

Report of the Directors 董事會報告書

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2005.

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 8/F., Tower 5, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

Principal activities

The principal activities of the company are the design, development, manufacturing and sale of plush stuffed and steel and plastic toys and investment holding. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

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

Major customers and suppliers

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

董事會全人謹將截至二零零五年十二月三十一日止年度的年報及經審核財務報表呈覽。

主要營業地點

德林國際有限公司(「本公司」)乃一間在香港成立及註冊之公司，其註冊辦事處及主要營業地點位於香港九龍尖沙咀廣東道33號中港城第5座8樓。

主要業務

本公司的主要業務是設計、發展、生產及銷售毛絨玩具及鋼材和塑膠玩具，以及投資控股。各附屬公司的主要業務及其他詳情載列於財務報表附註16。

本公司及各附屬公司(「本集團」)於本財政年度的主要業務及經營地區分析載列於財務報表附註12。

主要客戶及供應商

本集團於本財政年度的主要客戶及供應商分別佔本集團銷售及採購總額的資料如下：

		Percentage of the group's total 佔本集團總額百分比	
		Sales 銷售	Purchases 採購
The largest customer	最大客戶	44.2%	
Five largest customers in aggregate	五大客戶總和	71.0%	
The largest supplier	最大供應商		7.7%
Five largest suppliers in aggregate	五大供應商總和		18.9%

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Major customers and suppliers (Continued)

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.

Financial statements

The loss of the group for the year ended 31 December 2005 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 54 to 183.

Transfer to reserves

Loss attributable to shareholders, before dividends, of HK\$36,470,000 (2004 (restated): Profit of HK\$49,051,000) has been transferred to reserves. Other movements in reserves are set out in note 28 to the financial statements.

No interim dividend (2004: 3.0 HK cents per share) was declared and paid in 2005. The directors did not recommend a final dividend (2004: 6.0 HK cents) in respect of the year ended 31 December 2005.

Fixed assets

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

Share capital

Details of the movements in share capital of the company during the year are set out in note 28(c) to the financial statements. Shares were issued during the year on exercise of share options.

There were no purchases, sales or redemptions of the company's shares by the company or any of its subsidiaries during the year.

主要客戶及供應商 (續)

於本年度內任何時間，本公司各董事、與董事有聯繫人士或任何股東（據董事所知，持有本公司股本5%以上者）均沒有擁有這些主要客戶及供應商的任何權益。

財務報表

本集團截至二零零五年十二月三十一日止年度之虧損以及本公司及本集團於該日的財政狀況載於第54頁至第183頁之財務報表內。

轉撥至儲備

股東應佔虧損（未扣除股息）為36,470,000港元（二零零四年（重列）：溢利49,051,000港元）已轉入儲備。其他儲備變動載於財務報表附註28。

二零零五年並無派發中期股息（二零零四年：3.0港仙）。董事不建議派發截至二零零五年十二月三十一日止年度末期股息（二零零四年：6.0港仙）。

固定資產

固定資產之變動詳情載於財務報表附註13。

股本

本公司於年內股本變動之詳情載於財務報表附註28(c)。年內已就購股權獲行使而發行股份。

本公司或其任何附屬公司於年內概無購買、出售或贖回本公司股份。

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Directors

The directors during the financial year were:

Chairman and executive director

Kyoo Yoon **Choi**

Executive directors

Tae Sub **Choi**

Young M. **Lee**

James **Wang**

(appointed on 1 April 2005)

Chul Hong **Min**

(resigned on 31 December 2005)

Independent non-executive directors

Valiant, Kin Piu **Cheung**

Cheong Heon **Yi**

Chan **Yoo**

Mrs. Shin Hee **Cha** was appointed as an executive director after the end of financial year on 24 January 2006.

Mr. Young M. Lee, Mr. Valiant, Kin Piu Cheung and Professor Cheong Heon Yi together with Mrs. Shin Hee Cha will retire at the forthcoming annual general meeting in accordance with articles 101 and 92 respectively of the company's articles of association and, being eligible, offer themselves for re-election.

Directors' service contracts

The service contract of Mr. Valiant, Kin Piu Cheung, the independent non-executive director, was renewed by the board of directors on 22 October 2005 for a term of 2 years commencing on 22 October 2005.

The service contract of Professor Cheong H. Yi, the independent non-executive director, was renewed by the board of directors on 22 November 2005 for a term of 2 years commencing on 22 November 2005.

Mr. Chan Yoo, the independent non-executive director, was appointed by the board of directors on 20 September 2004 for a term of 2 years commencing on 30 September 2004.

Their remuneration is determined by the board of directors on the anniversary of the dates of their appointments.

