped as the Group's shipment schedule of the second order from a globally renowned Brazilian consumer brand was unexpectedly delayed. After negotiation, the Group confirmed a more concrete shipment schedule with the client at the end of 2011. Benefitting from the improving market conditions and consumer sentiment in the US, the world's largest toy market, the volume of orders received from renowned mass US retailers for the "CALTOY" brand increased steadily during the year under review.



Management Discussion & Analysis

BUSINESS REVIEW *(Continued)*

Product Analysis *(Continued)*

Plush stuffed toys segment *(Continued)*

To enhance the profit margin, the Group planned to introduce its own brand "Dream, Made to Love, Made to Hug" targeted at the high-end toy market. The test-marketing for the brand at the New York Fair in February 2012 received an encouraging response and more promotion will be launched during 2012.

Ride-on toys segment (formally known as steel and plastic toys segment)

For the year ended 31 December 2011, sales from the ride-on toys segment were HK$78.4 million, accounting for 7.2% of the Group's total turnover. To focus on products with higher selling prices and profit margins, the Group restructured the customer mix which led to the decline in the sales during the year.

The Group continued to improve the design and functionality of a new concept swing scooter that has been sent to several customers and has received preliminary positive market response. The swing scooter is expected to be launched by the second half of 2012 in the US as well as Europe.

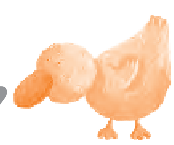
In China, to enjoy better business terms and sales performance, the Group initiated restructuring of the sales network for its "Great" and "Far Great" branded products during the year. Meanwhile, noticing the promising gradual increase in the sales of a new tricycle product line for a Japanese client to tap the high-end market in China, the Group is introducing more new designs to boost sales volume. The Group has also introduced ride-on products for the Tom and Jerry characters in the country, which have helped to broaden its revenue streams.

Market Analysis

For the year ended 31 December 2011, the Group's sales in most major regions remained stable except in Japan which was severely affected by the natural disasters in March 2011. Nonetheless, Japan remained the Group's largest market, contributing 42.9% of the Group's total turnover. North America gradually regained consumer confidence during the year, accounting for 36.4% of the Group's total turnover, followed by the European market at 18.5%.

Operational Analysis

As at 31 December 2011, the Group operated seven plants in total, four of which were in China and three in Vietnam, running at a utilisation rate at about 70%. To prepare for the launch of the plastic figures business, as well as realise better production efficiency and cost effectiveness, apart from a pilot factory already in operation in 2011, the Group has commenced construction of the first phase of another plant in Hanoi, Vietnam, which will commence operation in mid-2012. The first phase of this plant is to operate at full production capacity that can generate an annual turnover of US$20 million by the end of 2012.



Management Discussion & Analysis

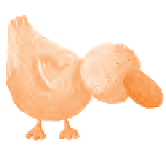
PROSPECTS

The global economy is still affected by the uncertainties related to the European sovereign debt crisis despite the gradual recovery of the US. Together with rising manufacturing costs, including risk of higher oil prices, increasing labour costs in China combined with the possible appreciation of the Renminbi, these factors pose potential challenges to the entire toy manufacturing industry. Amidst the difficult operating environment, a growing number of toy manufacturers were forced to leave the market. However, the ongoing market consolidation as well as the recovering market in Japan creates opportunities for large-scale toy manufacturers such as Dream International Limited.

As the world's largest plush toy manufacturer, the Group continues to actively seek new business opportunities to sustain growth momentum. To tap the business potential presented by changing market trends, the Group is diversifying its product mix by launching a new product line of plastic figures in the second half of 2012. The plastic figures segment is expected to be a powerful growth engine in the mid-to-long term, leveraging the Group's close partnership with world renowned toy brands as well as synergies in sourcing and manufacturing. The Group is also exploring other potential opportunities, such as introducing new product categories and entering new markets.

To provide sufficient backend support for growth, apart from the expanding production base in Vietnam, the Group will continue to leverage the flexibility derived from its dual production strategy using self-owned production plants in China and Vietnam for a majority of orders while employing subcontractors when flexibility or added capacity is called for.

The Group will strive to lay a foundation for future business development with profitability and efficiency as prime objectives. Guided by prudent strategic planning by making the most of its strong competitive advantages, the Group is confident of achieving further growth and maximising returns for its shareholders.



Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Kyoo Yoon Choi, aged 63, 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 56, is the Vice President 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.

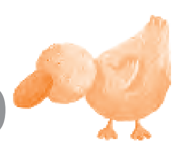
Mr James Chuan Yung Wang, aged 50, is the managing director of Dream International USA, Inc. He joined Dream International USA, Inc. on 1 July 1991 and has been in charge of the Group's marketing function in the US. Mr Wang graduated from the University of California, Los Angeles, with a bachelor's degree 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 46, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Cheong Heon Yi, aged 47, 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 is currently teaching financial accounting and reporting and financial statement analysis in the Accountancy Faculty of the Hong Kong City University. He was appointed as the Company's independent non-executive director on 22 November 2003.

Professor Byong Hun Ahn, aged 65, 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.



Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr Tae Woong Kang, aged 51, received his bachelor's degree in Business from Swinburne University of Technology and master's degree in Commerce from The University of Melbourne in Australia. He is a CPA member of the CPA Australia. Mr Kang is the Vice-President of Highpoint Limited, a Hong Kong consulting company providing advisory services on business and MD&A issues. Before joining Highpoint Limited, Mr Kang had extensive experience in the area of financial management and business restructuring in Hong Kong and Korea.

SENIOR MANAGEMENT

Mrs Shin Hee Cha, aged 57, the President of Dream Inko Co., Ltd. Mrs Cha joined C & H Co., Ltd in 1984 and has been in charge of the sales and marketing function of the Group. Mrs Cha was an executive director of the Company from 2006 to 2007 and relocated to Dream Inko Co., Ltd since 2007. She is the younger sister-in-law of Mr Kyoo Yoon Choi.

Mr Sung Sik Kim, aged 60, the President of Dream Vina Co., Ltd. Mr Kim has been working in the administration of C & H Korea and the Group since 1985 and is in charge of cost control within the Group. Mr Kim was an executive director of the Company from 1998 to 2003 and relocated to C & H Korea until 2010.

Mr Dong Wook Cha, aged 51, 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 of the Company (the "Directors") have pleasure in submitting their annual report with the audited financial statements for the year ended 31 December 2011.

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 toys, ride-on toys and plastic figures and investment holding. The principal activities and other particulars of the subsidiaries are set out in note 19 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 15 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2011 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 29 to 117.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$74,723,000 (2010: HK$199,597,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

No interim dividend was paid (2010: HK2 cents per share) for the six months ended 30 June 2011.

The Directors did not recommend payment of final dividend (2010: HK4 cents per share) in respect of the year ended 31 December 2011.

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	30.7%	
Five largest customers in aggregate	76.9%	
The largest supplier		5.1%
Five largest suppliers in aggregate		21.2%

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.

Report of the Directors

CONNECTED TRANSACTIONS

During the year, the Group has entered into connected transactions and continuing connected transactions 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

(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.

The board of directors of the Company (the "Board") has received from its auditor a letter confirming that the continuing connected transactions (the "Transactions"):

(i) have been approved by the Board;

(ii) for those transactions that involve provision of goods or services by the Group, the Transactions were, in all material respects, in accordance with the pricing policies of the Company;

(iii) were entered into, in all material respects, in accordance with the relevant agreements governments governing such transactions; and

(iv) have not exceeded the maximum aggregate annual value disclosed in the relevant announcement made by the Company in respect of each transaction.

During the year, the details of the continuing connected transaction, which was exempt from the approval of independent shareholders of the Company 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 1 June 2010, the Group entered into a property lease agreement with C & H Co., Ltd for Dream Inko Co., Ltd's principal place of business in Seoul, the Republic of Korea. The property lease agreement is renewable upon its expiry in July 2013. 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 2011, the rent and administrative expenses paid amounted to HK$2,896,000 (2010: HK$2,647,000).

Report of the Directors

CONNECTED TRANSACTIONS *(Continued)*

Besides, details of the following transactions with C & H Korea Group were approved by independent shareholders of the Company on 23 July 2010:

(1) The Supply Agreement entered into between the Company and C & H Co., Ltd, which the Company agreed to sell various types of toy products for the period of three years ending 31 December 2012; and

(2) The Commission Agreement entered into between the Company and C & H Co., Ltd, which the Company agreed to receive and process payment of products sold by C & H Korea Group to its customers for the period of three years ending 31 December 2012.

Relevant details of the above connected transactions were set out in the announcement and circular of the Company dated 1 June 2010 and 22 June 2010 respectively published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.dream-i.com.hk.

Details of other connected or related party transactions are set out in note 34 to the financial statements.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2011, the Company has fully complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules.

FIXED ASSETS

Details of the movements in fixed assets during the year are set out in notes 8 and 17 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 30(c) to the financial statements. There were no movements during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

Report of the Directors

DIRECTORS

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

Chairman and executive director

Mr Kyoo Yoon Choi

Executive directors

Mr Young M. Lee
Mr James Chuan Yung Wang
Mr Hyun Ho Kim

Independent non-executive directors

Professor Cheong Heon Yi
Professor Byong Hun Ahn
Mr Tae Woong Kang

The biographical details of the Directors are set out under the section “Directors and Senior Management” of this Annual Report.

In accordance with Article 101 of the Articles of Association, Mr Kyoo Yoon Choi, Mr Young M. Lee and Mr James Chuan Yung Wang shall retire by rotation, and being eligible, offer themselves for re-election at the Annual General Meeting.

DIRECTORS’ SERVICE CONTRACTS

The service contract of Professor Cheong Heon Yi, independent non-executive director, was renewed by the Board on 21 November 2011 for a term of two years commencing on 22 November 2011.

The service contract of Professor Byong Hun Ahn, independent non-executive director, was renewed by the Board on 30 May 2010 for a term of two years commencing on 30 May 2010.

Mr Tae Woong Kang, independent non-executive director, was appointed by the Board on 20 August 2010 for a term of two years commencing on 20 August 2010.

Their remuneration is determined by the Board 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.

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 2011 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 Listing Issuers (the "Model Code"):

(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	1,000	–	455,000,000 (Note 2)	455,001,000	67.69%
– Young M. Lee	2,500,000	–	–	2,500,000	0.37%
– James Chuan Yung Wang	520,000	–	–	520,000	0.08%
C & H Co., Ltd					
– Kyoo Yoon Choi	189,917	124,073 (Note 3)	–	313,990	61.95%

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 37.47% of the issued share capital of C & H Co., Ltd and together with his wife, Woul Hee Cha, hold approximately 61.95% 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 24.48% of the issued share capital of C & H Co., Ltd.

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, none of the directors and chief executives of the Company or any of their spouses or children under 18 years of age has any interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept pursuant to Section 352 of the SFO or as 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 2011 was 42,835,000 shares (2010: 42,835,000 shares) (including options for 4,900,000 shares that have been granted but not yet lapsed or exercised) which represented 6.37% of the issued share capital of the Company at 31 December 2011. 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 2011, 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.

SHARE OPTION SCHEME *(Continued)*

	Date granted	Period during which options exercisable (Note 1)	Exercise price per share	Number of options: Balance at 1 January 2011	Granted during the year	Cancelled during the year (Note 2)	Balance at 31 December 2011
Directors:							
Young M. Lee	23 December 2011	23 December 2013 to 22 December 2016	HK$0.466	–	200,000	–	200,000
James Chuan Yung Wang	23 December 2011	23 December 2013 to 22 December 2016	HK$0.466	–	200,000	–	200,000
Hyun Ho Kim	23 December 2011	23 December 2013 to 22 December 2016	HK$0.466	–	150,000	–	150,000
Employees in aggregate:	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	260,000	–	(260,000)	–
	2 January 2004	2 January 2005 to 2 January 2014	HK$1.87	6,000,000	–	(6,000,000)	–
	23 December 2011	23 December 2013 to 22 December 2016	HK$0.466	–	4,350,000	–	4,350,000
				6,260,000	4,900,000	(6,260,000)	4,900,000

Notes:

(1) The maximum percentage of the share options granted on 7 February 2002 and 2 January 2004 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%

Share options granted on 23 December 2011 shall be wholly exercisable from the 2nd anniversary of the date of grant.

(2) These 6,260,000 shares options related to five employees were cancelled by 31 December 2011.

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

The life of the share options granted on 7 February 2002 and 2 January 2004 is ten years commencing on the date on which an option is granted in accordance with the scheme.

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

The life of share options granted on 23 December 2011 is five years commencing on the date on which an option is granted in accordance with the scheme.

