Dream International Limited

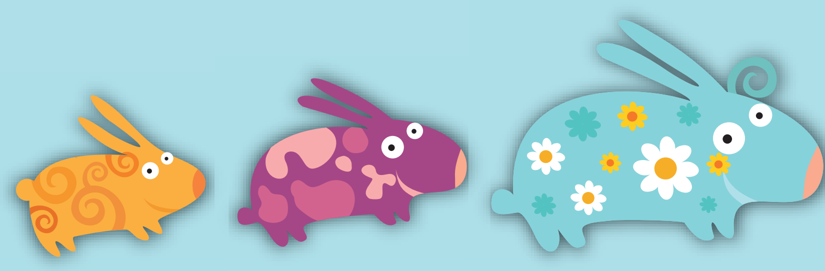
DREAM INTERNATIONAL LIMITED
德 林 國 際 有 限 公 司

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

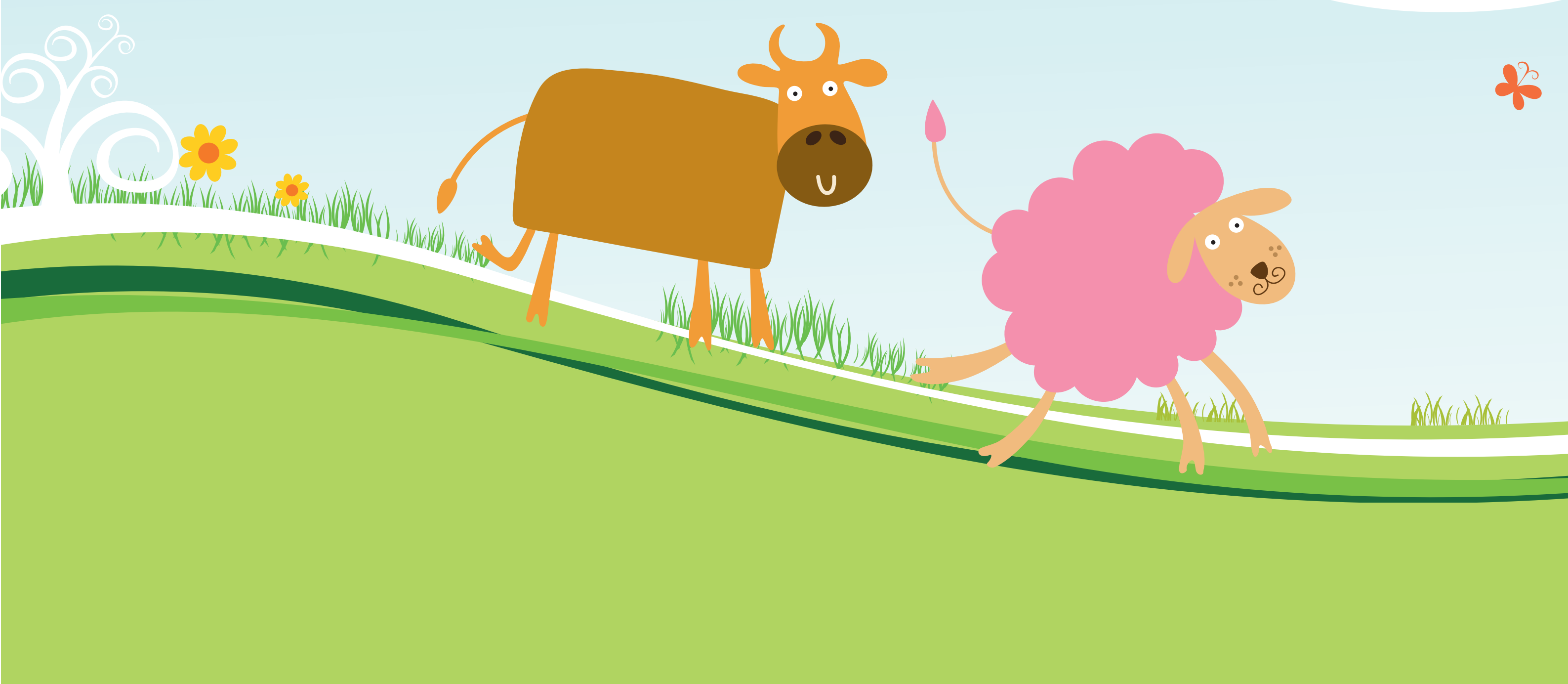
2009
ANNUAL REPORT 年報

Stock Code 股份代號：1126

Dream
International
Limited



CONTENTS



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
Mr. Sang Hee JUNG *(resigned on 31 August 2009)*

Independent Non-executive Directors

Professor Cheong Heon YI
Professor Byong Hun AHN
Mr. Oliver, Shing Kay WONG

Audit Committee

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

Remuneration Committee

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

Registered Office and Principal Place of Business

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

Company Secretary

Mr. Chi Chung SHUM, *CPA*

Auditor

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

Authorised Representatives

Mr. Young M. LEE
Mr. Chi Chung SHUM

Principal Bankers

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

Share Registrar

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

Financial Relations Consultant

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

Website Address

www.dream-i.com.hk

Stock Code

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

Chairman's Statement

MR. KYOO YOON CHOI
Chairman

Dear Shareholders,

Toy manufacturers in China have endured a very difficult operational environment for the past five years. As crude oil price started to climb in 2003, peaking in 2008, raw material costs soared to new heights as well. In addition, cost of labour in coastal regions of China rose continuously, compounded by the implementation of the New Labour Contract Laws in the country. A further aggravating matter was the appreciation of the Renminbi Yuan. As a result, manufacturers have borne the heaviest cost burden the toy industry has faced in its recent past. The difficult environment consequently led to acceleration in the consolidation process, expelling weaker players. As the largest plush stuffed toy manufacturer in the world, Dream International Limited (the "company") and its subsidiaries (collectively the "group"), showed great resilience amid adversity, overcoming challenges and managing to deliver encouraging business performance during the year under review.