董事

本財政年度內的董事會成員如下：

主席兼執行董事

崔奎琬

執行董事

崔泰燮

李泳模

王傳泳

(於二零零五年四月一日獲委任)

閔詰泓

(於二零零五年十二月三十一日辭任)

獨立非執行董事

張建標

李政憲

柳贊

於財政年度結算日後，車信熙女士於二零零六年一月二十四日獲委任為執行董事。

分別根據本公司之公司章程細則第101及92條，李泳模先生、張建標先生、李政憲博士及車信熙女士將於即將召開的股東週年大會依章告退，惟符合資格並願意膺選連任。

董事服務合約

獨立非執行董事張建標先生之服務合約已於二零零五年十月二十二日獲董事會重續，年期由二零零五年十月二十二日起計為期兩年。

獨立非執行董事李政憲博士之服務合約已於二零零五年十一月二十二日獲董事會重續，年期由二零零五年十一月二十二日為期兩年。

獨立非執行董事柳贊先生已於二零零四年九月二十日獲董事會重新委任，任期由二零零四年九月三十日起計為期兩年。

他們之薪酬乃董事會於在他們獲委任滿一週年時釐定。

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Directors' service contracts (Continued)

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 executive's interests and short positions in shares, underlying shares and debentures

The directors and chief executive of the company who held office at 31 December 2005 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 (the "SFO")) at that date as recorded in the register of directors' and chief executive's interests required to be kept by the company under section 352 of the SFO or notified to the company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

(i) Interests in issued shares

董事服務合約 (續)

擬於即將召開的股東週年大會中候選連任的董事概無與本公司或其任何附屬公司訂立於一年內不可在不予賠償(一般法定義務除外)的情況下終止的尚未屆滿服務合約。

董事及最高行政人員擁有股份、相關股份及債權證之權益及淡倉

遵照《證券及期貨條例》第352條須備存之董事及最高行政人員權益及淡倉登記冊顯示，或本公司及香港聯合交易所有限公司(「香港聯交所」)根據《上市發行人董事進行證券交易之標準守則》獲得之通知，於二零零五年十二月三十一日擔任本公司董事及最高行政人員職務之人士於該日擁有本公司、其控股公司、附屬公司及其他相聯法團(須符合《證券及期貨條例》所載的定義)有關股份的權益如下：

(i) 於已發行股份之權益

Ordinary shares of US\$0.01 each
每股面值0.01美元之普通股數目

		Personal interests (Note 1)	Family interests	Corporate interests	Trustee interests	Total number of shares held	Percentage of total issued shares
		個人權益 (附註1)	家族權益	公司權益	受託人權益	持有 股份總數	佔已發行 股份總數的 百分比
Beneficial Interests	實益權益						
The company	本公司						
- Kyoo Yoon Choi	- 崔奎琬	-	-	455,000,000 (Note 2) (附註2)	-	455,000,000	68.06%
- Chul Hong Min (resigned on 31 December 2005)	- 閔詰泓 (於二零零五年 十二月三十一日 辭任)	3,900,000	-	-	-	3,900,000	0.58%
- Tae Sub Choi	- 崔泰燮	585,000	-	-	-	585,000	0.09%
- Young M. Lee	- 李泳模	1,740,000	-	-	-	1,740,000	0.26%
C & H Co., Ltd	C & H Co., Ltd						
- Kyoo Yoon Choi	- 崔奎琬	189,917	124,073 (Note 3) (附註3)	-	-	313,990	61.03%
- Chul Hong Min (resigned on 31 December 2005)	- 閔詰泓 (於二零零五年 十二月三十一日 辭任)	14,212	-	-	-	14,212	2.76%
- Tae Sub Choi	- 崔泰燮	5,685	-	-	-	5,685	1.10%

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Directors' and chief executive's interests and short positions in shares, underlying shares and debentures (Continued)

(i) Interests in issued shares (Continued)

Notes:

- (1) The shares are registered under the names of the directors and chief executive who are the beneficial owners.
- (2) Kyoo Yoon Choi in his own name holds approximately 36.91% of the issued share capital of C & H Co., Ltd ("C & H Korea"), together with his wife, Woul Hee Cha, hold approximately 61.03% of the issued share capital of C & H Korea which owned 382,850,000 shares in the company. In addition, Kyoo Yoon Choi beneficially owns 100% of interest of Uni-Link Technology Limited which owned 72,150,000 shares of the company.
- (3) The wife of Kyoo Yoon Choi, Woul Hee Cha, holds approximately 24.12% of the issued share capital of C & H Korea.

(ii) Interests in underlying shares

The directors and chief executive 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.