Apart from the foregoing, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31 December 2011, the Company has been notified of the following interests in the Company's issued shares at 31 December 2011 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	56.96%
Uni-Link Technology Limited	Beneficial owner	72,150,000	10.73%

Kyoo Yoon Choi, being a director of C & H Co., Ltd, together with his wife, Woul Hee Cha, hold approximately 61.95% of the issued share capital of C & H Co., Ltd and Kyoo Yoon Choi beneficially owns 100% of the issued share capital of Uni-Link Technology Limited. Kyoo Yoon Choi is considered to have deemed interests in the 455,001,000 ordinary shares as to approximately 67.69% of the issued shares of the Company. James Chuan Yung Wang, being a director of the Company, is also a director of Uni-Link Technology Limited.

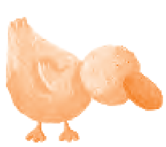
Save as disclosed above, as at 31 December 2011, the Company is not aware of any other registered substantial shareholder who holds 5% or more of the issued share capital of the Company.

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 34 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.



Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2011, C & H Korea Group, as set out below, is principally engaged in the business of property investment in Seoul, the Republic of Korea, leather goods and accessories agency, fabric and textile manufacturing and investment holding in the PRC, Vietnam and Sri Lanka through its wholly-owned subsidiaries C & H Creative Co., Ltd, C & H Vina Co., Ltd, Vina Tarpaulin Inc. and C & H Lanka (Private) Ltd. Mr Kyoo Yoon Choi is deemed to be interested in these businesses, some of which may compete with the Group's businesses as he is a shareholder and a director of C & H Co., Ltd.

Name of company	Nature of competing business	Remarks
C & H Lanka (Private) Ltd. ("C & H Lanka")	C & H Lanka is a wholly-owned subsidiary of C & H Co., Ltd. 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 G.J. David & P.E.A. Jayawickreme of SJMS 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.

The transactions with the above companies are set out in the paragraph headed "Connected transactions" and note 34 to the financial statements.

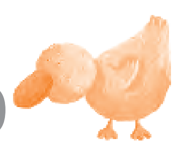
Note: In relation to the listing of the Company's shares on the Main Board of the SEHK, C & H Co., Ltd entered into a Deed of Undertaking in favour of the Company to the effect that for so long as C & H Co., Ltd and its associates are beneficially interested, directly or indirectly, whether individually 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 Taiwan, other areas of the PRC, 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 2011 are set out in note 26 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 118 of the annual report.



Report of the Directors

RETIREMENT SCHEMES

The Group operates a defined benefit retirement scheme which covers 0.8% of the Group's employees and a Mandatory Provident Fund Scheme.

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 27 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 TRANSACTIONS

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 enquires 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 annual results for year ended 31 December 2011.

AUDITORS

KPMG 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, 23 March 2012

Corporate Governance Report

The board of directors of the Company (the "Board") is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2011.

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 better transparency and accountability of a high standard of corporate governance.

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 the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") (the "Listing Rules") during the year ended 31 December 2011.

In view of the latest amendments to the Listing Rules and the CG Code, the Board has taken actions and measures to ensure that the Company is in all aspects in strict compliance.

DIRECTORS' SECURITIES TRANSACTIONS

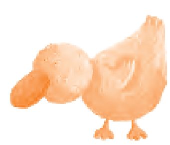
The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. The Company has made specific enquiry to all directors, and all directors have confirmed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

BOARD OF DIRECTORS

The principal functions of the Board are to supervise 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 independent non-executive directors ("INEDs") is to bring an independent and objective view to the Board's deliberations and decisions. Professor Byong Hun Ahn is the director of the Corporate Social Responsibility Research Center of Korea Advanced Institute of Science and Technology. Professor Cheong Heon Yi is currently teaching financial accounting and reporting and financial statement analysis in the Accountancy Faculty of the Hong Kong City University and Mr Tae Woong Kang is a member of Certified Public Accountants Australia. The Board considers all 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 are independent.

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

As at 31 December 2011, the Board consisted of four executive directors, namely Mr Kyoo Yoon Choi (Chairman), Mr Young M. Lee (Vice President and Chief Financial Officer ("CFO")), Mr James Chuan Yuan Wang and Mr Hyun Ho Kim, and three INEDs, namely Professor Cheong Heon Yi, Professor Byong Hun Ahn and Mr Tae Woong Kang (collectively the "Directors"). There is no financial, business, family or other material/relevant relationship among members of the Board.



BOARD OF DIRECTORS *(Continued)*

The Board will conduct meetings on a regular basis and on an ad hoc basis so far as the business required. The Board held a total of fourteen 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.

Directors' attendance at the board meetings held during the year is set out below:

Name of director	**Number of attendance/ meetings held**
Kyoo Yoon Choi *(Chairman)*	1/14
Young M. Lee	14/14
James Chuan Yung Wang	3/14
Hyun Ho Kim	9/14
Cheong Heon Yi	9/14
Byong Hun Ahn	8/14
Tae Woong Kang	9/14

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 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 opportunities and 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 INEDs 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, Remuneration and Nomination Committees formed by the Board.

All of the INEDs are appointed for a term of two years and are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

DELEGATION BY THE BOARD *(Continued)*

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.

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.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

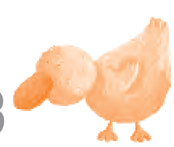
The post of Chairman and CEO are separated and are not held by the same individual to ensure their independence, accountability and responsibility. The Chairman of the Board, Mr Kyoo Yoon Choi, is responsible for formulating the strategic planning, business development, overall leadership and effective 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 responsible 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 Chul Hong 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.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises one executive director and three INEDs. The Remuneration Committee was formed in January 2005 and held meeting at least once a year. Three meetings were held in the year of 2011. The attendance of each remuneration committee member is set out as follows:

Name of director	Number of attendance/ meetings held
Byong Hun Ahn (Chairman)	3/3
Cheong Heon Yi	3/3
Tae Woong Kang	3/3
Young M. Lee	3/3



REMUNERATION COMMITTEE *(Continued)*

At the meetings held during the year, the retirement compensation and incentive bonus for the Directors were reviewed and discussed. The Company has 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 28 to the financial statements. The emolument payable to the 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 10 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.

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 2011, 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, 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 approach in preparing the financial statements.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS
(Continued)

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. Two 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 audit committee member is set out as follows:

Name of director	**Number of attendance/ meetings held**
Cheong Heon Yi (Chairman)	2/2
Byong Hun Ahn	2/2
Tae Woong Kang	2/2

During the year ended 31 December 2011, the Audit Committee performed the following work:

(i) reviewed the interim financial report for the six months ended 30 June 2011 and annual financial report for the year ended 31 December 2011;

(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;

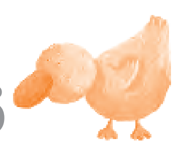
(iii) reviewed the effectiveness of internal control system;

(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 to the Board for approval of the 2011 audit scope, fee and supply of any other audit-related services; and

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



Corporate Governance Report

AUDIT COMMITTEE *(Continued)*

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 on the Group's financial control, internal control and risk management systems.

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

Under the code provision C.3.3 of the CG Code, the Audit Committee's role should include to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system, including the adequacy of resources, qualifications, and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

NOMINATION COMMITTEE

Nomination Committee was established by the Board on 23 March 2012. The Nomination Committee is primarily responsible to consider and recommend to the Board suitably qualified persons to become the member of the Board and is also responsible for reviewing the structure, size and composition of the Board on a regular basis and as required. Members of the Nomination Committee comprise Mr Tae Woong Kang (Chairman), Professor Cheong Heon Yi, Professor Byong Hun Ahn and Mr Young M. Lee.

During the financial year, no meeting was held by the Nomination Committee as the Nomination Committee was formed after the financial year.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's auditors, KPMG, is set out as follows:

Services rendered	**Fees paid/payable** HK$'000
Audit services	3,580
Other audit-related services	539
	4,119

Corporate Governance Report

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 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 2011 and the relevant review report has been submitted to the Audit Committee in March 2012 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.

During the year ended 31 December 2011, the Board has conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. The Board has not identified any major issues during their course of review.

COMMUNICATIONS WITH SHAREHOLDERS

The Board recognises the importance of good communications with all shareholders. The Company's 2011 Annual General Meeting ("AGM") is a valuable forum for the Board to communicate directly with the shareholders. The Vice President and Chief Financial Officer of the Company attended the AGM in the absence of the Chairman of the Board. Other members of the Board and the Chairman of the Audit and Remuneration Committees together with the external auditors are also present at the AGM to answer shareholders' questions.

All shareholders' circulars set out the 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.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholder 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 Company's Articles of Association.

On a poll, every shareholder present in person or by proxy or (being a corporation) by its duly authorized representative shall have one vote for each share registered in his/her name in the register of members. 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

Independent auditor's report 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") and its subsidiaries (together the "Group") set out on pages 29 to 117, which comprise the consolidated and company balance sheets as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated financial statements.

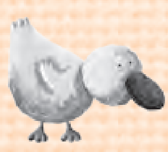
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2011 and of the Group's profit 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

23 March 2012

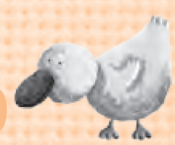


Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Turnover	3 & 15	**1,083,152**	1,544,857
Cost of sales		**(820,476)**	(1,079,378)
Gross profit		**262,676**	465,479
Other revenue	4(a)	**12,106**	14,279
Other net loss	4(b)	**(4,539)**	(535)
Distribution costs		**(45,846)**	(117,705)
Administrative expenses		**(143,638)**	(146,532)
Profit on disposal of land and buildings	8	**7,097**	–
Profit from operations		**87,856**	214,986
Finance costs	5(a)	**(1,179)**	(873)
Share of profit/(loss) of associates	20	**143**	(196)
Profit before taxation	5	**86,820**	213,917
Income tax	9	**(15,999)**	(10,958)
Profit for the year		**70,821**	202,959
Attributable to:			
Equity shareholders of the Company		**74,723**	199,597
Non-controlling interests		**(3,902)**	3,362
Profit for the year		**70,821**	202,959
Earnings per share	14		
Basic		**11.12¢**	29.83¢
Diluted		**11.12¢**	29.83¢

The notes on pages 36 to 117 form part of these consolidated financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 30(b).

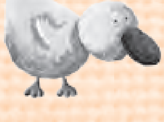


Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Profit for the year		**70,821**	202,959
Other comprehensive income for the year (after tax adjustments):	13		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**3,847**	9,001
Available-for-sale securities: net movement in the fair value reserve		**(20)**	314
		3,827	9,315
Total comprehensive income for the year		**74,648**	212,274
Attributable to:			
Equity shareholders of the Company		**77,965**	208,480
Non-controlling interests		**(3,317)**	3,794
Total comprehensive income for the year		**74,648**	212,274

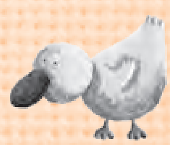
The notes on pages 36 to 117 form part of these consolidated financial statements.



Consolidated Balance Sheet

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Fixed assets	17(a)		
– Interests in leasehold land held for own use under operating leases		**22,884**	20,022
– Other property, plant and equipment		**158,686**	163,838
		181,570	183,860
Long term receivables	16(a)	**2,796**	7,231
Prepayments		**1,990**	1,992
Intangible assets	18	**12,191**	16,690
Interest in associates	20	**690**	522
Net defined benefit retirement asset	27(a)	**2,619**	–
Deferred tax assets	29(b)	**11,625**	13,625
Other financial assets	21	**23,048**	10,162
		236,529	234,082
Current assets			
Inventories	22	**231,565**	197,813
Trade and other receivables	23	**240,083**	224,085
Current tax recoverable	29(a)	**4,125**	–
Other financial assets	21	**13,339**	19,030
Time deposits	24(a)	**38,000**	16,006
Cash and cash equivalents	24(a)	**177,115**	261,534
Assets held for sale	7	**–**	2,722
		704,227	721,190
Current liabilities			
Trade and other payables	25	**201,343**	264,738
Bank loans	26	**17,900**	7,904
Current tax payable	29(a)	**9,554**	17,019
		228,797	289,661
Net current assets		**475,430**	431,529
Total assets less current liabilities		**711,959**	665,611
Non-current liabilities			
Bank loans	26	**4,924**	6,101
Net defined benefit retirement obligation	27(a)	**–**	268
Deferred tax liabilities	29(b)	**22**	–
		4,946	6,369
NET ASSETS		**707,013**	659,242



Consolidated Balance Sheet

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
CAPITAL AND RESERVES			
Share capital	30(c)	**52,303**	52,303
Reserves		**642,918**	591,830
Total equity attributable to equity shareholders of the Company		**695,221**	644,133
Non-controlling interests		**11,792**	15,109
TOTAL EQUITY		**707,013**	659,242

Approved and authorised for issue by the board of directors on 23 March 2012.

Young M. Lee
Director

Hyun Ho Kim
Director

The notes on pages 36 to 117 form part of these consolidated financial statements.