As early as 2004, the management foresaw impending changes to the operational environment and took decisive action. Stringent cost management became a key objective, leading to the closure of plants in coastal regions of Mainland China and their relocation to inland China and Vietnam to enjoy better allocation of resources, lower labour costs and greater economies of scale. We also streamlined the business structure and workforce to cap expenses and improve overall efficiency. To broaden our income stream and raise profitability, we explored new opportunities, such as a licensing business, all the while adjusting our customer base and product mix.

Chairman's Statement (Continued)

Through our conscientious efforts during the past years, the group was able to quickly recover from the downturn. By restructuring our business and enhancing the group's competitive advantages, we were able to capitalise on operational conditions that started to improve in the second half of 2008. In 2009, despite consumption sentiment in traditional toy markets having been adversely affected by the economic downturn, the group's turnover only slipped marginally by 5.2% to HK$994.1 million. Moreover, benefiting from effective cost control measures, gross margin improved by 7.5 percentage points to 25.3. We are very pleased to announce that the group recorded a full-year operating profit of HK$89.1 million and profit attributable to equity holders of HK$74.6 million, a significant turnaround from the loss incurred last year, thus underscoring the effectiveness of our restructuring measures.

To share the group's success with shareholders and express our gratitude for their loyal support, the Board of Directors proposed the resumption of dividend payments this year.

Looking ahead, the unemployment rate of developed economies such as the US and Europe are expected to remain high, hence, consumer sentiment in these traditional markets will take time to recover. In addition, labour costs in Mainland China and raw material prices are expected to climb, and the Renminbi Yuan is under pressure to appreciate as well. For the group, all of these factors represent both challenges and opportunities.

Difficult market conditions always pose far greater risk for smaller toy manufacturers compared to well-established ones, consequently driving out weaker players from the industry. Possessing a broad customer base, healthy financial position, strong research and development capability, solid product portfolio and worldwide reputation for quality, the company is well poised to capture greater market share. With all of our plants located in inland China and Vietnam, the group is less vulnerable to rising labour costs and labour shortages. By also having strong bargaining power with suppliers, we can secure favourable prices when sourcing raw materials. All of these attributes translate into competitive advantages for the group.

In the coming year, our focus will be placed more toward business development. Apart from traditional toy customers, we have started to work with international consumer brands to design and manufacture toys for their promotional campaigns, gaining highly positive responses as a result. We will be leveraging our popular steel and plastic products to expand our customer base to reach higher-end department stores as well as expedite our penetration into the China market. To back up our expansion plan, we will ramp up production in Vietnam, which includes constructing a new plant for manufacturing plush stuffed toys. We will also keep a close eye on emerging opportunities, as we always do, aiming to maximise returns for our shareholders.

Appreciation

On behalf of the board, I would like to take this opportunity to thank the management team and staff for their dedication and contribution, which have led to encouraging results for the group 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 April 2010

Management Discussion and Analysis

Financial Review

In 2009, the global financial crisis continued to cast a shadow on economies worldwide resulting in poor market sentiment especially in the US. However, with effective cost control measures and business restructuring, the group was able to continue the positive momentum in the second half of 2008 and achieve satisfactory results amid the challenging market environment throughout the year under review.

For the year ended 31 December 2009, the group's turnover decreased slightly by 5.2% year-on-year to HK$994.1 million (2008: HK$1,048.6 million), mainly due to the slow recovery of the US and European economies from the financial turmoil. During the year, as production bases relocated to inland China and Vietnam taking advantage of lower labour costs there, the group also successfully bargained with major suppliers to minimise the raw material costs, thus managing to cut the cost of sales by 13.8% to HK$742.1 million (2008: HK$861.3 million) and boost gross profit by 34.5% to HK$252.0 million (2008: HK$187.3 million). Administrative expenses were also slashed by 10.3% to HK$131.0 million (2008: HK$146.0 million). The group managed to turn around its business during the year with an operating profit of HK$89.1 million and profit attributable to equity holders at HK$74.6 million, a significant improvement from losses of HK$35.5 million and HK$41,9 million respectively in 2008.

The group maintained a healthy financial position with cash and bank deposits of HK$324.6 million (2008: HK$122.4 million) as at 31 December 2009.

Business Review

Product Analysis

Plush stuffed toys segment

Plush stuffed toys recorded sales of HK$854.9 million, representing 86.0% of the group's total turnover for the year ended 31 December 2009. Original Equipment Manufacturing ("OEM") and licensing remained the core business of the group, accounting for 83.5% of the sales of the plush stuffed toy segment. Within the OEM business, the group continued exploring additional strategic alliances with existing customers who are owners and licensors of world-renowned characters. During the second half of 2009, the group received increased orders from a Japanese customer secured in the first half year for a series of new stuffed toys introducing a new character. In view of the favourable market response after the new product launch in January 2010, more orders from this customer are expected. Orders from other customers including a renowned US entertainment company which initially became the group's customer in 2008 remained stable during the year.