Apart from the foregoing, none of the directors and chief executive of the company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the company, and of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the company pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

董事及最高行政人員擁有股份、相關股份及債權證之權益及淡倉 (續)

(i) 於已發行股份之權益 (續)

附註：

- (1) 股份乃以作為實益擁有人之董事及最高行政人員之名義登記。
- (2) 崔奎琬以其個人名義持有 C & H Co., Ltd (「C&H韓國」) (擁有本公司382,850,000 股股份) 之已發行股本約36.91%，並連同其妻子車月姬持有 C & H 韓國之已發行股本約 61.03%。另外，崔奎琬實益擁有 Uni-Link Technology Limited 之 100%權益，而該公司則擁有本公司 72,150,000 股股份。
- (3) 崔奎琬之妻子車月姬持有 C & H 韓國之已發行股本約24.12%。

(ii) 相關股份之權益

本公司董事及最高行政人員已根據本公司之購股權計劃獲授購股權，有關詳情載於下文「購股權計劃」一節。

除上文所述者外，遵照《證券及期貨條例》第352條備存之登記冊顯示，或按照《上市發行人董事進行證券交易之標準守則》以其他方式向本公司具報，本公司董事及最高行政人員或任何他們的配偶或未滿十八歲之子女均沒有擁有本公司、其控股公司、附屬公司或其他相聯法團之股份、相關股份或債權證權益或持有股份的淡倉。

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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.

購股權計劃

本公司於二零零二年一月二十二日採納一項購股權計劃。據此，本公司董事獲授權酌情邀請本集團之僱員（包括本集團任何成員公司之董事）接受購股權以認購本公司股份。購股權之行使價為：(i) 股份之票面值；(ii) 股份於購股權授予當日於香港聯交所錄得的收市價；及(iii) 股份於緊接購股權授予當日前五個營業日在香港聯交所錄得的平均收市價三者之最高數額。購股權可於授予日期後起計之一至三年後逐步行使，行使期在董事會授出購股權時通知各購股權持有人，惟該等期間不可超出購股權授出日期起計十年。

於行使所有根據購股權計劃已授出惟未行使購股權時可能發行之股份總數量最多不得超過本公司不時已發行股本之30%。在一直遵守以上總限額之情況下，董事可在一般及不再有進一步授權情況下根據購股權計劃授出購股權，惟於行使根據購股權計劃將予授出之所有購股權時可能發行之股份數目，不超過本公司於二零零二年二月七日（即本公司股份在香港聯交所上市日期）已發行股本之10%。就計算上述股份數目而言，根據購股權計劃而失效之購股權將不在計算之列。

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Share option scheme (Continued)

The total number of securities available for issue under the share option scheme as at 31 December 2005 was 46,471,000 shares (including options for 22,631,000 shares that have been granted but not yet lapsed or exercised) which represented 6.95% of the issued share capital of the company at 31 December 2005. In respect of the maximum entitlement of each participant under the scheme, 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.

As at 31 December 2005, the directors and employees of the company had the following interests in options to subscribe for shares of the company (market value per share at 31 December 2005 was HK\$0.58) 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.

購股權計劃 (續)

於二零零五年十二月三十一日，根據購股權計劃可予發行之證券總數為46,471,000股股份（包括涉及22,631,000股股份已授出但尚未失效或獲行使之購股權），佔本公司於二零零五年十二月三十一日已發行股本之6.95%。根據各名參與者於該計劃下可獲分配之最高配額，於任何十二個月期間，因購股權獲行使而已發行及將發行者予各名參與者之證券數目已被限制為本公司已發行普通股之1%。

於二零零五年十二月三十一日，本公司董事及僱員於根據本公司購股權計劃以象徵式代價授出可認購本公司股份（於二零零五年十二月三十一日之每股市場價值為0.58港元）之購股權中持有以下權益。購股權並未上市。每份購股權賦予其持有人權利認購本公司一股每股面值0.01美元之普通股。

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Share option scheme (Continued)

購股權計劃 (續)