Balance Sheet

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Fixed assets	17(b)	**9,379**	7,182
Long term receivables	16(a)	**2,796**	4,665
Intangible assets	18	**362**	354
Investments in subsidiaries	19	**437,623**	409,016
Interest in associates	20	**1,248**	1,248
Deferred tax assets	29(b)	**–**	261
		451,408	422,726
Current assets			
Inventories	22	**68,099**	62,147
Trade and other receivables	23	**199,080**	182,955
Current tax recoverable	29(a)	**4,080**	–
Time deposits	24(a)	**–**	4,276
Cash and cash equivalents	24(a)	**64,791**	126,815
		336,050	376,193
Current liabilities			
Trade and other payables	25	**173,316**	199,255
Current tax payable	29(a)	**–**	4,661
		173,316	203,916
Net current assets		**162,734**	172,277
Total assets less current liabilities		**614,142**	595,003
Non-current liabilities			
Net defined benefit retirement obligation	27(a)	**1,369**	1,522
Deferred tax liabilities	29(b)	**22**	–
		1,391	1,522
NET ASSETS		**612,751**	593,481
CAPITAL AND RESERVES	30(a)		
Share capital		**52,303**	52,303
Reserves		**560,448**	541,178
TOTAL EQUITY		**612,751**	593,481

Approved and authorised for issue by the board of directors on 23 March 2012.

Young M. Lee
Director

Hyun Ho Kim
Director

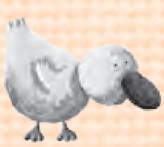
The notes on pages 36 to 117 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

		Attributable to equity shareholders of the Company										
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve fund HK$'000	Other reserve HK$'000	Exchange reserve HK$'000	Fair value reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2010		52,019	176,893	3,688	19,102	(3,062)	34,049	85	181,902	464,676	11,315	475,991
Changes in equity for 2010:												
Profit for the year		–	–	–	–	–	–	–	199,597	199,597	3,362	202,959
Other comprehensive income	13	–	–	–	–	–	8,569	314	–	8,883	432	9,315
Total comprehensive income for the year		–	–	–	–	–	8,569	314	199,597	208,480	3,794	212,274
Final dividend approved in respect of the previous year	30(b)	–	–	–	–	–	–	–	(20,056)	(20,056)	–	(20,056)
Interim dividend declared in respect of the current year	30(b)	–	–	–	–	–	–	–	(13,371)	(13,371)	–	(13,371)
Shares issued under share option scheme	30(c)	284	4,120	–	–	–	–	–	–	4,404	–	4,404
Lapse of share options		–	–	(344)	–	–	–	–	344	–	–	–
Disposal of interest in subsidiaries		–	–	–	(675)	–	(1,119)	–	1,794	–	–	–
Balance at 31 December 2010		52,303	181,013	3,344	18,427	(3,062)	41,499	399	350,210	644,133	15,109	659,242
Balance at 1 January 2011		52,303	181,013	3,344	18,427	(3,062)	41,499	399	350,210	644,133	15,109	659,242
Changes in equity for 2011:												
Profit for the year		–	–	–	–	–	–	–	74,723	74,723	(3,902)	70,821
Other comprehensive income	13	–	–	–	–	–	3,262	(20)	–	3,242	585	3,827
Total comprehensive income for the year		–	–	–	–	–	3,262	(20)	74,723	77,965	(3,317)	74,648
Final dividend approved in respect of the previous year	30(b)	–	–	–	–	–	–	–	(26,887)	(26,887)	–	(26,887)
Cancellation of share options		–	–	(3,344)	–	–	–	–	3,344	–	–	–
Equity settled share-based transactions		–	–	10	–	–	–	–	–	10	–	10
Balance at 31 December 2011		52,303	181,013	10	18,427	(3,062)	44,761	379	401,390	695,221	11,792	707,013

The notes on pages 36 to 117 form part of these consolidated financial statements.

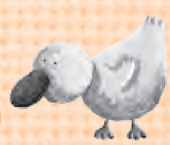


Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Operating activities			
Cash (used in)/generated from operations	24(b)	**(3,139)**	108,049
Tax paid			
– Hong Kong Profits Tax paid		**(11,721)**	(4,060)
– Tax paid outside Hong Kong		**(13,478)**	(7,246)
Net cash (used in)/generated from operating activities		**(28,338)**	96,743
Investing activities			
Payment for purchase of property, plant and equipment		**(27,897)**	(63,698)
Proceeds from the disposal of property, plant and equipment		**13,781**	918
Payment for purchase of club memberships		**(2,100)**	(3,667)
Proceeds from the disposal of club memberships		**2,132**	1,323
Payment for purchase of other financial assets		**(24,377)**	(21,359)
Proceeds received upon maturity of held-to-maturity debt securities		**–**	3,359
Proceeds from disposal of a subsidiary		**–**	4,945
Interest received		**3,439**	2,126
(Placement)/withdrawn of time deposits with maturity over three months		**(21,994)**	20,795
Proceeds received upon maturity of equity-linked deposits		**15,872**	–
Proceeds from the disposal of assets held for sale		**2,722**	–
Net cash used in investing activities		**(38,422)**	(55,258)
Financing activities			
Interest paid		**(1,179)**	(873)
Proceeds from bank loans		**22,023**	21,297
Repayment of bank loans		**(12,758)**	(63,097)
Dividend paid	30(a)	**(26,887)**	(33,427)
Proceeds from shares issued under share option scheme	30(c)	**–**	4,404
Net cash used in financing activities		**(18,801)**	(71,696)
Net decrease in cash and cash equivalents		**(85,561)**	(30,211)
Cash and cash equivalents at 1 January		**261,534**	287,761
Effect of foreign exchange rate changes		**1,142**	3,984
Cash and cash equivalents at 31 December	24(a)	**177,115**	261,534

The notes on pages 36 to 117 form part of these consolidated financial statements.



Notes to the Consolidated 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 on The Stock Exchange of Hong Kong Limited ("SEHK") (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 any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group 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 2011 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 major sources of estimation uncertainty are discussed in note 36.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling 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.

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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Loans from holders of non-controlling interests are presented as financial liabilities in the consolidated balance sheet in accordance with note 1(n).

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(e)), or when appropriate, the cost on initial recognition of an investment in an associate (see note 1(d)).

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method, and the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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 investee. For this purpose, the Group's interest 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.

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 investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(e)) or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Company's balance sheet, investments in associates are stated at cost less impairment losses (see note 1(j)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 1(j)(i)).

Investment 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(j)(i)).

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. When these investments are derecognised or impaired (see note 1(j)(i)), the cumulative gain or loss is reclassified from equity to profit or loss.

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

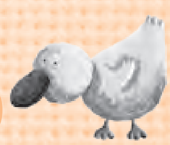
(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment

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

- freehold land and buildings;
- land classified as being 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(i)); and
- other items of plant and equipment.



1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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 and borrowing costs (see note 1(u)).

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.

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.

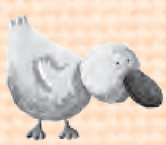
– Plant and machinery	5 – 10 years
– Other fixed assets	3 – 10 years

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.

(h) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(j)(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. Both the period and method of amortisation are reviewed annually.



1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Intangible assets *(Continued)*

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

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.

(i) 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

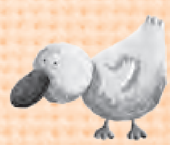
Assets that are held by group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases,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



1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets

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

Investments in debt and equity securities 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 investments in subsidiaries and associates (including those recognised using the equity method (see note 1(d))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(j)(ii).

– 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 carried at cost are not reversed.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

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

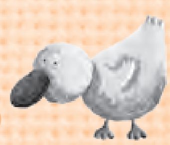
– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (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 these financial assets 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.

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.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

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.



1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(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;

– prepayments; and

– intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, 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 fair value less costs to sell 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 the 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).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if 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 first 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

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

– 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 Listing Rules, 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(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and 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. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

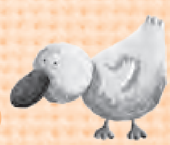
(k) Inventories

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.

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.



1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(j)(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.

(m) 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.

(n) Trade and other payables

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

(o) 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.

(p) 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 Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) 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.

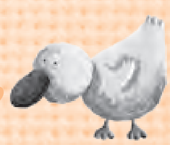
When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised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



1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits *(Continued)*

(iii) Share-based payments *(Continued)*

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting 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).

(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.

(q) 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 in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognised in other comprehensive income or directly in equity, respectively.

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.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

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.

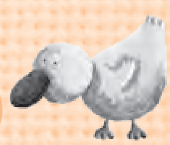
The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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



1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

- 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.

(r) 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.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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

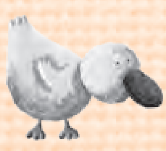
Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

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

(iii) Commission income

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



Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Translation of foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency").

The consolidated financial statements are presented in Hong Kong dollar, which is different from the Company's functional currency of United States dollar ("US dollar"). The Company has used Hong Kong dollar as its presentation currency in view of the fact that the Company's shares are listed on the SEHK.

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.

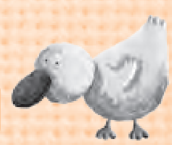
The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences relating to that operation outside Hong Kong is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.



1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(w) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties *(Continued)*

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

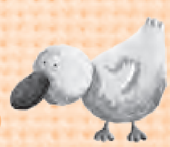
(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.



2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

– HKAS 24 (revised 2009), *Related party disclosures*

– Improvements to HKFRSs (2010)

– HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*

– Amendments to HK(IFRIC) 14, *HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendments to HK(IFRIC) 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The impacts of other developments are discussed below:

– HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

– *Improvement to HKFRSs (2010)* omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in note 31 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

3 TURNOVER

The principal activities of the Group are the design, development, manufacture and sale of plush stuffed toys, ride-on toys and plastic figures. 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

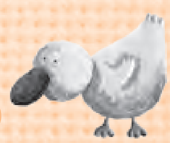
4 OTHER REVENUE AND NET LOSS

(a) Other revenue

	2011 HK$'000	2010 HK$'000
Bank interest income	**2,449**	1,368
Interest income from other financial assets	**990**	758
Commission income from a fellow subsidiary	**3,115**	3,819
Compensation claimed (note 16)	**–**	4,191
Sundry income	**5,552**	4,143
	12,106	14,279

(b) Other net loss

	2011 HK$'000	2010 HK$'000
Net (loss)/gain on disposal of property, plant and equipment	**(455)**	118
(Loss)/gain on disposal of club memberships	**(1,469)**	31
Net realised and unrealised gain on other financial assets	**61**	1,113
Impairment loss on intangible assets (note 18)	**(2,787)**	(10)
Impairment loss on fixed assets (note 17(a))	**–**	(538)
Net gain on forward foreign exchange contracts	**–**	661
Net foreign exchange loss	**(1,897)**	(2,682)
Gain on disposal of interest in a subsidiary (note 6)	**–**	68
Gain on disposal of assets held for sale (note 7)	**37**	–
Others	**1,971**	704
	(4,539)	(535)



5 PROFIT BEFORE TAXATION

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

	Note	2011 HK$'000	2010 HK$'000
(a) Finance costs			
Interest expense on bank loans wholly repayable within five years		**1,179**	873
(b) Staff costs #			
Expenses recognised in respect of defined benefit retirement plan	27(a)(v)	**2,036**	2,080
Contributions to defined contribution retirement plan		**428**	19,879
Total retirement costs		**2,464**	21,959
Equity settled share-based payment expenses		**10**	–
Salaries, wages and other benefits		**282,297**	276,776
		284,771	298,735
(c) Other items			
Amortisation:			
– land lease premium	17(a)	**461**	508
– intangible assets	18	**–**	678
Depreciation #	17(a)	**24,195**	22,838
Impairment loss recognised on trade receivables	23(b)	**1,602**	2,437
Reversal of impairment loss on trade receivables	23(b)	**(1,664)**	(69)
Impairment/(reversal of impairment) losses on:			
– other receivables		**296**	(193)
– claim receivables	16(b)	**3,223**	–
Auditors' remuneration		**4,311**	4,527
Operating lease charges: minimum lease payments in respect of property rentals #		**23,108**	21,258
Cost of inventories #	22(b)	**820,476**	1,079,378

Cost of inventories includes HK$247,852,000 (2010: HK$259,448,000) relating to staff costs, depreciation 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 Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

6 GAIN ON DISPOSAL OF INTEREST IN A SUBSIDIARY

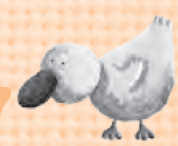
On 1 January 2010, the Company disposed of a 100% ownership interest in C & H Toys (Shuyang) Co., Ltd ("CTSY") to the factory manager (the "Purchaser") at a consideration of US$1,387,000 (equivalent to HK$10,757,000) realising a net gain on disposal of HK$68,000. The principal activity of CTSY was the manufacture of plush stuffed toys.