In licensing, apart from plush and soft toys of traditional Disney characters, the group began to design, manufacture and sell the *Toy Story* product series during the year to leverage the opportunity provided by the launch of the movie "Toy Story 3" during the summer of 2010. The group also enriched the product mix with a new product line, "Pook-A-Looz", featuring stylised flattened Disney characters made of soft fleece. Furthermore, infant plush toys introduced during the year received an encouraging market response and will be further promoted in 2010.

The Original Design Manufacturing ("ODM") business accounted for 16.5% of the sales of the plush stuffed toy segment. In addition to existing customers which are mainly renowned retailers in the US, the group secured a large order from a globally famous Brazilian consumer brand during the second half year to manufacture premium gifts for its promotion campaign, and is currently in discussion with this customer for further cooperation. Committed to boosting the profit margin of this business, the group is looking into opportunities to tailor products under our "CALTOY" brand for upmarket department stores.

Business Review *(Continued)*

Product Analysis *(Continued)*

Steel and plastic toys segment

The steel and plastic toys segment recorded sales of HK$139.2 million, accounting for 14.0% of the group's total turnover. During the year, the group further trimmed the production of low-margin items and increased the portion of products with higher selling prices, thus improving the gross profit margin of this segment.

In the second half of the year, the group launched a modified version of its high-end tricycles with an electronic sound mechanism on the handlebar for a US marketing company. The encouraging market response helped the group to win additional orders from this customer in 2010. The group's product co-development efforts with customers also saw progress. Apart from gaining larger orders from a European customer for co-developed scooters, it secured a new Korean customer to co-develop new concept scooters that will be introduced in the market later this year.

To strengthen its presence in Mainland China, the group has strategically restructured the sales network for scooters and inline skates of its own "Great" and "Far Great" brands in the country by focusing on wholesalers and regional distributors. In the meantime, the group has forged a partnership with a local company to launch and promote bicycles and tricycles associated with a renowned Japanese character, which have received a positive market response.

Market Analysis

One of the group's strengths is that it sells quality products to world-class customers with a global presence. The products are shipped direct to these customers' desired destinations or markets and then distributed by themselves across the globe. Based on the locations of the customers, during the year, North America continued to be the group's largest geographical market with sales accounting for 41.4% of its total turnover. Japan came second increasing to 36.1%, while Europe remained the third major market representing 15.6% of the total turnover.

Operational Analysis

As at 31 December 2009, the group operated eight manufacturing plants in all, six of which were in Mainland China and two in Vietnam, running at an average utilisation rate of over 80%. After years of consolidation and relocation, the group's production regime is currently concentrated either within inland China or in Vietnam, allowing it to enjoy more efficient and cost-effective production. After opening a new fabric factory with a production capacity of 16,000 yards of fabric per day that commenced operation in Vietnam during the first half of 2009, the group established a vertically integrated production line offering lower production costs there.

Management Discussion and Analysis (Continued)

Prospects

The economies of major traditional toy geographic markets including the US and Europe are expected to recover at a slow pace, which may become an inhibitor to the development of the toy industry. Nonetheless, the group still sees room for business growth, hence is cautiously optimistic about the prospects in the year ahead.

In addition to traditional toy customers such as toy brand owners and retailers, the group believes there is abundant potential to manufacture toys for consumer brands on an ODM basis. Many of these brands covering a great variety of products worldwide demand premium gifts such as plush toys to execute their promotional campaigns. Respected for its strong research and development, scalable production capacity and high reliability, Dream International Limited, is a preferred partner for these brands. The group will leverage its successful experience of securing a new Brazilian customer for producing plush toys to explore new business in this segment.

While traditional geographic toy markets remain the group's major source of income, Mainland China, as one of the fast-growing economies in the world, provides the group with opportunities for growth. As distribution channels in Mainland China mature, the group is well-positioned to exploit the advantages of cooperating directly with wholesalers and regional distributors for higher efficiency and profitability as opposed dealing with individual retailers separately. As Mainland China's middle-class continues its rapid expansion and local consumers become more affluent and sophisticated, demand for high quality products is expected to strengthen. The group plans to adjust its strategy accordingly to launch higher end steel and plastic toys to better address this ongoing market trend. With business strategies thus refined, the group looks forward to accelerating its penetration in the domestic China market.

To make the most of these emerging opportunities, the group is preparing to ramp up its production capacity in Vietnam as a strong foundation for its expansion plans. A new plant with 600 sewing machines is currently under construction in the Mekong Delta of Vietnam, targeting to commence operation by the end of 2010. Taking advantage of relatively lower labour costs and economies of scale in Vietnam, the group can also flexibly allocate production of low-margin products or small-volume orders to subcontractors thus optimising the utilisation of resources.

Number and Remuneration of Employees

At 31 December 2009, the group had 8,773 employees (2008: 8,706) in Hong Kong, Mainland China, the Republic of Korea, US, Japan and Vietnam. The group values its human resources and recognises the importance of attracting and retaining quality staff for its continuing success. Staff bonuses and share options are awarded based on individual performance.

Directors and Senior Management

Executive Directors

Mr. Kyoo Yoon Choi, aged 61, 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 54, 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.