	No. of options outstanding as at 1 January 2005	No. of options outstanding as at 31 December 2005	Date granted	Period during which options exercisable (Note 1)	Exercise price per share	*Market value per share at date of grant of options	No. of shares acquired on exercise of options during the year	*Weighted average closing price immediately before the date on which the options were exercised	No. of options lapsed during the year (Note 2)
	於二零零五年 一月一日 未行使之 購股權數目	於二零零五年 十二月三十一日 未行使之 購股權數目	授予日期	可行使 購股權期間 (附註1)	每股行使價	於購股權 授出日期 每股股份 市場價值	年內因行使 購股權而認購 之股份數目	緊接購股權獲 行使日期前 之加權 平均收市價	年內失效之 購股權數目 (附註2)
Directors 董事									
Chul Hong Min (resigned on 31 December 2005) 閔誌泓 (於二零零五年 十二月三十一日辭任)	2,600,000	2,600,000	7 February 2002 二零零二年二月七日	7 February 2003 to 7 February 2012 二零零三年二月七日至 二零一二年二月七日	HK\$1.18 1.18港元	HK\$1.20 1.20港元	-	-	-
Young M. Lee 李泳模	1,560,000	1,360,000	7 February 2002 二零零二年二月七日	7 February 2003 to 7 February 2012 二零零三年二月七日至 二零一二年二月七日	HK\$1.18 1.18港元	HK\$1.20 1.20港元	200,000	HK\$1.20 1.20港元	-
Tae Sub Choi 崔泰燮	1,365,000	1,365,000	15 April 2003 二零零三年四月十五日	15 April 2004 to 15 April 2013 二零零四年四月十五日至 二零一三年四月十五日	HK\$1.43 1.43港元	HK\$1.42 1.42港元	-	-	-
James Wang 王清冰	520,000	520,000	7 February 2002 二零零二年二月七日	7 February 2003 to 7 February 2012 二零零三年二月七日至 二零一二年二月七日	HK\$1.18 1.18港元	HK\$1.20 1.20港元	-	-	-
Employees in aggregate 僱員	5,461,000	4,681,000	7 February 2002 二零零二年二月七日	7 February 2003 to 7 February 2012 二零零三年二月七日至 二零一二年二月七日	HK\$1.18 1.18港元	HK\$1.20 1.20港元	780,000	HK\$1.20 1.20港元	-
	455,000	455,000	15 April 2003 二零零三年四月十五日	15 April 2004 to 15 April 2013 二零零四年四月十五日至 二零一三年四月十五日	HK\$1.43 1.43港元	HK\$1.42 1.42港元	-	-	-
	11,650,000	11,650,000	2 January 2004 二零零四年一月二日	2 January 2005 to 2 January 2014 二零零五年一月二日至 二零一四年一月二日	HK\$1.87 1.87港元	HK\$1.85 1.85港元	-	-	-
	<u>23,611,000</u>	<u>22,631,000</u>					<u>980,000</u>		

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Share option scheme (Continued)

- * being the weighted average closing price of the company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

Notes:

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

On or after 1st year anniversary of the date of grant 授出日期起計一週年或其後	30%
On or after 2nd year anniversary of the date of grant 授出日期起計二週年或其後	another 30% 另外30%
On or after 3rd year anniversary of the date of grant 授出日期起計三週年或其後	another 40% 另外40%

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

- (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 above granted share options is ten years commencing on the date on which an option is granted in accordance with the scheme.

The estimated fair value of the share options that were granted after 7 November 2002 but which had not vested on 1 January 2005 are recognised in the financial statements over the relevant vesting periods according to the HKFRS 2.

購股權計劃 (續)

- * 即本公司普通股緊接購股權授出或行使(如適用)當日之前之加權平均收市價。

附註：

- (1) 規定分階段可行使之購股權之最高數額百分比如下：

Percentage of share options granted 授出購股權百分比

On or after 1st year anniversary of the date of grant 授出日期起計一週年或其後	30%
On or after 2nd year anniversary of the date of grant 授出日期起計二週年或其後	another 30% 另外30%
On or after 3rd year anniversary of the date of grant 授出日期起計三週年或其後	another 40% 另外40%

(2) 根據購股權計劃之條件，授予任何僱員而尚未行使之任何購股權將於該等僱員不再為本公司僱員三個月後失效。

(3) 授予董事之購股權乃以董事之名義註冊，並以董事為實益擁有人。

上述授出之購股權之年期由根據該計劃授出購股權日期起為期十年。

於二零零二年十一月七日授出但於二零零五年一月一日尚未歸屬之購股權乃根據香港財務報告準則第2號於有關歸屬期間內在財務報表確認。

Report of the Directors 董事會報告書

Share option scheme (Continued)

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 1(q)(iii) and note 26 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the director of the company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares of the company

As at 31 December 2005, the following substantial shareholders' interests were recorded in the register required to be kept by the company under section 336 of the SFO as holding 5% or more of the issued share capital of the company:

購股權計劃 (續)

所授予購股權之會計政策及每項購股權之加權平均價分別載於附註1(q)(iii)及附註26。

除上文所述者外，本公司、任何其控股公司、附屬公司或同系附屬公司概無於年內任何時間訂立任何安排，致使本公司任何董事或彼等之任何配偶或十八歲以下之子女可藉購入本公司或任何其他法團之股份或債權證而獲益。