	HK$'000
Assets and liabilities (other than cash and cash equivalents) disposed of:	
Fixed assets	9,762
Inventories	44
Debtors, bills receivable, deposits and prepayments	1,429
Creditors and accrued charges	(6,358)
	4,877
Disposal proceeds	(10,757)
Cash and cash equivalents disposed of	5,812
Gain on disposal of interest in a subsidiary	(68)
Net inflow of cash and cash equivalents in respect of the disposal of interest in a subsidiary	4,945

In accordance with the sale and purchase agreement, the outstanding consideration is receivable as follows:

	2011 **HK$'000**	2010 HK$'000
Within 1 year	**1,864**	2,177
After 1 year but within 5 years (note 16(a))	**2,796**	4,665
	4,660	6,842

Property and land use rights of CTSY with a carrying value of RMB7,866,000 (equivalent to HK$8,968,000) as at 1 January 2010 were pledged to a subsidiary of the Company to secure the amount due from the Purchaser.



7 ASSETS HELD FOR SALE

During the year ended 31 December 2010, a wholly-owned subsidiary of the Company entered into a memorandum with a third party individual to dispose of a 100% ownership interest in a subsidiary in Vietnam (the "Vietnam Subsidiary") at a consideration of US$350,000 (equivalent to HK$2,722,000). The disposal had not been completed and was subject to satisfaction of certain criteria, including approvals by local authorities as at 31 December 2010. The assets and liabilities of the Vietnam Subsidiary included a land use right in Vietnam, other receivables and other payables amounted to US$373,000, US$1,000 and US$24,000, respectively (equivalent to HK$2,896,000, HK$10,000 and HK$184,000 respectively) as at 31 December 2010. Immediately before classification as held for sale, an impairment loss on the land use right of US$69,000 (equivalent to HK$538,000) was recognised in profit or loss in 2010.

The disposal was completed on 5 May 2011 and a gain on disposal of US$5,000 (equivalent to HK$37,000) was recognised in 2011.

8 PROFIT ON DISPOSAL OF LAND AND BUILDINGS

On 15 April 2011, a subsidiary of the Company in Suzhou, the PRC (the "Suzhou Subsidiary") disposed of a warehouse together with the associated land use right (the "Land and Warehouse") in Suzhou, at a cash consideration of RMB10,933,000 (equivalent to HK$13,229,000) plus a right to occupy the Land and Warehouse from 1 May 2011 to 31 December 2012, with a fair value estimate to be RMB828,000 (equivalent to HK$1,002,000). The net book value of the Land and Warehouse at the disposal date was RMB4,911,000 (equivalent to HK$5,942,000). The transaction is considered as a sales and operating leaseback arrangement and the Group recorded a profit on disposal of RMB5,865,000 (equivalent to HK$7,097,000) net of professional fee and related taxes of RMB985,000 (equivalent to HK$1,192,000) for the year ended 31 December 2011.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

9 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

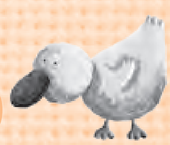
(a) Taxation in the consolidated income statement represents:

	2011 HK$'000	2010 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**2,796**	7,073
Under/(over)-provision in respect of prior years	**136**	(615)
	2,932	6,458
Current tax – Outside Hong Kong		
Provision for the year	**10,677**	15,643
Deferred tax		
Origination and reversal of temporary differences (note 29 (b)(i))	**4,168**	(11,143)
Effect of change in tax rate on recognition of tax losses	**(1,778)**	–
	2,390	(11,143)
	15,999	10,958

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

The Corporate Income Tax ("CIT") rate applicable to subsidiaries registered in the PRC is 25% (2010: 25%). Certain PRC subsidiaries are entitled to income tax holidays granted by the PRC tax authorities whereby they are exempted from CIT for two years starting from the first profit making year and thereafter subject to CIT at 50% of the prevailing tax rate for the following three years.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the previously recognised assets to be recovered.



9 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2011 **HK$'000**	2010 HK$'000
Profit before taxation	**86,820**	213,917
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**19,518**	43,895
Tax effect of non-deductible expenses	**1,693**	3,613
Tax effect of non-taxable income	**(9,343)**	(19,541)
Tax effect of utilisation of previously unrecognised tax losses	**–**	(7,630)
Tax effect of unused tax losses not recognised	**3,275**	3,805
Tax effect of recognition of previously unrecognised tax losses	**–**	(12,569)
Tax effect of written-off of previously recognised tax losses	**2,498**	–
Effect of change in tax rate on recognition of tax losses	**(1,778)**	–
Under/(over)-provision in prior years	**136**	(615)
Actual tax expense	**15,999**	10,958

10 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$'000**	**2011 Total HK$'000**
Chairman and executive director				
Kyoo Yoon Choi	**240**	**–**	**–**	**240**
Executive directors				
Young M. Lee	**–**	**2,069**	**–**	**2,069**
James Chuan Yung Wang	**–**	**1,353**	**–**	**1,353**
Hyun Ho Kim	**–**	**1,287**	**–**	**1,287**
Independent non-executive directors				
Cheong Heon Yi	**146**	**–**	**–**	**146**
Byong Hun Ahn	**132**	**–**	**–**	**132**
Tae Woong Kang	**120**	**–**	**–**	**120**
	638	**4,709**	**–**	**5,347**

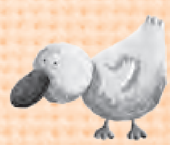
10 DIRECTORS' REMUNERATION *(Continued)*

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	2010 Total HK$'000
Chairman and executive director				
Kyoo Yoon Choi	240	–	–	240
Executive directors				
Young M. Lee	–	1,519	–	1,519
James Chuan Yung Wang	–	1,237	–	1,237
Hyun Ho Kim	–	853	–	853
Independent non-executive directors				
Cheong Heon Yi	132	–	–	132
Byong Hun Ahn	129	–	–	129
Oliver, Shing Kay Wong (resigned on 20 August 2010)	95	–	–	95
Tae Woong Kang (appointed on 20 August 2010)	30	–	–	30
	626	3,609	–	4,235

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2010: two) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other three (2010: three) individuals are as follows:

	2011 HK$'000	2010 HK$'000
Salaries and other emoluments	**5,758**	4,779
Discretionary bonuses	**–**	–
Retirement scheme contributions	**–**	–



Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

The emoluments of the three (2010: three) individuals with the highest emolument are within the following bands:

	2011 **No. of individuals**	2010 No. of individuals
HK$		
1,000,001 – 1,500,000	**1**	2
1,500,001 – 2,000,000	**1**	–
2,000,001 – 2,500,000	**–**	1
2,500,001 – 3,000,000	**1**	–

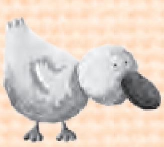
12 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$46,147,000 (2010: HK$151,121,000) which has been dealt with in the financial statements of the Company.

13 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	2011			2010		
	Before tax amount HK$'000	**Tax credit HK$'000**	**Net-of-tax amount HK$'000**	Before tax amount HK$'000	Tax expense HK$'000	Net-of-tax amount HK$'000
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**3,847**	**–**	**3,847**	9,001	–	9,001
Available-for-sale securities: net movement in the fair value reserve	**(22)**	**2**	**(20)**	398	(84)	314
Other comprehensive income	**3,825**	**2**	**3,827**	9,399	(84)	9,315



14 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$74,723,000 (2010: HK$199,597,000) and the weighted average of 672,165,000 ordinary shares (2010: 669,086,238 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2011	2010
	'000	'000
Issued ordinary shares at 1 January	**672,165**	668,529
Effect of share options exercised (note 28)	**–**	557
Weighted average number of ordinary shares at 31 December	**672,165**	669,086

(b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share for both 2011 and 2010 as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

15 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Plush stuffed toys: this segment is involved in the design, development, manufacture and sale of plush stuffed toys. These products are either sourced externally or are manufactured in the Group's manufacturing facilities located primarily in the PRC and Vietnam.

– Ride-on toys (formerly known as steel and plastic toys): this segment is involved in the design, development, manufacture and sale of ride-on toys. These products are manufactured in the PRC and sold to customers mainly located in the PRC and Japan.

– Plastic figures: this segment is involved in the design, development, manufacture and sale of plastic figures. These products are manufactured in the Group's manufacturing facilities located primarily in the PRC and Vietnam.

15 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of club memberships, interest in associates, investments in financial assets, deferred tax assets, current tax recoverable and other corporate assets. Segment liabilities include trade creditors and accruals attributable to the manufacturing and sales activities of the individual segments and bank loans managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specially attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and finance costs from cash balances and loans managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Notes to the Consolidated Financial Statements

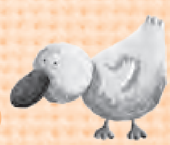
(Expressed in Hong Kong dollars unless otherwise indicated)

15 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below.

	Plush stuffed toys		Ride-on toys		Plastic figures		Total	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Revenue from external customers	**1,002,787**	1,383,005	**78,404**	161,852	**1,961**	–	**1,083,152**	1,544,857
Inter-segment revenue	**–**	–	**–**	895	**–**	–	**–**	895
Reportable segment revenue	**1,002,787**	1,383,005	**78,404**	162,747	**1,961**	–	**1,083,152**	1,545,752
Reportable segment profit/(loss) (adjusted EBITDA)	**141,727**	223,298	**(9,196)**	27,674	**(5,255)**	–	**127,276**	250,972
Bank interest income	**2,261**	1,319	**133**	49	**55**	–	**2,449**	1,368
Finance costs	**(1,179)**	(869)	**–**	(4)	**–**	–	**(1,179)**	(873)
Depreciation and amortisation for the year	**(17,971)**	(16,200)	**(6,327)**	(7,824)	**(358)**	–	**(24,656)**	(24,024)
Impairment loss on fixed assets	**–**	(538)	**–**	–	**–**	–	**–**	(538)
Reportable segment assets	**572,042**	538,258	**101,992**	108,216	**20,412**	–	**694,446**	646,474
Additions to non-current segment assets during the year	**9,365**	69,717	**3,577**	1,173	**14,955**	–	**27,897**	70,890
Reportable segment liabilities	**166,089**	228,144	**64,183**	65,633	**4,894**	–	**235,166**	293,777



15 SEGMENT REPORTING *(Continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

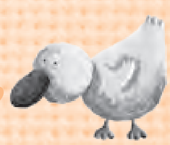
	2011 HK$'000	2010 HK$'000
Revenue		
Reportable segment revenue	**1,083,152**	1,545,752
Elimination of inter-segment revenue	**–**	(895)
Consolidated turnover	**1,083,152**	1,544,857
Profit		
Reportable segment profit	**127,276**	250,972
Share of profit/(loss) of associates	**143**	(196)
Interest income	**3,439**	2,126
Depreciation and amortisation	**(24,656)**	(24,024)
Finance costs	**(1,179)**	(873)
Impairment losses on non-current assets	**(2,787)**	(548)
Unallocated head office and corporate expenses	**(15,416)**	(13,540)
Consolidated profit before taxation	**86,820**	213,917
Assets		
Reportable segment assets	**694,446**	646,474
Elimination of inter-segment receivables	**(33,823)**	(28,771)
	660,623	617,703
Intangible assets	**12,191**	16,690
Interest in associates	**690**	522
Other financial assets	**36,387**	29,192
Deferred tax assets	**11,625**	13,625
Current tax recoverable	**4,125**	–
Unallocated head office and corporate assets	**215,115**	277,540
Consolidated total assets	**940,756**	955,272
Liabilities		
Reportable segment liabilities	**235,166**	293,777
Elimination of inter-segment payables	**(33,823)**	(28,771)
	201,343	265,006
Deferred tax liabilities	**22**	–
Current tax payable	**9,554**	17,019
Unallocated head office and corporate liabilities	**22,824**	14,005
Consolidated total liabilities	**233,743**	296,030

15 SEGMENT REPORTING *(Continued)*

(c) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, intangible assets, prepayments and interest in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment; the location of the operation to which they are allocated, in the case of intangible assets; and the location of operations, in the case of interest in associates.

	Revenue from external customers		**Specified non-current assets**	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong (place of domicile)	**7,023**	2,737	**–**	–
North America	**394,729**	582,993	**206**	213
Japan	**465,005**	637,336	**3,874**	3,981
Europe	**200,771**	164,607	**–**	–
South America	**–**	140,150	**–**	–
The PRC	**8,896**	11,107	**64,398**	69,749
Vietnam	**1,854**	–	**117,241**	113,862
The republic of Korea	**1,095**	2,485	**10,722**	15,259
Other countries	**3,779**	3,442	**–**	–
	1,076,129	1,542,120	**196,441**	203,064
	1,083,152	1,544,857	**196,441**	203,064



16 LONG TERM RECEIVABLES

(a)

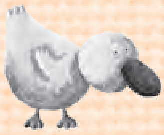
	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Claim receivables (note 16(b))	**–**	2,566	**–**	–
Other receivables (note 6)	**2,796**	4,665	**2,796**	4,665
	2,796	7,231	**2,796**	4,665

(b) 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. The Company had issued a counter claim alleging various matters.