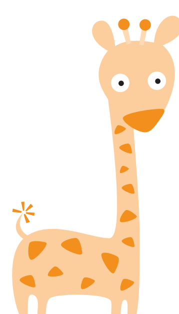
Mr. James Chuan Yung Wang, aged 48, is the Managing Director of Dream International USA. He joined Dream International USA on 1 July 1991 and has been in charge of the group's marketing function in the US. Mr. Wang graduated from the University of California, Los Angeles, with a bachelor's degree in business administration in 1986. Prior to joining the group, Mr. Wang had extensive experience in the fields of logistics and trading from his previous employments with Trans-union Line, KAL Trading Co. and Daewoo America Corp. He was appointed as an Executive Director on 1 April 2005.

Mr. Hyun Ho Kim, aged 44, 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 45, received his bachelor's degree and master's degree in business administration from Seoul National University in Korea. Professor Yi was also awarded a philosophy of doctorate degree in accounting in 1997 from the University of California, Los Angeles. Professor Yi taught at the University of California, Los Angeles for a year before joining the Hong Kong Polytechnic University in 1997. Professor Yi's research interests include financial reporting and corporate governance. His teaching focuses on financial accounting at the undergraduate level and financial reporting and corporate governance at the postgraduate level. He was appointed as the company's Independent Non-Executive Director on 22 November 2003.

Professor Byong Hun Ahn, aged 63, 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.



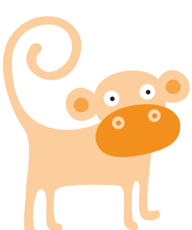
Directors and Senior Management (Continued)

Independent Non-executive Directors *(Continued)*

Mr. Oliver, Shing Kay Wong, aged 58, obtained his professional accounting qualifications in both Hong Kong and Canada. Mr. Wong is an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Wong is also a fellow member of the Hong Kong Institute of Certified Public Accountants, an ordinary member of The Society of Chinese Accountants and Auditors and an associate member of Certified General Accountants of Canada. Mr. Wong had worked in various renowned auditing firms in Hong Kong with over 17 years of experience in handling auditing, financial accounting and taxation matters. Mr. Wong is currently an independent non-executive director of two other listed companies in Hong Kong — Hopson Development Holdings Limited and Deson Development International Holdings Limited. He also assumed the duty of financial controller for several listed companies in both Hong Kong and Canada during the past years. Mr. Wong is presently practicing as a Certified Public Accountant in Hong Kong. He is knowledgeable with expertise in financial accounting, taxation, import-export business and company management.

Senior Management

Mr. Dong Wook Cha, aged 49, 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 have pleasure in submitting their annual report with the audited financial statements for the year ended 31 December 2009.

Principal place of business

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

Principal activities

The principal activities of the company are the design, development, manufacture and sale of plush stuffed and steel and plastic toys and investment holding. The principal activities and other particulars of the subsidiaries are set out in note 17 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 13 to the financial statements.

Major customers and suppliers

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

	Percentage of the group's total	
	Sales	Purchases
The largest customer	22.3%	
Five largest customers in aggregate	65.2%	
The largest supplier		4.7%
Five largest suppliers in aggregate		21.4%

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

Connected transactions

During the year, the group has entered into connected transactions and continuing connected transactions with connected persons. The company is seeking clarification from the Stock Exchange of Hong Kong Limited ("SEHK") about certain disclosure and shareholders' approval requirements on certain continuing connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("the Listing Rules"). Subject to the result of such clarification, the company has complied with the disclosure requirements in accordance with Chapter 14A of 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.

Connected transactions *(Continued)*

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

(1) On 31 July 2009, the group renewed 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 2010. 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 2009, the rent and administrative expenses paid amounted to HK$2,335,000 (2008: HK$2,595,000).

Details of other related party transactions are set out in note 32 to the financial statements.

Compliance with the code on corporate governance practices

During the year ended 31 December 2009, the company has fully complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

Financial statements

The profit of the group for the year ended 31 December 2009 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 112.

Transfer to reserves

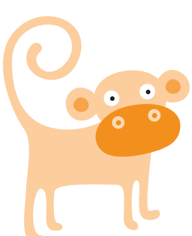
Profit attributable to shareholders, before dividends, of HK$78,238,000 (2008: loss of HK$56,319,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

The directors recommend the payment of a final dividend of HK3 cents per share (2008: HK Nil cents per share) in respect of the year ended 31 December 2009.

Fixed assets

During the year, the group disposed of land together with certain buildings and other related fixed assets in Jiangsu Province, The People's Republic of China ("the PRC"), for a total consideration of RMB53,000,000 (equivalent to HK$59,360,000).

Details of this disposal and other movements in fixed assets during the year are set out in notes 6 and 14 to the financial statements.



Share capital

Details of the share capital of the company are set out in note 28(c) to the financial statements. There was no change in the authorised and issued share capital 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.

Directors

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

Chairman and executive director

Kyoo Yoon Choi

Executive directors

Young M. Lee
James Chuan Yung Wang
Hyun Ho Kim
Sang Hee Jung (resigned on 31 August 2009)

Independent non-executive directors

Cheong Heon Yi
Byong Hun Ahn
Oliver, Shing Kay Wong

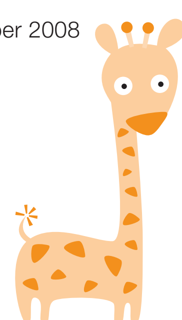
In accordance with Article 101 of the Articles of Association, Mr Young M. Lee, Mr James Chuan Yung Wang and Professor Byong Hun Ahn shall retire by rotation, and being eligible, offer themselves for re-election at the Annual General Meeting.