大股東及其他人士擁有本公司股份及相關股份之權益及淡倉

於二零零五年十二月三十一日，下列主要股東權益已記錄於本公司根據《證券及期貨條例》第336條備存之登記冊，列為於本公司已發行股本中持有5%或以上權益：

Name	名稱	Percentage	
		Ordinary shares held	of total issued shares
		所持有之普通股	佔全部已發行股份百分比
C & H Co., Ltd.	C & H Co., Ltd.	382,850,000	57.27%
Uni-Link Technology Limited	Uni-Link Technology Limited	72,150,000	10.79%
Kyoo Yoon Choi (Note 1)	崔奎琬 (附註1)	455,000,000	68.06%
Arisaig Greater China Fund	Arisaig Greater China Fund	45,318,000	6.78%
Arisaig Partners (Mauritius) Limited (Note 2)	Arisaig Partners (Mauritius) Limited (附註2)	45,318,000	6.78%
Lindsay William Ernest Cooper (Note 3)	Lindsay William Ernest Cooper (附註3)	45,318,000	6.78%

Report of the Directors 董事會報告書

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares of the company (Continued)

Notes:

- (1) Kyoo Yoon Choi, together with his wife, Woul Hee Cha, hold approximately 61.03% of the issued share capital of C & H Korea 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 455,000,000 ordinary shares as to approximately 68.06% of the issued shares of the company.
- (2) Arisaig Partners (Mauritius) Limited is the fund manager of Arisaig Greater China Fund.
- (3) Lindsay William Ernest Cooper is deemed interested through his indirect 33.33% beneficial interest in Arisaig Partners (Mauritius) Limited.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the company.

大股東及其他人士擁有本公司股份及相關股份之權益及淡倉 (續)

附註：

- (1) 崔奎琬連同其妻子車月姬持有C & H 韓國之已發行股本約61.03%，而崔奎琬實益擁有Uni-Link Technology Limited 已發行股本之100%權益。崔奎琬被視為持有455,000,000股普通股，佔本公司已發行股份約68.06%。
- (2) Arisaig Partners (Mauritius) Limited 為 Arisaig Greater China Fund 之基金經理。
- (3) Lindsay William Ernest Cooper 被視為透過其於 Arisaig Partners (Mauritius) Limited 之33.33%間接實益權益而擁有權益。

除上文所述者外，本公司概無接獲通知，有關須記錄於按照本公司根據《證券及期貨條例》第336條備存之登記冊之其他權益。

Report of the Directors 董事會報告書

Directors' interests in contracts

Apart from the related party transactions as disclosed in note 31 to the financial statements, no contract of significance to which the company, any of its holding company, subsidiaries or fellow subsidiaries was a party, in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in competing business

During the year ended 31 December 2005, C & H Korea and its subsidiaries excluding the group ("C & H Korea group"), as set out below, are principally engaged in the business of ownership of a building in Seoul, a leather goods and accessories agency, fabric and textile manufacturing in Sri Lanka through its wholly owned subsidiary Jung Yoon Textiles (Private) Limited, plastic sheet manufacturing in Vietnam through its subsidiary KTI Corporation and investment holding. Mr. Chul Hong Min, Mr. Tae Sub Choi and Mr. Kyoo Yoon Choi are deemed to be interested in these businesses some of which may compete with the group's businesses as they are shareholders of C & H Korea and Mr. Kyoo Yoon Choi is also a director of C & H Korea.

董事在合約的利益

除根據財務報表附註31所披露之關聯人士交易外，本公司、任何其控股公司、附屬公司或同系附屬公司於年結時或於本年度內任何時間，並無訂立任何本公司董事於當中直接或間接擁有關鍵性利益關係之重要合約。

董事於競爭性業務之權益

於截至二零零五年十二月三十一日止年度，C & H韓國及其附屬公司(不包括本集團)(「C & H韓國集團」)(如下文所載)從事的業務為擁有首爾(前稱漢城)一座樓宇、一家皮具及配飾代理商，透過其全資附屬公司Jung Yoon Textiles (Private) Limited在斯里蘭卡製造布料及紡織品、透過附屬公司KTI Corporation於越南生產塑膠片及投資控股。由於閔詰泓先生、崔泰燮先生及崔奎玠先生為C & H韓國之股東而崔奎玠先生亦為C & H韓國之董事，故彼等均被視為於此等業務(其中部分可能與本集團業務構成競爭)佔有權益。

Report of the Directors 董事會報告書

Directors' interests in competing business 董事於競爭性業務之權益 (Continued) (續)