During the year ended 31 December 2010, the court held in favour of the Company and awarded the Company's attorneys' fees incurred with respect to the patent infringement allegations of the complaint. On 28 October 2010, the Company entered into an agreement with the plaintiff whereby the plaintiff agreed to pay the Company US$540,000 (equivalent to HK$4,191,000) to settle the Litigation. In accordance with the agreement, the balance is unsecured, interest-free and receivable as follows:

	2011	2010
	HK$'000	HK$'000
Within 1 year	**2,291**	1,633
After 1 year but within 5 years	**932**	2,566
	3,223	4,199
Less: impairment loss	**(3,223)**	–
	–	4,199

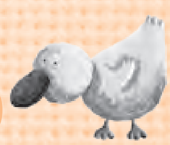
The plaintiff was in financial difficulties and failed to make payments which contractually due in 2011. The claim receivables at 31 December 2011 were determined to be impaired and full impairment was recognised.



17 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 2010	81,946	14,894	127,101	24,498	6,173	82	254,694	17,752	272,446
Exchange adjustments	1,308	155	1,713	358	129	–	3,663	233	3,896
Additions	1,191	404	26,465	2,509	3,907	28,538	63,014	7,876	70,890
Disposals	–	(362)	(2,840)	(1,669)	(981)	–	(5,852)	–	(5,852)
Transfer to assets held-for sale	–	–	–	–	–	–	–	(3,615)	(3,615)
Disposal of a subsidiary	(10,258)	(410)	(1,585)	(197)	–	–	(12,450)	(648)	(13,098)
Transfers	27,247	–	–	–	–	(27,247)	–	–	–
At 31 December 2010	101,434	14,681	150,854	25,499	9,228	1,373	303,069	21,598	324,667
At 1 January 2011	101,434	14,681	150,854	25,499	9,228	1,373	303,069	21,598	324,667
Exchange adjustments	1,357	148	2,798	267	144	(14)	4,700	188	4,888
Additions	1,058	1,040	10,502	1,303	955	8,089	22,947	4,950	27,897
Disposals	(4,385)	(1,981)	(2,318)	(278)	(1,868)	–	(10,830)	(1,990)	(12,820)
Transfers	2,250	–	–	125	–	(2,375)	–	–	–
At 31 December 2011	101,714	13,888	161,836	26,916	8,459	7,073	319,886	24,746	344,632
Accumulated amortisation, depreciation and impairment loss:									
At 1 January 2010	11,701	11,882	75,019	20,566	3,646	–	122,814	1,293	124,107
Exchange adjustments	225	108	1,234	272	66	–	1,905	21	1,926
Charge for the year	4,066	1,565	13,748	2,029	1,430	–	22,838	508	23,346
Impairment loss	–	–	–	–	–	–	–	538	538
Written back on disposals	–	(361)	(2,286)	(1,676)	(732)	–	(5,055)	–	(5,055)
Transfer to assets held-for sale	–	–	–	–	–	–	–	(719)	(719)
Written back on disposal of a subsidiary	(2,093)	(379)	(644)	(155)	–	–	(3,271)	(65)	(3,336)
At 31 December 2010	13,899	12,815	87,071	21,036	4,410	–	139,231	1,576	140,807
At 1 January 2011	13,899	12,815	87,071	21,036	4,410	–	139,231	1,576	140,807
Exchange adjustments	294	111	1,595	186	72	–	2,258	20	2,278
Charge for the year	4,947	1,095	15,065	1,637	1,451	–	24,195	461	24,656
Written back on disposals	(238)	(1,669)	(971)	(96)	(1,510)	–	(4,484)	(195)	(4,679)
At 31 December 2011	18,902	12,352	102,760	22,763	4,423	–	161,200	1,862	163,062
Net book value:									
At 31 December 2011	82,812	1,536	59,076	4,153	4,036	7,073	158,686	22,884	181,570
At 31 December 2010	87,535	1,866	63,783	4,463	4,818	1,373	163,838	20,022	183,860



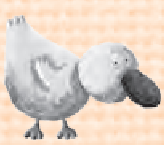
Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 FIXED ASSETS *(Continued)*

(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 2010	4,603	9,302	30,123	11,481	941	56,450
Additions	–	405	1,585	340	626	2,956
Disposals	–	–	–	–	(415)	(415)
At 31 December 2010	4,603	9,707	31,708	11,821	1,152	58,991
At 1 January 2011	4,603	9,707	31,708	11,821	1,152	58,991
Additions	–	674	2,759	231	216	3,880
Disposals	–	–	–	–	(106)	(106)
At 31 December 2011	4,603	10,381	34,467	12,052	1,262	62,765
Accumulated depreciation:						
At 1 January 2010	651	8,301	29,134	11,145	864	50,095
Charge for the year	115	656	925	222	211	2,129
Written back on disposals	–	–	–	–	(415)	(415)
At 31 December 2010	766	8,957	30,059	11,367	660	51,809
At 1 January 2011	766	8,957	30,059	11,367	660	51,809
Charge for the year	115	404	715	168	281	1,683
Written back on disposals	–	–	–	–	(106)	(106)
At 31 December 2011	881	9,361	30,774	11,535	835	53,386
Net book value:						
At 31 December 2011	3,722	1,020	3,693	517	427	9,379
At 31 December 2010	3,837	750	1,649	454	492	7,182



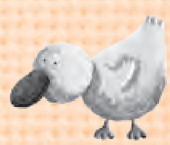
17 FIXED ASSETS *(Continued)*

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

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Outside Hong Kong				
– medium-term leases	**101,974**	103,720	**–**	–
– freehold	**3,722**	3,837	**3,722**	3,837
	105,696	107,557	**3,722**	3,837
Representing:				
Land and buildings carried at cost	**82,812**	87,535	**3,722**	3,837
Interests in leasehold land held for own use under operating leases	**22,884**	20,022	**–**	–
	105,696	107,557	**3,722**	3,837

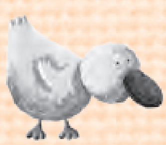
(d) Pledged assets

Certain fixed assets of the Group with an aggregate carrying amount of HK$33,453,000 (2010: HK$38,098,000) as at 31 December 2011 were pledged to various banks to secure bank loans granted to the Group, see note 26.



18 INTANGIBLE ASSETS

	The Group		
	Club memberships HK$'000	**Patent** HK$'000	**Total** HK$'000
Cost:			
At 1 January 2010	14,346	3,382	17,728
Additions	3,667	–	3,667
Disposals	(705)	–	(705)
Exchange adjustment	388	–	388
At 31 December 2010	17,696	3,382	21,078
At 1 January 2011	17,696	3,382	21,078
Additions	2,100	–	2,100
Disposals	(3,600)	–	(3,600)
Exchange adjustment	(331)	–	(331)
At 31 December 2011	15,865	3,382	19,247
Accumulated amortisation and impairment losses:			
At 1 January 2010	996	2,704	3,700
Charge for the year	–	678	678
Impairment loss	10	–	10
At 31 December 2010	1,006	3,382	4,388
At 1 January 2011	1,006	3,382	4,388
Impairment loss	2,787	–	2,787
Exchange adjustment	(119)	–	(119)
At 31 December 2011	3,674	3,382	7,056
Net book value:			
At 31 December 2011	12,191	–	12,191
At 31 December 2010	16,690	–	16,690



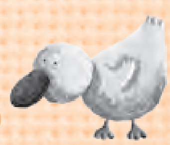
18 INTANGIBLE ASSETS *(Continued)*

The impairment loss for the year is included in "other net loss" in the consolidated income statement.

The impairment made in current year arose due to decrease in fair value of club memberships.

	The Company Club memberships HK$'000
Cost:	
At 1 January 2010	1,283
Exchange adjustment	18
At 31 December 2010	1,301
At 1 January 2011	1,301
Exchange adjustment	8
At 31 December 2011	1,309
Accumulated impairment losses:	
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	947
Net book value:	
At 31 December 2011	362
At 31 December 2010	354

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



19 INVESTMENTS IN SUBSIDIARIES

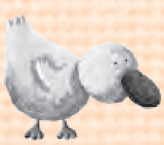
	2011	2010
	HK$'000	HK$'000
Unlisted equities, at cost	**277,394**	276,792
Less: impairment loss	**(22,138)**	(31,474)
	255,256	245,318
Loans to subsidiaries	**272,367**	253,698
Less: impairment loss	**(90,000)**	(90,000)
	182,367	163,698
	437,623	409,016

In 2011, the Company set up a wholly-owned subsidiary, Shenzhen C & H Plastic & Hardware Co., Ltd, in the PRC, with capital contribution of RMB500,000 (equivalent to HK$602,000).

Loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for loans to subsidiaries of HK$110,702,000 (2010: HK$106,812,000) which are unsecured, interest-bearing at a fixed rate of 1% or 0.5% over LIBOR per annum and with maturities through January 2013 to September 2020, accordingly, have been classified as non-current. The interest rates charged for the year ended 31 December 2011 ranged from 0.75% to 1.54% (2010: 0.79% to 1.54%).

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.

			Proportion of ownership interest			
Name of company	**Place of incorporation/ registration and operation**	**Particulars of issued/ registered and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
Dream International USA, Inc. *	United States of America	Registered and paid up capital of US$1,000,000	100%	100%	–	Trading of plush stuffed toys
J.Y. International Company Limited	Hong Kong	Authorised and issued capital of US$3,500,000	100%	100%	–	Trading of plush stuffed toys and investment holding
C & H Toys (Suzhou) Co., Ltd * #	The PRC	Registered and paid up capital of US$9,200,000	100%	100%	–	Trading of plush stuffed toys
Dream Inko Co., Ltd	The republic of Korea	Registered and paid up capital of KRW100,000,000	100%	–	100%	Design, development and trading of plush stuffed toys and investment holding



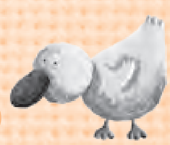
(Expressed in Hong Kong dollars unless otherwise indicated)

19 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration and operation	Particulars of issued/ registered and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Dream Vina Co., Ltd	Vietnam	Registered and paid up capital US$12,764,827	100%	60.83%	39.17%	Manufacture of plush stuffed toys and investment holding
Dream Textile Co., Ltd	Vietnam	Registered and paid up capital of US$5,500,000	100%	54.55%	45.45%	Manufacture of fabrics and dyeing
Dream Mekong Co., Ltd	Vietnam	Registered capital of US$5,000,000 and paid up capital of US$3,000,000	100%	–	100%	Manufacture of plush stuffed toys
Dream Plastic Co., Ltd	Vietnam	Registered capital of US$4,000,000 and paid up capital of US$2,600,000	100%	–	100%	Manufacture of plastic figures
C & H HK Corp., Ltd	Hong Kong	Authorised and issued capital of US$10,500,000	72.86%	72.86%	–	Trading of ride-on toys and investment holding
J.Y. Plasteel (Suzhou) Co., Ltd * #	The PRC	Registered and paid up capital of US$10,500,000	72.86%	–	100%	Manufacture of ride-on toys
C & H Toys (Mingguang) Co., Ltd * #	The PRC	Registered and paid up capital of US$1,000,000	100%	100%	–	Manufacture of plush stuffed toys
C & H Toys (Chaohu) Co., Ltd * #	The PRC	Registered and paid up capital of US$2,000,000	100%	–	100%	Manufacture of plush stuffed toys
Shenzhen C & H Plastic & Hardware Co., Ltd *	The PRC	Registered and paid up capital of RMB500,000	100%	100%	–	Manufacture of plastic figures

* KPMG are not the statutory auditors of these companies. The financial statements of the subsidiaries not audited by KPMG reflect total net asset and total turnover constituting approximately 0.33% and 0.36% respectively of the related consolidated totals.