Directors' service contracts

The service contract of Professor Cheong Heon Yi, independent non-executive director, was renewed by the Board of Directors on 21 November 2009 for a term of 2 years commencing on 22 November 2009.

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

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



Directors' service contracts *(Continued)*

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

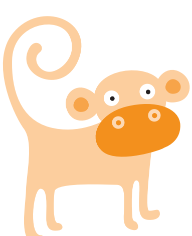
No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

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

The directors of the company who held office at 31 December 2009 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 executive's 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	—	—	455,000,000 (Note 2)	455,000,000	68.06%
— Young M. Lee	1,740,000	—	—	1,740,000	0.26%
C & H Co., Ltd.					
— Kyoo Yoon Choi	189,917	124,073 (Note 3)	—	313,990	61.03%



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

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

Notes:

(1) The shares are registered under the names of the directors and chief executive 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 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.

Save as disclosed above, none of the directors 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.

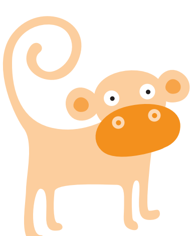
Report of the Directors (Continued)

Share option scheme *(Continued)*

The total number of securities available for issue under the share option scheme as at 31 December 2009 was 46,471,000 shares (including options for 10,546,000 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 2009. 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 2009, 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.

				Number of options		
	Date granted	Period during which options exercisable (Note 1)	Exercise price per share	Balance at 1 January 2009	Lapsed during the year (Note 2)	Balance at 31 December 2009
Directors:						
Young M. Lee	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	1,360,000	–	1,360,000
James Chuan Yung Wang	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	520,000	–	520,000
Jung Kuk Lee (resigned on 7 November 2008)	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	520,000	520,000 (Note 3)	–
Employees in aggregate:	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	2,081,000	520,000 (Note 4)	1,561,000
	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	7,150,000	500,000 (Note 4)	6,650,000
				12,086,000	1,540,000	10,546,000



Share option scheme *(Continued)*

Notes:

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

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

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

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

(4) These 1,020,000 share options related to various employees who left the group on or before 30 September 2009. These outstanding share options were lapsed by 31 December 2009.

(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.

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.

Report of the Directors (Continued)

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 2009, the company has been notified of the following interests in the company's issued shares at 31 December 2009 amounting to 5% or more of the ordinary shares in issue:

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

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 Chuan Yung Wang, being a director of the company, is also a director of Uni-Link Technology Limited.

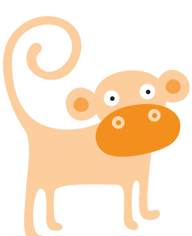
Save as disclosed above, as at 31 December 2009, the company is not aware of any other registered substantial shareholder who holds 5% or more of the issued share capital of the company.

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 32 to the financial statements, no contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.



Directors’ interests in competing business

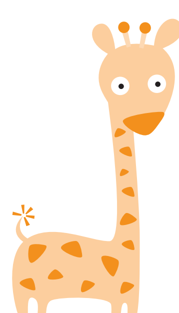
During the year ended 31 December 2009, C & H Korea Group, as set out below, is principally engaged in the business of property investment in Seoul, The Republic of Korea, leather goods and accessories agency, fabric and textile manufacturing and investment holding in the PRC, Vietnam and Sri Lanka through its wholly owned subsidiaries C & H Hitex Co., Ltd., Jung Yoon Textiles (Private) Ltd, Vina Tarpaulin Inc. and C & H Lanka (PVT) 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 (PVT) 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 J David & M.S. layawickrama of MS SMIS Associates as directors of the company.	Pursuant to the Deed of Undertaking (Note), C & H Lanka agreed not to engage or otherwise be involved in any business which competes or is likely to compete with the group’s business in any of the regions that the group engages business in. Its business was limited to production of quota related plush stuffed toys and orders that could not be handled by the group.
Jung Yoon Textiles (Private) Ltd (“JY Textile”)	JY Textile is a wholly owned subsidiary of C & H Co., Ltd. The directors of JY Textile are Mr Kyoo Yoon Choi and Mr Kyung Soon Song. JY Textile is engaged in the manufacturing and dyeing of fabrics.	JY Textile is engaged in the manufacturing of fabrics and dyeing of fabrics for local customers in Sri Lanka.

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 2009 are set out in note 24 to the financial statements.



Report of the Directors (Continued)

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 113 and 114 of the annual report.

Retirement schemes

The group operates a defined benefit retirement scheme which covers 0.8% of the group's employees.

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

Particulars of these retirement schemes are set out in note 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.

Compliance with the model code for securities

The company has adopted a code of conduct regarding securities transactions by Directors as set out in Appendix 10 of the Listing Rules. The company has made specific 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 2009.

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 April 2010

Corporate Governance Report

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

In the opinion of the Board, the company has applied the principles and complied with the code provisions contained in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") ("the Listing Rules") during the year ended 31 December 2009.