Name of company 公司名稱	Nature of competing business 競爭業務的性質	Remarks 備註
C & H Lanka (PVT) Ltd. ("C & H Lanka")	<p>C & H Lanka is wholly owned subsidiary of C & H Korea. The directors of C & H Lanka are Mr. Kyoo Yoon Choi, Ms. Shin Hee Cha, and Mr. Young Dae Noh. C & H Lanka was engaged in the manufacturing of plush stuffed toys in Sri Lanka. C & H Lanka is undergoing winding-up procedure and the local court has appointed liquidators Mr. J. David & M.S. Jayawickrama of MS SMJS Associates as directors of the company.</p> <p>C & H Lanka為C & H韓國之全資附屬公司。C & H Lanka之董事為崔奎玠先生、車信熙女士及盧泳大先生。C & H Lanka於斯里蘭卡從事毛絨玩具製造業務。C & H Lanka正進行清盤程序，當地政府已委派清盤人MS SMJS Associates之J. David先生及M.S. Jayawickrama為該公司之董事。</p>	<p>Pursuant to the Deed of Undertaking*, 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.</p> <p>根據承諾契據*，C & H Lanka同意不會在本集團經營所在之任何一個地區從事或參與任何與本集團業務構成或可能構成競爭之業務。其業務局限於生產配額相關毛絨玩具以及本集團未能應付之訂單。</p>
Jung Yoon Textiles (Private) Ltd. ("JY Textile")	<p>JY Textile is wholly owned subsidiary of C & H Korea. The directors of JY Textile are Mr. Kyoo Yoon Choi and Mr. Kyung Soon Song. JY Textile is engaged in the manufacturing and dyeing of fabrics.</p> <p>JY Textile為C & H韓國之全資附屬公司。JY Textile董事為崔奎玠先生及宋吉淳先生。JY Textile從事製造布料及染製布料之業務。</p>	<p>JY Textile is engaged in manufacturing of fabrics and dyeing of fabrics for local customers in Sri Lanka.</p> <p>JY Textile從事為斯里蘭卡本土客戶製造布料及染製布料之業務。</p>

Report of the Directors 董事會報告書

Directors' interests in competing business

(Continued)

董事於競爭性業務之權益

(續)

Name of company	Nature of competing business	Remarks
公司名稱	競爭業務的性質	備註
Yujin Robot Co., Ltd. ("Yujin Robot") (formerly known as Gina World Co., Ltd.)	Yujin Robot is listed on the Korea Securities Dealers Automated Quotation market in Korea. After the merger with Yujin Robotics Co., Ltd in December 2005, Gina World Co., Ltd. ("Gina World") was no longer a subsidiary of C & H Korea and was renamed Yujin Robot. Yujin	Gina World is a customer of the group and its business is delineated geographically with the group as it focuses on marketing and distribution of certain character licensed toy products in Korea. After the merger, it will also engage in designing, manufacturing and marketing of domestic, industrial and entertainment robots. Pursuant to the Deed of Undertaking*, C & H Korea agreed to procure Gina World to first offer all customers' orders for the production of plush stuffed toys directly or indirectly by it to the group on normal commercial terms after arm's length negotiation.
Yujin Robot Co., Ltd. (「Yujin Robot」) (「前稱「Gina World Co., Ltd.」)	Robot is owned as to 8.78% by C & H Korea and 8.83% by Mr. Kyoo Yoon Choi. The directors of Yujin Robot are Mr. Kyoo Yoon Choi (resigned on 24 March 2006), Mr. Kyung Chul Shin, Mr. Seong Ju Park, Mr. Sang Hee Jung, Mr. Eui Tae Chang (resigned on 27 March 2006) and Mrs. Jeong Hye Han. Yujin Robot holds certain rights to marketing and distribution of character licensed toys products in Korea and focuses on the marketing and distribution of character licensed toy products in the Korean market.	
	Gina World在韓國證券交易商自動報價系統市場上市於二零零五年十二月與Yujin Robotics Co., Ltd.合併後，Gina World Co., Ltd. (「Gina World」) 不再被視為C & H韓國之附屬公司，並易名為Yujin Robot，Yujin Robot由C & H韓國擁有8.78%，崔奎琬先生擁有8.83%。Yujin Robot之董事為崔奎琬先生(於二零零六年三月二十四日辭任)、申慶澈先生、朴性州先生、鄭相熙先生、韓程惠女士(於二零零六年三月二十七日辭任)及Jeong Hye Han女士。Yujin Robot持有若干項於韓國營銷及分銷角色造型特許玩具產品之特許權，並專注於韓國市場推銷及分銷角色造型特許玩具產品之業務。	Gina World為本集團客戶，其與本集團在業務地區範圍而言並無重疊，並專注於在韓國推銷及分銷若干角色造型特許玩具產品。於合併後，其將從事家用、工業及娛樂機械人之設計、製造及分銷。根據承諾契據*，C & H韓國同意促使Gina World首先將本身所有毛絨玩具直接或間接生產之客戶訂單轉介本集團，並按一般商業條款公平磋商進行。