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



Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 INTEREST IN ASSOCIATES

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted equities, at cost	**–**	–	**1,248**	1,248
Share of net assets	**690**	522	**–**	–
	690	522	**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/ registration and operation**	**Particulars of issued share capital/ registered capital**	**Group's effective interest**	**Held by the Company**	**Held by an associate**	**Principal activities**
Kedington Enterprises Inc.	British Virgin Islands	US$800,000	20%	20%	–	Investment holding
Yuan Lin Toys (Suzhou) Co., Ltd	The PRC	US$800,000	20%	–	100%	Manufacture of plush stuffed toys

Summary of financial information on associates

	Assets	**Liabilities**	**Equity**	**Revenue**	**Profit/(loss)**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2011					
100 per cent	**26,453**	**(23,004)**	**(3,449)**	**38,728**	**716**
Group's effective interest	**5,291**	**(4,601)**	**(690)**	**7,746**	**143**
2010					
100 per cent	27,262	(24,652)	(2,610)	42,335	(983)
Group's effective interest	5,452	(4,930)	(522)	8,467	(196)

21 OTHER FINANCIAL ASSETS

	The Group	
	2011	2010
	HK$'000	HK$'000
Non-current		
Equity-linked securities (notes (i) and (vii))	**3,132**	3,442
Available-for-sale debt securities – unlisted (note (ii))	**6,516**	6,720
Available-for-sale equity securities – unlisted (note (iii))	**13,400**	–
	23,048	10,162
Current		
Equity-linked securities (notes (iv) and (vii))	**10,165**	–
Equity-linked deposits (notes (v) and (vii))	**–**	15,645
Held-to-maturity debt securities – unlisted (note (vi))	**3,174**	3,385
	13,339	19,030
	36,387	29,192

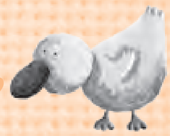
Notes:

(i) Equity-linked securities as at 31 December 2011 represent structured funds placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date of 8 February 2014.

Equity-linked securities as at 31 December 2010 represented 18 months structured funds placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date of 25 May 2012.

(ii) Available-for-sale debt securities – unlisted represents an investment in bonds issued by an investment bank in Korea with a maturity date of 30 March 2039. Management has no intention to hold the investment to maturity.

(iii) Available-for-sale equity securities – unlisted represents an investment in a Korean private company which carried at cost.



21 OTHER FINANCIAL ASSETS *(Continued)*

Notes: *(Continued)*

(iv) Equity-linked securities represent two structured funds placed with investment banks in Korea, amounting to HK$3,366,000 and HK$6,799,000, with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200 and maturity date of 25 May 2012 and 10 August 2012, respectively.

(v) Equity-linked deposits represented 12 months deposits placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date of 10 February 2011.

(vi) Held-to-maturity debt securities – unlisted represents an investment in commercial paper with a maturity date of 12 January 2012 and interest-bearing at 6.50% per annum which carried at amortised cost.

(vii) The equity-linked securities and equity-linked deposits are hybrid instruments that include non-derivative host contracts and embedded derivatives. Upon inception, the financial instruments are designated as fair value through profit or loss with changes in fair value recognised in the income statement.

(viii) None of the above other financial assets are past due or impaired.

22 INVENTORIES

(a) Inventories in the balance sheets comprise:

	The Group		**The Company**	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Raw materials	**98,548**	84,804	**21,998**	20,230
Work in progress	**46,702**	33,038	**15,977**	8,015
Finished goods	**86,315**	79,971	**30,124**	33,902
	231,565	197,813	**68,099**	62,147

22 INVENTORIES *(Continued)*

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount of inventories sold	**827,819**	1,082,888
Write-down of inventories	**2,709**	7,765
Reversal of write-down of inventories	**(10,052)**	(11,275)
	820,476	1,079,378

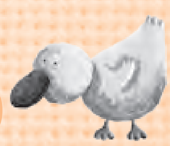
The reversal of write-down of inventories made in current and prior years arose upon disposal of these inventories.

23 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors and bills receivable	**184,859**	161,190	**123,055**	98,423
Less: allowance for doubtful debts (note 23(b))	**(3,287)**	(3,873)	**–**	(1,944)
	181,572	157,317	**123,055**	96,479
Other receivables and prepayments	**53,406**	58,756	**10,595**	5,419
Claim receivables (note 16(b))	**–**	1,633	**–**	–
Amount due from ultimate holding company	**5,105**	5,246	**–**	–
Amount due from a fellow subsidiary	**–**	1,133	**–**	540
Amounts due from subsidiaries	**–**	–	**65,430**	80,517
	240,083	224,085	**199,080**	182,955

The amount of the Group's other receivables and prepayments expected to be recovered or recognised as expense after more than one year is HK$1,957,000 (2010: HK$1,408,000). 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 fellow subsidiary and subsidiaries are trade related, unsecured, interest-free and repayable on demand.



23 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	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current	**144,055**	141,481	**88,070**	89,655
Less than 1 month past due	**35,567**	7,136	**34,774**	5,845
1 to 3 months past due	**421**	7,455	**211**	979
More than 3 months but less than 12 months past due	**1,439**	1,158	**–**	–
More than 12 months past due	**90**	87	**–**	–
	181,572	157,317	**123,055**	96,479

Trade debtors and bills receivable are due within 30 to 60 days from the date of billing. Further details on the Group's credit policy are set out in note 31(a).

(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(j)(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	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**3,873**	1,444	**1,944**	–
Impairment loss recognised	**1,602**	2,437	**–**	1,944
Reversal of impairment loss	**(1,664)**	(69)	**(1,362)**	–
Uncollectible amounts written off	**(582)**	–	**(582)**	–
Exchange differences	**58**	61	**–**	–
At 31 December	**3,287**	3,873	**–**	1,944

23 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Impairment of trade debtors and bills receivable *(Continued)*

At 31 December 2011, the Group's and the Company's trade debtors and bills receivable of HK$4,073,000 (2010: HK$9,167,000) and HK$Nil (2010: HK$5,540,000) 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, the Group and the Company recognised specific allowances for doubtful debts of HK$3,287,000 (2010: HK$3,873,000) and HK$Nil (2010: HK$1,944,000), respectively. The Group does not hold any collateral over these balances.

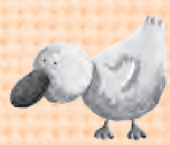
(c) Trade debtors and bills receivable that are not impaired

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

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**144,042**	141,166	**88,070**	89,655
Less than 1 month past due	**35,304**	4,230	**34,774**	3,228
1 to 3 months past due	**265**	6,065	**211**	–
More than 3 months but less than 12 months past due	**1,085**	475	**–**	–
More than 12 months past due	**90**	87	**–**	–
	36,744	10,857	**34,985**	3,228
	180,786	152,023	**123,055**	92,883

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 a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.



24 CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

(a) Cash and cash equivalents and time deposits comprise:

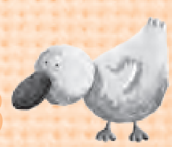
	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Time deposits within three months to maturity when placed	**63,721**	31,549	**35,879**	9,486
Cash at bank and in hand	**113,394**	229,985	**28,912**	117,329
Cash and cash equivalents in the balance sheet and consolidated cash flow statement	**177,115**	261,534	**64,791**	126,815
Time deposits with more than three months to maturity when placed	**38,000**	16,006	**–**	4,276
	215,115	277,540	**64,791**	131,091

Included in the balance of cash and cash equivalents, and time deposits with more than three months to maturity when placed is an amount of approximately HK$42,374,000 (2010: HK$39,933,000) representing Renminbi Yuan 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.

24 CASH AND CASH EQUIVALENTS AND TIME DEPOSITS *(Continued)*

(b) Reconciliation of profit before taxation to cash (used in)/generated from operations:

	Note	2011 HK$'000	2010 HK$'000
Profit before taxation		**86,820**	213,917
Adjustments for:			
Bank interest income	4(a)	**(2,449)**	(1,368)
Interest income from other financial assets	4(a)	**(990)**	(758)
Net loss/(gain) on disposal of property, plant and equipment	4(b)	**455**	(118)
Profit on disposal of land and buildings	8	**(7,097)**	–
Loss/(gain) on disposal of club memberships	4(b)	**1,469**	(31)
Gain on disposal of interest in a subsidiary	6	**–**	(68)
Net realised and unrealised gain on other financial assets	4(b)	**(61)**	(1,113)
Net gain on forward foreign exchange contracts	4(b)	**–**	(661)
Equity settled share-based payment expense	5(b)	**10**	–
Finance costs	5(a)	**1,179**	873
Amortisation of land lease premium	5(c)	**461**	508
Amortisation of intangible assets	5(c)	**–**	678
Depreciation	5(c)	**24,195**	22,838
Impairment loss on:			
– Fixed assets	17(a)	**–**	538
– Intangible assets	18	**2,787**	10
Share of (profit)/loss of associates		**(143)**	196
Foreign exchange loss		**818**	3,116
Changes in working capital:			
Increase in inventories		**(33,752)**	(48,610)
Increase in trade and other receivables		**(14,996)**	(73,149)
Decrease/(increase) in long term receivables		**4,437**	(7,220)
Decrease in trade and other payables		**(63,395)**	(751)
Decrease in net defined benefit retirement obligation		**(2,887)**	(778)
Cash (used in)/generated from operations		**(3,139)**	108,049



25 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**65,248**	107,824	**9,345**	11,820
Accrued charges and other payables	**119,888**	135,074	**56,277**	53,663
Loan from holder of non-controlling interests	**13,979**	15,550	**–**	–
Amount due to ultimate holding company	**783**	805	**783**	805
Amounts due to fellow subsidiaries	**820**	3,406	**–**	945
Amounts due to subsidiaries	**–**	–	**106,911**	132,022
Amount due to an associate	**625**	2,079	**–**	–
	201,343	264,738	**173,316**	199,255

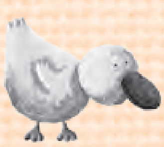
Amounts due to ultimate holding company, fellow subsidiaries, subsidiaries and an associate are unsecured, interest-free and repayable on demand.

Loan from holder of non-controlling interests is unsecured, interest-free and repayable on demand.

All of the trade and other payables are expected to be settled or recognised as income 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	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due within 1 month or on demand	**40,013**	58,004	**9,345**	11,820
Due after 1 month but within 3 months	**24,889**	49,715	**–**	–
Due after 3 months but within 6 months	**245**	–	**–**	–
Due after 6 months but within 1 year	**101**	105	**–**	–
	65,248	107,824	**9,345**	11,820



Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

26 BANK LOANS

At 31 December 2011, the bank loans and overdrafts were as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
Current		
– Secured bank loan	**9,341**	7,904
– Guaranteed bank loans	**8,559**	–
	17,900	7,904
Non-current		
– Secured bank loan	**4,924**	6,101
	22,824	14,005

Bank loan of the Group is secured as follows:

(i) Buildings, plant and machinery and land use rights with a carrying value as at 31 December 2011 of HK$33,453,000 (2010: HK$38,098,000) were pledged to a bank in respect of a loan amounting to HK$14,265,000 (2010: HK$14,005,000).

Bank loans of the Group are guaranteed as follows:

(i) A bank loan totalling HK$4,265,000 (2010: HK$Nil) was guaranteed by the Group's immediate holding company, C & H Co., Ltd, and a director of the Company.

(ii) A bank loan amounting to HK$4,294,000 (2010: HK$Nil) was guaranteed by standby letter of credit.

As at 31 December 2011, the Group's banking facilities were not subject to the fulfilment of financial covenants (2010: Nil).

27 EMPLOYEES RETIREMENT SCHEMES

(a) Defined benefit retirement plan

The Group makes contributions to a defined benefit retirement plan which covers 0.8% of the Group's employees. The plan is administered by trustees, who are independent, with their assets held separately from those of the Group.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The latest independent actuarial valuation of the plan was at 31 December 2011 and was prepared by qualified actuaries of Towers Watson Hong Kong Limited, who are fellows of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement plan are 71.2% (2010: 60.1%) covered by the plan assets held by the trustees.

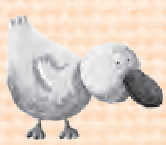
(i) The amounts recognised in the balance sheets are as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Present value of wholly or partly funded obligations	**8,097**	7,710	**1,369**	1,522
Fair value of plan assets	**(5,768)**	(4,634)	**–**	–
	2,329	3,076	**1,369**	1,522
Net unrecognised actuarial losses	**(4,948)**	(2,808)	**–**	–
	(2,619)	268	**1,369**	1,522

A portion of the above (asset)/liability is expected to be utilised/settled after more than one year. However, it is not practicable to segregate this amount from the amounts recoverable/payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay HK$2,010,000 in contributions to the defined benefit retirement plan in 2012.

(ii) Plan assets

As at 31 December 2011 and 2010, the Group's liability under this plan is covered by deposits placed with several banks. There is no plan asset invested in the Company's own financial instruments or any property occupied or other assets used by the Group.