Directors' Securities Transactions

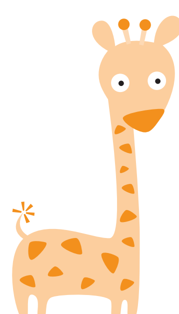
The company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. The company has made specific enquiry to all directors, and all the directors have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

Board of Directors

As at 31 December 2009, 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 independent non-executive directors ("INEDs") (collectively the "Directors"), namely Professor Cheong Heon Yi ("Professor Yi"), Professor Byong Hun Ahn ("Professor Ahn") and Mr. Oliver, Shing Kay Wong. There is no financial, business, family or other material/relevant relationship among members of the Board. The principal functions of the Board are to supervise the management of the business and affairs; to approve strategic plans, investment and funding decisions; and to review the group's financial performance and operating initiatives. The role of INEDs is to bring an independent and objective view to the Board's deliberations and decisions. Professor Yi is currently teaching financial accounting and corporate governance in the Accountancy Faculty of the Hong Kong Polytechnic University and Mr. Oliver Wong is presently practicing as a Certified Public Accountant in Hong Kong. The Board considers both of them to have profound professional qualifications and expertise in accounting and financial management so that they are of sufficient caliber and number for their independent views to carry weight. The company has received from each of the INEDs, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The company considers all of the INEDs to be independent.

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

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



Corporate Governance Report (Continued)

Board of Directors *(Continued)*

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

Name of director	Number of attendance/ meetings held
Kyoo Yoon Choi *(Chairman)*	4/18
Young M. Lee	17/18
James Chuan Yung Wang	5/18
Hyun Ho Kim	16/18
Sang Hee Jung (resigned on 31 August 2009) (Note)	5/13
Cheong Heon Yi	11/18
Byong Hun Ahn	9/18
Oliver, Shing Kay Wong	9/18

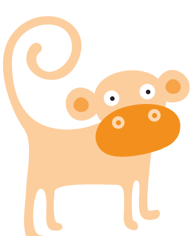
Note: There were 13 meetings held between the period from 1 January 2009 to 31 August 2009.

Delegation by the Board

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

The Board has delegated functions that are necessary and incidental to carry out the decisions of the Board or to facilitate the day-to-day operations of the group in ordinary course of business to the executive management and divisional heads of different business units under the instruction / supervision of the Chief Executive Officer ("CEO"), CFO and Chief Operations Officer. The Board and the management will also seek advice from the Audit Committee and Remuneration Committee. These committees are mainly composed of and chaired by INEDs. In case of urgency, executive management is empowered to make any decisions in prompt response to the 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 and Remuneration Committees formed by the Board.



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.

Nomination, Appointment and Re-election of Directors

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

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

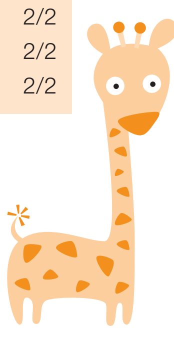
The company has specified a term of two years for the appointment of INEDs who are the only non-executive directors of the company. None of the INEDs has entered into any service contracts with the company which is not determinable by the company within one year without payment of compensation, other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

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

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. Two meetings were held in 2009. The attendance of each remuneration committee member is set out as follows:

Name of director	Number of attendance/ meetings held
Cheong Heon Yi *(Chairman)*	2/2
Oliver, Shing Kay Wong	2/2
Byong Hun Ahn	2/2
Young M. Lee	2/2



Corporate Governance Report (Continued)

Remuneration Committee *(Continued)*

At the meetings held during the year, the retirement compensation and incentive bonus for directors were reviewed and discussed. The company adopted a share option scheme on 22 January 2002, which serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Details of the share option scheme are set out in note 26 to the financial statements. The emolument payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in note 8 to the financial statements. The major roles and functions of the group's Remuneration Committee are as follows:

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

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

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

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

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

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 the Board for approval.

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 2009, 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.

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
Oliver, Shing Kay Wong *(Chairman)*	2/2
Cheong Heon Yi	2/2
Byong Hun Ahn	2/2

During the year ended 31 December 2009, the Audit Committee performed the following work:

(i) reviewed the interim financial report for the six months ended 30 June 2009 and annual financial report for the year ended 31 December 2009;

(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 the internal control system;

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

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

(vi) reviewed and recommended the Board for approval of the 2009 audit scope, fee and supply of any non-audit services; and

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

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

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

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

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

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

Corporate Governance Report (Continued)

Audit Committee *(Continued)*

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

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 responses.

Under the new code provision C.3.3, the audit committee's role should include to discussing 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 for the company's accounting and financial reporting function, and their training programme and budget.

Auditors' Remuneration

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

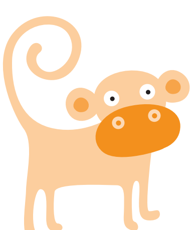
Service rendered	Fees paid/payable HK$'000
Audit services	2,986
Non-audit services	952
	3,938

Non-audit services provided to the group were in relation to the group's interim results and in connection with a very substantial disposal.

Internal Controls

The company set up an internal audit department in May 2006. The head of the internal audit department was appointed by the Board to head the review of the effectiveness of the internal control system of the group which covers all material controls, including financial, operational and compliance controls as well as risk management functions. The internal auditor has performed a review of the internal control system of the group for the year ended 31 December 2009 and the relevant review report has been submitted to the Audit Committee in April 2010 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.

Under the new code provision C.2.2 (effective from 1 January 2009), the Board's annual review should, in particular, consider the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function and their training programmes and budget.



Communications with Shareholders

The Board recognises the importance of good communications with all shareholders. The company's Annual General Meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board as well as Chairman of the Audit and Remuneration Committees together with the external auditors are present to answer shareholders' questions. An Annual General Meeting circular is distributed to all shareholders at least 21 days before the Annual General Meeting. It sets out the 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.

