

The directors submit their report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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 of the subsidiaries are set out in Note 9 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidation income statement on page 28.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 16 of the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company are set out in Note 7 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2006, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$107,319,000 (2005: HK\$210,411,000).

PURCHASE, SALE OF REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Nether the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

FIVE YEAR FINANCIAL 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 89 to 90.

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 Stock Exchange of Hong Kong Limited (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 2006 was 46,471,000 shares (including options for 17,231,000 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 2006. 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 2006, the directors individually and other employees in aggregate 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 the Company of par value US\$0.01 each.

	Date granted	Period during which options exercisable (Note 1)	Exercise price per share	Number of options		
				Balance at 1 January 2006	Lapsed during the year (Note 2)	Balance at 31 December 2006
Directors:						
Shin Hee Cha (appointed on 24 January 2006)	2 January 2004	2 January 2005 to 2 January 2014	HK\$1.87	3,500,000	–	3,500,000
Young M. Lee	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	1,360,000	–	1,360,000
Tae Sub Choi	15 April 2003	15 April 2004 to 15 April 2013	HK\$1.43	1,365,000	–	1,365,000
James Wang	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	520,000	–	520,000
Employees in aggregate:						
	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	4,681,000	–	4,681,000
	15 April 2003	15 April 2004 to 15 April 2013	HK\$1.43	455,000	–	455,000
	2 January 2004	2 January 2005 to 2 January 2014	HK\$1.87	8,150,000	2,800,000 (Note 3)	5,350,000
Others:						
	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	2,600,000	2,600,000 (Note 4)	–
				<u>22,631,000</u>	<u>5,400,000</u>	<u>17,231,000</u>



Notes:

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

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

- (2) Pursuant to the 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) This 2,800,000 share options related to various employees who left the Group on or before 30 September 2006. These outstanding share options were lapsed by 31 December 2006.
- (4) This 2,600,000 share options related to Mr. Chul Hong Min who resigned as director of the Company on 31 December 2005. These outstanding share options were lapsed by 1 April 2006.
- (5) The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

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

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the related party transactions as disclosed in Note 32 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries or its holding company was a party and 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 8 to 9.

DIRECTORS

The directors during the year were:

Chairman and executive director

Kyoo Yoon Choi

Executive directors

Shin Hee Cha (appointed on 24 January 2006)

Tae Sub Choi

Young M. Lee

James Wang

Independent non-executive directors

Valiant, Kin Piu Cheung

Cheong Heon Yi

Chan Yoo

Kyoo Yoon Choi, Tae Sub Choi and Chan Yoo 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 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 Cheong Heon 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.

The service contract of Chan Yoo, the independent non-executive director, was renewed by the board of directors on 30 September 2006 for a term of 2 years commencing on 30 September 2006.

Their remuneration is determined by the board of directors on the renewal of their service contracts.

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



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2006, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated

corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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

	Number of shares held			Total	Percentage of issued share capital of the Company
	Personal interests (Note 1)	Family interests	Corporate interests		
The Company					
– Kyoo Yoon Choi	–	–	455,000,000 (Note 2)	455,000,000	68.06%
– Tae Sub Choi	585,000	–	–	585,000	0.09%
– Young M. Lee	1,740,000	–	–	1,740,000	0.26%
C & H Co., Ltd					
– Kyoo Yoon Choi	189,917	124,073 (Note 3)	–	313,990	61.03%
– Shin Hee Cha	21,319	–	–	21,319	4.14%
– Tae Sub Choi	5,685	–	–	5,685	1.10%

Notes:

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

(2) Kyoo Yoon Choi in his own name holds approximately 36.91 % of the issued share capital of C & H Co., Ltd, and together with his wife, Woul Hee Cha, hold approximately

61.03% of the issued share capital of C & H Co., Ltd. which owned 382,850,000 shares in the Company. In addition, Kyoo Yoon Choi beneficially owns 100% of interest of Uni-Link Technology Limited which owned 72,150,000 shares of the Company.

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

(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" above.

Save as disclosed above, at no time during the year, the directors and chief executives (including their spouses and children under 18 years of age) had any interests in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the SEHK pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31 December 2006, the Company had been notified of the following substantial shareholders' interest and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of directors and chief executives:

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

Note:

Kyoo Yoon Choi, being a director of C & H Co., Ltd., together with his wife, Woul Hee Cha, hold approximately 61.03% of the issued share capital of C & H Co., Ltd. and Kyoo Yoon Choi 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. James Wang, being a director of the Company, is also a director of Uni-Link Technology Limited.

Save as disclosed above, as at 31 December 2006, the Company is not aware of any other registered substantial shareholder who holds 5% or more of the issued share capital of the Company.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.



MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales	
– The largest customer	44.2%
– Five largest customers in aggregate	71.0%
Purchases	
– The largest supplier	7.7%
– Five largest suppliers in aggregate	18.9%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

CONTINUING CONNECTED TRANSACTIONS

During the year, the group entered into the following 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) On 31 October 2006, the Group renewed its property lease agreement with C & H Co., Ltd. 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 2007. 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 2006, the rental paid amounted to HK\$5,079,000 (2005: HK\$7,038,000).

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 them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2006, the Company has fully complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules on the SEHK.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 18 April 2007.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2006, C & H Co., Ltd. and its subsidiaries excluding the Group ("C & H Korea Group"), as set out below, are principally engaged

in the business of properties investment in Seoul, leather the goods and accessories agency, fabric, textile manufacturing and investment holding in PRC, Vietnam and Sri Lanka through its wholly owned subsidiaries C&H Hitex Co., Ltd., Jung Yoon Textiles (Private) Limited, Vina Tarpaulin Inc. and C & H Lanka I (PVT) Ltd. Kyoo Yoon Choi, Shin Hee Cha and Tae Sub Choi are deemed to be interested in these businesses some of which may compete with the Group's businesses as they are shareholders of C & H Co., Ltd. and Kyoo Yoon Choi is also a director of C & H Co., Ltd.

Name of company	Nature of competing business	Remarks
C & H Lanka (PVT) Ltd. ("C & H Lanka")	C & H Lanka is a wholly owned subsidiary of C & H Korea. The directors of C & H Lanka are Kyoo Yoon Choi, Shin Hee Cha, and 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 J. David & M.S. layawickrama of MS SMIS Associates as directors of the company.	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.
Jung Yoon Textiles (Private) Ltd. ("JY Textile")	JY Textile is a wholly owned subsidiary of C & H Korea. The directors of JY Textile are Kyoo Yoon Choi and Kyung Soon Song. JY Textile is engaged in the manufacturing and dyeing of fabrics.	JY Textile is engaged in manufacturing of fabrics and dyeing of fabrics for local customers in Sri Lanka.



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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules regarding the Model Code. Based on the specific enquires of the Company's Directors, the Directors have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The audit committee has reviewed with the management and the Company's auditor, PricewaterhouseCoopers, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters of the final results for year ended 31 December 2006. The Group's consolidated financial statements for the year ended 31 December 2005 were audited by KPMG.

AUDITOR

In August 2006, KPMG resigned as auditor of the Company and PwC have been appointed by the Board to fill the casual vacancy following the resignation of KPMG.

The financial statements have been audited by PwC who retire at the coming Annual General Meeting and, being eligible, offered themselves for re-appointment.

On behalf of the Board

Tae Sub Choi

Director

Hong Kong, 18 April 2007