27 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

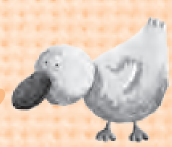
(a) Defined benefit retirement plan *(Continued)*

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

	The Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**7,710**	9,442
Benefits paid	**(3,878)**	(3,539)
Current service cost	**1,572**	1,414
Interest cost	**413**	574
Actuarial losses/(gains)	**2,530**	(405)
Exchange differences	**(250)**	224
At 31 December	**8,097**	7,710

(iv) Movements in plan assets

	The Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**4,634**	4,965
Group's contributions paid to the plan	**2,100**	1,072
Benefits paid	**(934)**	(1,744)
Actuarial expected return on plan assets	**179**	184
Actuarial (losses)/gains	**(20)**	24
Exchange differences	**(191)**	133
At 31 December	**5,768**	4,634



27 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

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

	The Group	
	2011	2010
	HK$'000	HK$'000
Current service cost	**1,572**	1,414
Interest cost	**413**	574
Actuarial expected return on plan assets	**(179)**	(184)
Net actuarial losses recognised	**230**	276
	2,036	2,080

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

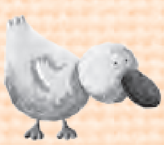
	The Group	
	2011	2010
	HK$'000	HK$'000
Cost of sales	**509**	481
Administrative expenses	**1,527**	1,599
	2,036	2,080

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$159,000 (2010: HK$208,000).

(vi) The principal actuarial assumptions used as at 31 December 2011 (expressed as weighted averages) are as follows:

	2011	2010
Discount rate	**4.7%**	6.0%
Expected rate of return on plan assets	**3.7%**	4.8%
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.



27 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

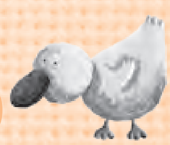
Historical information

	The Group				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Present value of the defined benefit obligations	**8,097**	7,710	9,442	13,397	19,536
Fair value of plan assets	**(5,768)**	(4,634)	(4,965)	(4,502)	(6,282)
Deficit in the plan	**2,329**	3,076	4,477	8,895	13,254
Experience adjustments arising on plan liabilities	**2,065**	(641)	1,574	989	1,990
Experience adjustments arising on plan assets	**20**	(24)	(82)	(211)	(60)

(b) Defined contribution retirement plan

The Group also 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.



28 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 options. 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 are as follows:

Exercisable period	Exercise price per share	Number of options 2011 '000	2010 '000
Options granted to directors:			
23 December 2013 to 22 December 2016	HK$0.466	**550**	–
Options granted to employees:			
7 February 2003 to 7 February 2012	HK$1.18	**–**	260
2 January 2005 to 2 January 2014	HK$1.87	**–**	6,000
23 December 2013 to 22 December 2016	HK$0.466	**4,350**	–
		4,900	6,260

The movement in the number of options during the year resulted from the cancellation of 6,260,000 share options granted in previous years by employees and grant of 4,900,000 share options during the year.

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

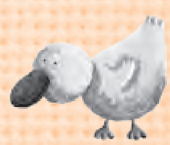
(b) The number and weighted average exercise prices of share options are as follows:

	2011		2010	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the period	**HK$1.84**	**6,260**	HK$1.63	10,546
Exercised during the period	**–**	**–**	HK$1.21	(3,636)
Granted during the period	**HK$0.466**	**4,900**	–	–
Cancelled during the period	**HK$1.84**	**(6,260)**	–	–
Lapsed during the period	**–**	**–**	HK$1.87	(650)
Outstanding at the end of the period	**HK$0.466**	**4,900**	HK$1.84	6,260
Exercisable at the end of the period	**–**	**–**	HK$1.84	6,260

The options outstanding at 31 December 2011 had an exercise price of HK$0.466 and a weighted average remaining contractual life of 5 years.

(c) Fair value of share options and assumptions:

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.



(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Fair value of share options and assumptions: *(Continued)*

	2011
Fair value of share options and assumptions	
Fair value at measurement date	**HK$0.206**
Share price	**HK$0.450**
Exercise price	**HK$0.466**
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**80%**
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**5 years**
Expected dividends	**4.0%**
Rate of leaving service	**6.0%**
Risk-free interest rate (based on Exchange Fund Notes)	**0.8%**

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on public available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

The total number of share options outstanding at the end of the year has a vesting period of two years and will be exercisable from 23 December 2013 to 22 December 2016. The fair value of the share options granted during the year, valued as at the grant date was HK$1,009,000. Share options were granted under a service condition, taking into account the expected forfeiture due to employees' leaving service during the vesting period, the total equity settled share-based payment expenses was HK$892,000. Of these, HK$10,000 was included in the consolidated income statement for the year ended 31 December 2011, and the remaining amount will be recognised over the remaining vesting period.

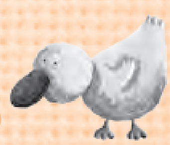
Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

29 INCOME TAX IN THE BALANCE SHEETS

(a) Current taxation in the balance sheets represents:

	The Group		The Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Provision for Hong Kong Profits Tax for the year	**2,795**	7,073	**2,795**	7,073
Provisional Profits Tax paid	**(7,208)**	(2,697)	**(7,208)**	(2,697)
	(4,413)	4,376	**(4,413)**	4,376
Balance of Profits Tax provision relating to prior years	**418**	418	**–**	–
Provision for tax outside Hong Kong	**9,424**	12,225	**333**	285
	5,429	17,019	**(4,080)**	4,661
Representing:				
Tax recoverable	**(4,125)**	–	**(4,080)**	–
Tax payable	**9,554**	17,019	**–**	4,661
	5,429	17,019	**(4,080)**	4,661



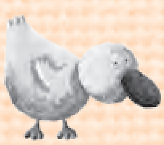
29 INCOME TAX IN THE BALANCE SHEETS *(Continued)*

(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 allowances (less than)/ in excess of the related depreciation	Future benefit of tax losses	Defined benefit retirement plan liability	Provisions	Revaluation of available-for-sale securities	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	(337)	–	1,194	(3,183)	27	(2,299)
Charged/(credited) to the consolidated income statement (note 9(a))	95	(12,314)	(327)	1,403	–	(11,143)
Charged to reserves (note 13)	–	–	–	–	84	84
Exchange adjustments	1	(255)	26	(39)	–	(267)
At 31 December 2010	(241)	(12,569)	893	(1,819)	111	(13,625)
At 1 January 2011	(241)	(12,569)	893	(1,819)	111	(13,625)
Charged/(credited) to the consolidated income statement (note 9(a))	282	4,595	325	(1,034)	–	4,168
Credited to reserves (note 13)	–	–	–	–	(2)	(2)
Effect of change in tax rate	–	(1,778)	–	–	–	(1,778)
Exchange adjustments	(1)	(397)	(40)	72	–	(366)
At 31 December 2011	40	(10,149)	1,178	(2,781)	109	(11,603)



29 INCOME TAX IN THE BALANCE SHEETS *(Continued)*

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

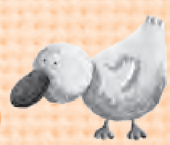
(ii) The Company

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

	Depreciation allowances (less than)/ in excess of the related depreciation HK$'000
At 1 January 2010	(353)
Charged to the income statement	92
At 31 December 2010	(261)
At 1 January 2011	(261)
Charged to the income statement	283
At 31 December 2011	22

(iii) Reconciliation to the balance sheets:

	The Group		**The Company**	
	2011 **HK$'000**	2010 HK$'000	**2011** **HK$'000**	2010 HK$'000
Net deferred tax assets recognised in the balance sheets	**(11,625)**	(13,625)	**–**	(261)
Net deferred tax liabilities recognised in the balance sheets	**22**	–	**22**	–
	(11,603)	(13,625)	**22**	(261)



29 INCOME TAX IN THE BALANCE SHEETS *(Continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$90,648,000 (2010: HK$67,983,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Tax losses amounting to HK$9,913,000 (2010: HK$9,628,000) do not expire under current tax legislation, while the remaining tax losses amounting to HK$80,735,000 (2010: HK$58,355,000) expire at various dates up to and including 2016 (2010: 2015) as follows:

	2011 **HK$'000**	2010 HK$'000
2011	**–**	14,788
2012	**10,189**	9,775
2013	**18,684**	2,176
2014	**10,805**	8,400
2015	**21,249**	23,216
2016	**19,808**	–
	80,735	58,355
No expiry date	**9,913**	9,628
	90,648	67,983

(d) Deferred tax liabilities not recognised

At 31 December 2011, temporary differences relating to the undistributed profits of subsidiaries based in the PRC and the Republic of Korea amounted to HK$43,090,000 (2010: HK$43,210,000) and HK$122,197,000 (2010: HK$100,266,000) respectively. Deferred tax liabilities of HK$2,155,000 (2010: HK$2,160,000) and HK$24,439,000 (2010: HK$20,053,000) 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.

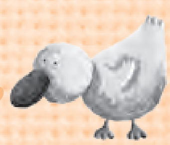
30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital	Share premium	Capital reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	52,019	176,893	3,688	238,783	471,383
Changes in equity for 2010:					
Final dividends approved in respect of the previous year	–	–	–	(20,056)	(20,056)
Interim dividends declared in respect of the current year	–	–	–	(13,371)	(13,371)
Share issued under share option scheme	284	4,120	–	–	4,404
Lapse of share options	–	–	(344)	344	–
Total comprehensive income for the year	–	–	–	151,121	151,121
At 31 December 2010	52,303	181,013	3,344	356,821	593,481
At 1 January 2011	52,303	181,013	3,344	356,821	593,481
Changes in equity for 2011:					
Final dividends approved in respect of the previous year	–	–	–	(26,887)	(26,887)
Cancellation of share options	–	–	(3,344)	3,344	–
Equity settled share-based transactions	–	–	10	–	10
Total comprehensive income for the year	–	–	–	46,147	46,147
At 31 December 2011	52,303	181,013	10	379,425	612,751



Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividend

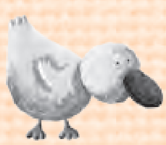
(i) Dividends payable to equity shareholders of the Company attributable to the year

	2011 **HK$'000**	2010 HK$'000
Interim dividend declared and paid of HKNil cents per ordinary share (2010: HK2 cents per ordinary share)	–	13,371
Final dividend proposed after the balance sheet date of HKNil cents per ordinary share (2010: HK4 cents per ordinary share)	–	26,887
	–	40,258

The board of directors do not declare or propose any dividend for the year ended 31 December 2011.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2011 **HK$'000**	2010 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK4 cents per ordinary share (2010: HK3 cents per ordinary share)	**26,887**	20,056



Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital

	2011		2010	
	Number of shares '000	**Amount HK$'000**	Number of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of US$0.01 each				
At 31 December	**5,000,000**	**390,000**	5,000,000	390,000
Ordinary shares, issued and fully paid:				
At 1 January	**672,165**	**52,303**	668,529	52,019
Shares issued under share option scheme	**–**	**–**	3,636	284
At 31 December	**672,165**	**52,303**	672,165	52,303

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.

In 2010, options with a weighted average exercise price of HK$1.21 each were exercised to subscribe for 3,636,000 ordinary shares in the Company at a consideration of HK$4,404,000 of which HK$284,000 was credited to share capital and the balance of HK$4,120,000 was credited to the share premium account.

30 CAPITAL, RESERVES AND DIVIDENDS *(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(p)(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.

(iv) Other reserve

The other reserve comprises the change in equity as a result of change in shareholding of non-controlling interests. The reserve is dealt with in accordance with the accounting policies set out in note 1(c).

(v) 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 note 1(t).

(vi) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 1(e) and 1(j)(i).

(Expressed in Hong Kong dollars unless otherwise indicated)

30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Distributability of reserves

At 31 December 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of section 79B of the Hong Kong Companies Ordinance, was HK$379,425,000 (2010: HK$356,821,000). No final dividend was proposed after the balance sheet date. In 2010, a final dividend of HK4 cents per ordinary share amounted to HK$26,887,000 (note 30(b)) was proposed and this dividend has not been recognised as a liability at 31 December 2010.

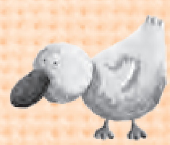
(f) Capital management

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 advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

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 trade and other payables) less cash and cash equivalents and time deposits with more than three months to maturity when placed.

The Group's strategy was to maintain a relatively low net debt-to-capital ratio. 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.



30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(f) Capital management *(Continued)*

The net debt-to-capital ratio at 31 December 2011 and 2010 was as follows:

		The Group		The Company	
	Note	**2011** **HK$'000**	2010 HK$'000	**2011** **HK$'000**	2010 HK$'000
Current liabilities					
Trade and other payables	25	**201,343**	264,738	**173,316**	199,255
Bank loans	26	**17,900**	7,904	**–**	–
		219,243	272,642	**173,316**	199,255
Less: Cash and cash equivalents	24(a)	**(177,115)**	(261,534)	**(64,791)**	(126,815)
Time deposits with more than three months to maturity when placed	24(a)	**(38,000)**	(16,006)	**–**	(4,276)
Non-current liabilities					
Bank loans	26	**4,924**	6,101	**–**	–
Total debt		**9,052**	1,203	**108,525**	68,164
Add: Proposed dividends	30(b)	**–**	26,887	**–**	26,887
Net debt		**9,052**	28,090	**108,525**	95,051
Total equity		**707,013**	659,242	**612,751**	593,481
Net debt-to-capital ratio		**1%**	4%	**18%**	16%

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

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

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, financial assets and deposits with banks. 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, individual 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. Trade receivables are due within thirty to sixty days from the date of billing. Debtors with balances that are more than three months past due 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 23% (2010: 24%) and 87% (2010: 73%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

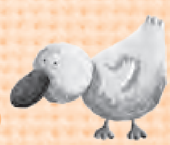
In respect of deposits with banks, the Group only places deposits with banks which meet certain credit rating criteria.