Report of the Directors 董事會報告書

Directors' interests in competing business (Continued)

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

* In relation to the listing of the company's shares on the Main Board of the SEHK, C & H Korea has entered into the Deed of Undertaking in favour of the company to effect that for so long as C & H Korea 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 Korea will not, and C & H Korea will procure that none of its subsidiaries, other than the group, will engage or otherwise be involved in any business which competes or is likely to compete, either directly or indirectly, with any of the restricted business in any of the regions in which the group engages in and undertakes the restricted business (such regions include the People's Republic of China ("PRC"), Taiwan, Europe, the US and Japan). Such an undertaking shall extend to all subsidiaries of C & H Korea, except for the group.

Application of proceeds from capital raising

The group raised approximately HK\$175 million, net of related expenses, from the new issue and placing of 162,500,000 new shares of the company at HK\$1.2 per share in February 2002. The company's shares were successfully listed on the SEHK on 7 February 2002. The directors have been carefully looking for suitable opportunities and timing to apply the net proceeds in line with the proposed application as set out in the company's prospectus dated 29 January 2002 and have no intention so far as to change the ways of its usages.

The remaining net proceeds from the new issue and the placing are currently placed on deposits with financial institutions and/or licensed banks in Hong Kong.

董事於競爭性業務之權益 (續)

上述公司的交易載於「關連交易」一段。

* 就本公司股份於香港聯交所主板上市，C & H韓國為本公司訂立承諾契據，在C & H韓國及其聯繫人士仍分別或共同直接或間接實益擁有本公司已發行股本30%或以上權益之情況下，C & H韓國不會，並將促使其附屬公司(本集團除外)不會從事或參與任何直接或間接與本集團經營限制業務所在地區(包括中華人民共和國(「中國」、台灣、歐洲、美國及日本)內的任何限制業務構成或可能構成競爭的業務。除本集團外，該項承諾申延至C & H韓國的所有附屬公司。

集資所得款項之運用

本公司於二零零二年二月以發售新股及配售方式按每股股份1.2港元之價格發行162,500,000股本公司新股份，扣除相關費用後集資淨額約175,000,000港元。本公司股份於二零零二年二月七日於香港聯交所成功上市。董事一直審慎物色適當機會及時機，以按照本公司於二零零二年一月二十九日刊發之招股章程所載之建議用途運用所得款項淨額，迄今為止董事無意改變該等款項之運用方式。

發售新股及配售之其餘所得款項淨額現作為存款存放於香港之金融機構及／或持牌銀行。

Report of the Directors 董事會報告書

Continuing connected transactions

During the year, the group entered into the following continuing connected transactions with C & H Korea group as defined in the Rules Governing the Listing of Securities on the Main Board of the SEHK (“the Listing Rules”):

- (1) The group sold plush stuffed toys and steel and plastic toys to Yujin Robot (formerly Gina World), who in turn sold those products to their ultimate customers. These transactions were entered into on an arm’s length basis and on terms no less favorable to the group than those available to independent third parties.

On 8 August 2005, the group entered into a sales and purchase agreement with Yujin Robot in the ordinary and usual course of business of the group which sets out an annual sales cap of HK\$14,000,000 for each of the three years ending 31 December 2007.

During the year ended 31 December 2005, the amount of sales to Yujin Robot while it was a connected person amounted to HK\$10,377,000 (2004: HK\$10,898,000). Yujin Robot ceased to be a connected person on 2 December 2005 following the change in its ownership as described in the section “Directors’ interests in competing business” above.

持續關連交易

本集團於年度內，與C & H 韓國集團進行下列持續關連交易(定義見《香港聯交所主板證券上市規則》(「上市規則」))：

- (1) 本集團向Yujin Robot(前稱Gina World)銷售毛絨玩具及金屬與塑膠玩具，而Yujin Robot將該等產品轉售予其最終客戶。該等交易乃按公平原則磋商並按本集團獲提供不遜於獨立第三方獲提供之條款而訂立。

於二零零五年八月八日，本集團於集團一般及日常業務過程中與Yujin Robot訂立銷售及購買協議，以載列截至二零零七年十二月三十一日止三個年度之年度銷售上限為14,000,000港元。

於截至二零零五年十二月三十一日止年度，向Yujin Robot(當其尚為關聯人士)之銷售額為10,377,000港元(二零零四年：10,898,000港元)。Yujin Robot繼其擁有權有變後，於二零零五年十二月二日不再為關聯人士，詳見上文「董事於競爭性業務之權益」一節。

Report of the Directors 董事會報告書

Continuing connected transactions 持續關連交易 (續)

(Continued)

(2) On 26 October 2005, the group renewed its property lease agreement with C & H Korea for Dream Inko Co., Ltd ("Dream Inko")'s principal place of business in Seoul, Korea. The property lease agreement is renewable upon its expiry in July 2006. 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 proximity area.