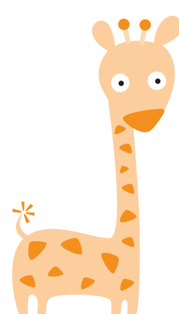
Voting by Poll

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 Articles of Association.

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

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



Independent Auditor's Report

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") set out on pages 29 to 112, which comprise the consolidated and company balance sheets as at 31 December 2009, 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 notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

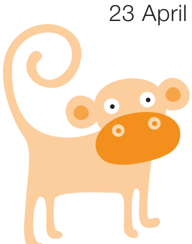
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2009 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 April 2010

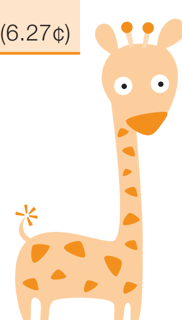


Consolidated income statement

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Turnover	3 & 13	**994,052**	1,048,589
Cost of sales		**(742,063)**	(861,252)
Gross profit		**251,989**	187,337
Other revenue	4(a)	**9,151**	13,430
Other net gain/(loss)	4(b)	**2,510**	(3,570)
Distribution costs		**(69,113)**	(80,876)
Administrative expenses		**(131,011)**	(145,979)
Profit on disposal of land and buildings, and other related fixed assets	6	**19,748**	—
Reversal of impairment/(impairment) of fixed assets	14(a)	**5,837**	(5,837)
Profit/(loss) from operations		**89,111**	(35,495)
Finance costs	5(a)	**(2,690)**	(6,888)
Share of loss of associates	18	**(318)**	(509)
Profit/(loss) before taxation	5	**86,103**	(42,892)
Income tax	7	**(7,865)**	(13,427)
Profit/(loss) for the year		**78,238**	(56,319)
Attributable to:			
Equity shareholders of the company	10	**74,619**	(41,929)
Minority interests		**3,619**	(14,390)
Profit/(loss) for the year		**78,238**	(56,319)
Earnings/(loss) per share	12		
Basic		**11.16¢**	(6.27¢)
Diluted		**11.16¢**	(6.27¢)

The notes on pages 37 to 112 form part of these financial statements.



Consolidated statement of comprehensive income

For the year ended 31 December 2009

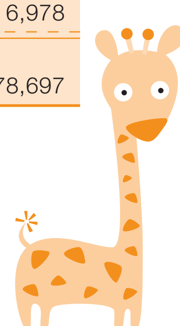
	Note	2009 HK$'000	2008 HK$'000
Profit/(loss) for the year		**78,238**	(56,319)
Other comprehensive income for the year (after tax adjustments):	11		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**18,971**	(15,195)
Available-for-sale securities: net movement in fair value reserve		**85**	—
		19,056	(15,195)
Total comprehensive income for the year		**97,294**	(71,514)
Attributable to:			
Equity shareholders of the company		**93,596**	(57,849)
Minority interests		**3,698**	(13,665)
Total comprehensive income for the year		**97,294**	(71,514)

The notes on pages 37 to 112 form part of these financial statements.

Consolidated balance sheet

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Fixed assets	14(a)		
— Interests in leasehold land held for own use under operating leases		**16,459**	21,396
— Other property, plant and equipment		**131,880**	171,933
		148,339	193,329
Prepayment	15	**9,184**	—
Intangible assets	16	**14,028**	12,516
Interests in associates	18	**638**	950
Deferred tax assets	27(b)	**2,299**	503
Other financial assets	19	**6,142**	—
		180,630	207,298
Current assets			
Inventories	20	**149,246**	132,909
Trade and other receivables	21	**152,475**	199,889
Current tax recoverable	27(a)	**33**	255
Other financial assets	19	**3,359**	73,954
Bank deposits	22	**36,801**	—
Cash and cash equivalents	22	**287,761**	122,370
		629,675	529,377
Current liabilities			
Trade and other payables	23	**271,793**	198,332
Bank loans	24	**55,487**	145,692
Current tax payable	27(a)	**5,988**	6,976
		333,268	351,000
Net current assets		**296,407**	178,377
Total assets less current liabilities		**477,037**	385,675
Non-current liabilities			
Net defined benefit retirement obligation	25	**1,046**	6,978
NET ASSETS		**475,991**	378,697



Consolidated balance sheet (Continued)

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
CAPITAL AND RESERVES			
Share capital	28(c)	52,019	52,019
Reserves		412,657	322,123
Total equity attributable to equity shareholders of the company		464,676	374,142
Minority interests		11,315	4,555
TOTAL EQUITY		475,991	378,697

Approved and authorised for issue by the board of directors on 23 April 2010.

Young M. Lee
Director

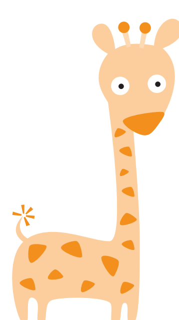
Hyun Ho Kim
Director

The notes on pages 37 to 112 form part of these financial statements.