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 sheets, after deducting any impairment provisions.

The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 23.



31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(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 major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, 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

	2011				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total**	**Balance sheet carrying amount**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Bank loans	**19,865**	**1,707**	**3,119**	**24,691**	**22,824**
Trade and other payables	**201,343**	**–**	**–**	**201,343**	**201,343**
	221,208	**1,707**	**3,119**	**226,034**	**224,167**

	2010				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Balance sheet carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Bank loans	8,664	2,087	5,687	16,438	14,005
Trade and other payables	264,738	–	–	264,738	264,738
	273,402	2,087	5,687	281,176	278,743

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk *(Continued)*

The Company

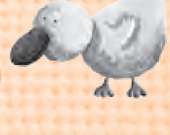
	2011				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 years but less than 5 years HK$'000**	**Total HK$'000**	**Balance sheet carrying amount HK$'000**
Trade and other payables	**173,316**	**–**	**–**	**173,316**	**173,316**

	2010				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total HK$'000	Balance sheet carrying amount HK$'000
Trade and other payables	199,255	–	–	199,255	199,255

As shown in the above analysis, bank loans of the Group amounting to HK$19,865,000 (2010: HK$8,664,000) were due to be repaid during 2012. The short-term liquidity risk inherent in this contractual maturity has been addressed at the time the loans were drawn and are accounted for in the Group's cash flow forecasts.

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. 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.



(Expressed in Hong Kong dollars unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk *(Continued)*

(i) Interest rate profile

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

The Group

	2011		2010	
	Effective interest rate %	**Amount HK$'000**	Effective interest rate %	Amount HK$'000
Fixed rate borrowings:				
Bank loans	**7.57**	**7,090**	14.00	2,146
Variable rate borrowings:				
Bank loans	**5.06**	**15,734**	5.43	11,859
Total borrowings		**22,824**		14,005
Fixed rate borrowings as a percentage of total net borrowings		**31.06%**		15.32%

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately HK$219,000 (2010: HK$140,000). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

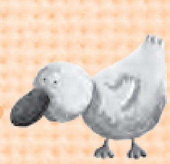
The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure 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 profit 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 is performed on the same basis for 2010.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars ("USD"), Renminbi Yuan, Vietnamese Dong and Japanese Yen.

As the USD is pegged to the Hong Kong Dollars ("HKD"), 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.



31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using spot rate at the year end date. Differences resulting from the translation of financial statements of foreign operations into the Group's presentation currency is excluded.

The Group

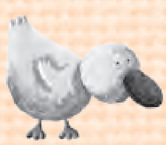
Exposure to foreign currencies (expressed in Hong Kong Dollars)

	2011				2010			
	United States Dollars $'000	**Renminbi Yuan $'000**	**Vietnamese Dong $'000**	**Japanese Yen $'000**	United States Dollars $'000	Renminbi Yuan $'000	Vietnamese Dong $'000	Japanese Yen $'000
Trade and other receivables	**73,353**	**487**	**30,200**	**6,805**	57,777	668	2,598	343
Cash and cash equivalents	**28,879**	**634**	**18,423**	**247**	31,885	630	4,792	2,491
Trade and other payables	**(51,081)**	**(23,680)**	**(43,689)**	**(38)**	(43,641)	(7,030)	(19,257)	(34)
Bank loans	**–**	**–**	**(6,628)**	**–**	–	–	(2,031)	–
Net exposure arising from recognised assets and liabilities	**51,151**	**(22,559)**	**(1,694)**	**7,014**	46,021	(5,732)	(13,898)	2,800

The Company

Exposure to foreign currencies (expressed in Hong Kong Dollars)

	2011		2010	
	Renminbi Yuan $'000	**Japanese Yen $'000**	Renminbi Yuan $'000	Japanese Yen $'000
Trade and other receivables	**1,102**	**3,490**	668	–
Cash and cash equivalents	**634**	**36**	631	44
Trade and other payables	**(23,508)**	**(6)**	(3,717)	(5)
Net exposure arising from recognised assets and liabilities	**(21,772)**	**3,520**	(2,418)	39



31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

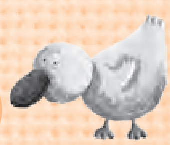
(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (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 HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

The Group

	2011		2010	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000
Renminbi Yuan	**10%**	**(1,883)**	10%	(454)
	(10)%	**1,883**	(10)%	454
Vietnamese Dong	**10%**	**(567)**	10%	(1,108)
	(10)%	**567**	(10)%	1,108
Japanese Yen	**10%**	**555**	10%	213
	(10)%	**(555)**	(10)%	(213)



31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

The Company

	2011		2010	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000
Renminbi Yuan	**10%**	**(1,818)**	10%	(202)
	(10)%	**1,818**	(10)%	202
Japanese Yen	**10%**	**294**	10%	3
	(10)%	**(294)**	(10)%	(3)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated to the HKD 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 re-measure 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 operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2010.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

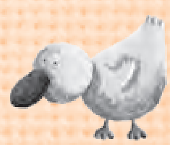
– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

2011

	The Group		
	Level 1	**Level 2**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Assets			
Available-for-sale debt securities:			
– Unlisted	6,516	–	6,516
Equity-linked securities	–	13,297	13,297
	6,516	13,297	19,813



31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Fair values *(Continued)*

(i) Financial instruments carried at fair value *(Continued)*

2010

	The Group		
	Level 1	Level 2	Total
	HK$'000	HK$'000	HK$'000
Assets			
Available-for-sale debt securities:			
– Unlisted	6,720	–	6,720
Equity-linked securities	–	3,442	3,442
Equity-linked deposits	–	15,645	15,645
	6,720	19,087	25,807

During the years ended 31 December 2011 and 2010, there were no significant transfers between instruments in Level 1 and Level 2.

(ii) Fair values of financial instruments carried at other than fair value

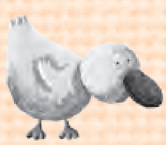
The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2011 and 2010.

(f) Estimation of fair values

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

(i) Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.



31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(f) Estimation of fair values *(Continued)*

(ii) Derivatives

Forward foreign exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

32 COMMITMENTS

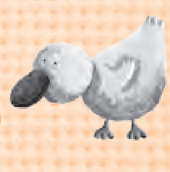
(a) Capital commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	2011	2010
	HK$'000	HK$'000
Contracted for	**14,510**	796
Authorised but not contracted for	**12,030**	–
	26,540	796

(b) At 31 December 2011, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:

	2011	2010
	HK$'000	HK$'000
Within 1 year	**11,235**	11,085
After 1 year but within 5 years	**2,747**	1,371
After 5 years	**2,091**	2,190
	16,073	14,646

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.



33 CONTINGENT LIABILITIES

In March 2011, a customer (the "Customer") initiated a claim against a subsidiary of the Company in the PRC (the "PRC Subsidiary") and requested compensation from the PRC subsidiary in respect of products manufactured by the PRC Subsidiary and sold to the Customer during the year ended 31 December 2010 (the "Claim"). Having considered the Claim in conjunction with the Company's legal counsel, the board of directors believes that the PRC Subsidiary is unlikely liable to the Claim. The Customer has not brought the Claim to Court and there are no further correspondences with the Customer subsequent to the initial claim. Accordingly, no provision has been recorded in the consolidated financial statements as at 31 December 2011 and 2010 in respect of the Claim.

34 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 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	2011	2010
	HK$'000	HK$'000
Short-term employee benefits	**11,105**	9,013

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

(b) Sales of goods to

	2011	2010
– a fellow subsidiary	**717**	2,247

(c) Purchase of goods from

	2011	2010
– an associate	**11,193**	15,758
– a fellow subsidiary	**171**	–
	11,364	15,758

(d) Purchase of materials from

	2011	2010
– an associate	**23**	374

34 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

	2011	2010
	HK$'000	HK$'000
(e) Commission received/receivable from		
– a fellow subsidiary	**3,115**	3,819
(f) Sharing of administrative services from		
– ultimate holding company	**9,392**	7,053
(g) Rental paid/payable to		
– ultimate holding company	**2,896**	2,647
(h) Processing fees paid/payable to		
– an associate	**3,830**	5,300

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

35 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

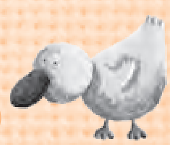
At 31 December 2011, the directors consider the immediate parent and ultimate controlling party of the Group to be C & H Co., Ltd, which is incorporated in the Republic of Korea. This entity does not produce financial statements available for public use.

36 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 27, 28 and 31 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 fair value less cost to sell and the value in use. It is difficult to precisely estimate fair value because quoted market prices for the Group's assets are not available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to level of sales 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 sales volume, selling price and amount of operating costs.



36 ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(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

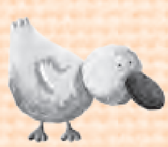
Receivables that are measured at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recorded. Objective evidence of impairment includes observable data that comes to the attention 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.

(e) Taxation, 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.



Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

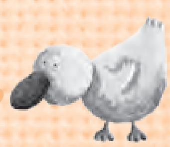
Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements (2011)*	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

38 POST BALANCE SHEET EVENT

Currently, the Company carries out its manufacturing activities through the Company's processing factory in Shenzhen under a contract processing agreement which will be expired on 31 December 2012. Management is in the process of transforming this processing factory into a wholly-owned foreign enterprise ("WOFE"). Management expects the transformation would be completed by the end of 2012. According to the relevant tax rules and regulations in the PRC, the processing factory is assessed to use the deemed profit method to determine the amount of income tax provision. Under the deemed profit method, the processing factory was subject to income tax at 24% in 2011 on its deemed profit which was determined as 10% of its operating expenses according to the tax authority in Shenzhen. Upon the completion of the transformation, the WOFE would be subjected to the PRC's statutory income tax rate of 25% to determine its income tax provision.



Five Year Financial Summary

	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011 HK$'000**
Results					
Turnover	946,328	1,048,589	994,052	1,544,857	**1,083,152**
(Loss)/profit from operations	(12,067)	(35,495)	89,111	214,986	**87,856**
Finance costs	(8,132)	(6,888)	(2,690)	(873)	**(1,179)**
Share of (loss)/profit of associates	(16)	(509)	(318)	(196)	**143**
(Loss)/profit before taxation	(20,215)	(42,892)	86,103	213,917	**86,820**
Income tax credit/(expense)	11,986	(13,427)	(7,865)	(10,958)	**(15,999)**
(Loss)/profit for the year	(8,229)	(56,319)	78,238	202,959	**70,821**
Attributable to:					
– Equity shareholders of the Company	(4,831)	(41,929)	74,619	199,597	**74,723**
– Non-controlling interests	(3,398)	(14,390)	3,619	3,362	**(3,902)**
(Loss)/profit for the year	(8,229)	(56,319)	78,238	202,959	**70,821**
(Loss)/earnings per share					
Basic	HK (0.72)¢	HK (6.27)¢	HK 11.16¢	HK 29.83¢	**HK 11.12¢**
Diluted	HK (0.72)¢	HK (6.27)¢	HK 11.16¢	HK 29.83¢	**HK 11.12¢**

	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	**2011 HK$'000**
Assets and liabilities					
Fixed assets	197,175	193,329	148,339	183,860	**181,570**
Long term receivables	–	–	–	7,231	**2,796**
Prepayment	–	–	9,184	1,992	**1,990**
Intangible assets	16,623	12,516	14,028	16,690	**12,191**
Interest in associates	1,373	950	638	522	**690**
Net defined benefit retirement asset	–	–	–	–	**2,619**
Deferred tax assets	3,826	503	2,299	13,625	**11,625**
Other financial assets	76,284	–	6,142	10,162	**23,048**
Net current assets	166,647	178,377	296,407	431,529	**475,430**
Total assets less current liabilities	461,928	385,675	477,037	665,611	**711,959**
Deferred tax liabilities	(248)	–	–	–	**(22)**
Other non-current liabilities	(11,469)	(6,978)	(1,046)	(6,369)	**(4,924)**
NET ASSETS	450,211	378,697	475,991	659,242	**707,013**


DREAM INTERNATIONAL LIMITED
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