During the year ended 31 December 2005, the rental paid amounted to HK\$7,038,000 (2004: HK\$5,438,000).

The directors, including the independent non-executive directors, of the company have reviewed the continuing connected transactions and confirmed that the continuing connected transactions were entered into:

- (i) in the ordinary and usual course of business;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the group than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the company as a whole.

The company has issued press announcements in respect of the above continuing connected transactions regarding sales to Yujin Robot and rental paid to C & H Korea on 26 November 2004, 8 August 2005 and 26 October 2005 respectively.

(2) 於二零零五年十月二十六日，本集團就 Dream Inko Co., Ltd. (「Dream Inko」) 位於韓國首爾之主要營業地點與 C & H 韓國重續物業租賃協議。待該物業租賃協議於二零零六年七月屆滿後，該協議可予重續。該物業租賃協議之條款乃按公平原則磋商後釐定，並已參考向毗鄰地區其他業主、租戶及地產代理作出之查詢。

於截至二零零五年十二月三十一日止年度，所繳付之租金達 7,308,000 港元 (二零零四年：5,438,000 港元)。

本公司董事 (包括獨立非執行董事) 已審閱持續關連交易，並確認：

- (i) 在一般及日常業務中訂立；
- (ii) 按一般商業條款進行；或如無足夠可比較之交易判斷是否按一般商業條款訂立，則按不遜於獨立第三者給予或所獲之條款訂立；及
- (iii) 根據規管該等交易之有關協議，並按公平合理及符合本公司股東之整體利益之條款進行。

本公司已就上述關於向 Yujin Robot 銷售及向 C & H 韓國支付租金之關連交易分別於二零零四年十一月二十六日、二零零五年八月八日及二零零五年十月二十六日發表報章公佈。

Report of the Directors 董事會報告書

Continuing connected transactions 持續關連交易 (續)

(Continued)

The directors have requested the auditors of the Company to perform certain agreed upon procedures on the continuing connected transactions and have received a letter from the auditors stating their findings that the continuing connected transactions:

- (i) have received the approval of the Company's board of directors;
- (ii) were in accordance with the pricing policies of the Company;
- (iii) have been entered into in accordance with the relevant agreements governing the continuing connected transactions; and
- (iv) have not exceeded the relevant caps for the year ended 31 December 2005, as set out in the Company's previous press announcements.

董事已要求本公司核數師對持續關連交易進行若干已協定之程序，董事已接獲核數師函件，當中載有彼等之發現，即持續關連交易：

- (i) 已接獲本公司董事會之批准；
- (ii) 符合本公司之定價政策；
- (iii) 根據管理持續關連交易之相關協議訂立；及
- (iv) 並未超越本公司於之前報章公佈所述之截至二零零五年十二月三十一日止年度之相關上限。

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.

充足公眾持股量

按於本年報日期可公開所得之資料及據本公司董事所知，本公司已遵照上市規則維持最低公眾持股量。

Bank loans and other borrowings

Particulars of bank loans and other borrowings of the company and the group as at 31 December 2005 are set out in note 24 to the financial statements.

銀行貸款及其他借款

本公司及本集團於二零零五年十二月三十一日之銀行貸款及其他借款詳情載於財務報表附註24。

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 184 to 186 of the annual report.

五年概要

本集團於過去五個財政年度之業績及資產與負債概要載於本年報第184至186頁。

Report of the Directors 董事會報告書

Retirement schemes

The group participates in a defined benefit retirement plan which covers the group's Korean employees.

The group also operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, and participates in various defined contribution retirement plans organised by the relevant authorities for its employees in the PRC.

Particulars of these retirement schemes are set out in note 25 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.

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, 12 April 2006

退休計劃

本集團參與一項涵蓋本集團之韓國僱員之界定利益退休計劃。

本集團按照香港《強制性公積金計劃條例》的規定，為根據香港《僱傭條例》聘用的僱員設立強制性公積金計劃，並安排中國僱員參與多項由有關當局管理之界定供款退休計劃。

該等退休計劃之詳情載於財務報表附註25。

獨立性確認

本公司已接獲獨立非執行董事根據上市規則第3.13條作出之年度獨立性確認，並認為所有獨立非執行董事皆為獨立。

核數師

畢馬威會計師事務所即將告退，惟符合資格並願膺選連任。重新委聘畢馬威會計師事務所為本公司核數師的決議案，將於即將召開的股東週年大會上提出。

承董事會命

李泳模

董事

香港，二零零六年四月十二日