Balance sheet

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Fixed assets	14(b)	6,355	9,117
Intangible assets	16	336	339
Investments in subsidiaries	17	341,990	290,132
Interests in associates	18	1,248	1,248
Deferred tax assets	27(b)	353	6
		350,282	300,842
Current assets			
Inventories	20	43,417	32,150
Trade and other receivables	21	143,744	189,209
Other financial assets	19	—	73,954
Bank deposits	22	4,266	—
Cash and cash equivalents	22	130,837	40,503
		322,264	335,816
Current liabilities			
Trade and other payables	23	198,004	140,953
Bank loans	24	—	112,706
Current tax payable	27(a)	1,555	1,038
		199,559	254,697
Net current assets		122,705	81,119
Total assets less current liabilities		472,987	381,961
Non-current liabilities			
Net defined benefit retirement obligation	25	1,604	9,101
NET ASSETS		471,383	372,860



Balance sheet (Continued)

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
CAPITAL AND RESERVES	28(a)		
Share capital		**52,019**	52,019
Reserves		**419,364**	320,841
TOTAL EQUITY		**471,383**	372,860

Approved and authorised for issue by the board of directors on 23 April 2010.

Young M. Lee
Director

Hyun Ho Kim
Director

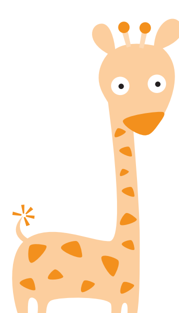
The notes on pages 37 to 112 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2009

		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	Exchange reserve HK$'000	Fair value reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2008		52,019	176,893	6,829	18,427	31,077	–	146,746	431,991	18,220	450,211
Changes in equity for 2008:											
Lapse of share options		–	–	(2,876)	–	–	–	2,876	–	–	–
Total comprehensive income for the year		–	–	–	–	(15,920)	–	(41,929)	(57,849)	(13,665)	(71,514)
Balance at 31 December 2008 and 1 January 2009		52,019	176,893	3,953	18,427	15,157	–	107,693	374,142	4,555	378,697
Changes in equity for 2009:											
Increase in minority interests resulting from change in shareholding	17	–	–	(3,062)	–	–	–	–	(3,062)	3,062	–
Lapse of share options		–	–	(265)	–	–	–	265	–	–	–
Appropriation to general reserve fund		–	–	–	675	–	–	(675)	–	–	–
Total comprehensive income for the year		–	–	–	–	18,892	85	74,619	93,596	3,698	97,294
Balance at 31 December 2009		52,019	176,893	626	19,102	34,049	85	181,902	464,676	11,315	475,991

The notes on pages 37 to 112 form part of these financial statements.



Consolidated cash flow statement

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Operating activities			
Cash generated from operations	22(b)	194,949	17,584
Tax paid			
— Hong Kong Profits Tax paid		(2,691)	(1,206)
— Tax paid outside Hong Kong		(7,867)	(3,382)
Net cash generated from operating activities		184,391	12,996
Investing activities			
Payment for purchase of property, plant and equipment		(12,334)	(37,652)
Proceeds from the disposal of property, plant and equipment		62,717	8,076
Payment for purchase of club memberships		(3,446)	—
Proceeds from the disposal of club memberships		1,962	177
Payment for purchase of other financial assets		(8,849)	—
Proceeds from the disposal of other financial assets		77,509	—
Prepayment in respect of land use right		(9,184)	—
Loan repaid by a fellow subsidiary		—	8,300
Interest received		1,886	5,023
Placement of bank deposits with maturity over three months		(36,801)	—
Net cash generated from/(used in) investing activities		73,460	(16,076)
Financing activities			
Interest paid		(2,690)	(6,888)
Proceeds from borrowings		36,760	142,709
Repayments of borrowings		(126,965)	(112,754)
Net cash (used in)/generated from financing activities		(92,895)	23,067
Net increase in cash and cash equivalents		164,956	19,987
Cash and cash equivalents at 1 January		122,370	107,222
Effect of foreign exchange rate changes		435	(4,839)
Cash and cash equivalents at 31 December	22(a)	287,761	122,370

The notes on pages 37 to 112 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group and the company. Note 2 provides information on 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

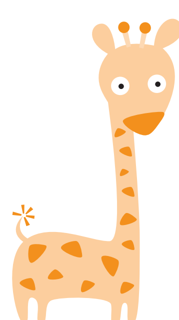
The consolidated financial statements for the year ended 31 December 2009 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associates.

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 35.



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies *(Continued)*

(c) Subsidiaries and minority interests

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

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

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

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

Changes in minority interests resulting from equity transactions with the subsidiary, such as an increase in capital contribution, are accounted for as equity transactions with any movement in minority interests being recognised directly in a capital reserve.

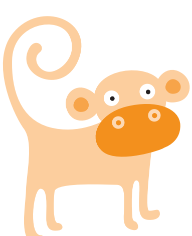
Loans from holders of minority interests are presented as financial liabilities in the consolidated balance sheet in accordance with note 1(n).

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

(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, the investment is initially recorded at cost and adjusted thereafter 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)(ii)). 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.



1 Significant accounting policies *(Continued)*

(d) Associates *(Continued)*

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.

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

(e) Other investments in debt and equity securities

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

Investments in 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:

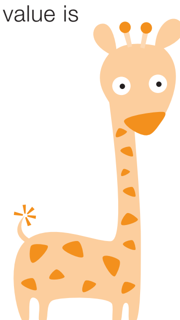
Dated debt securities that the group and/or the company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 1(j)(i)).

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.



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies *(Continued)*

(g) Property, plant and equipment

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

— freehold land and buildings;

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

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

— other items of plant and equipment.

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:

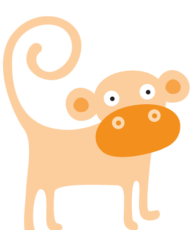
— Freehold land is not depreciated.

— 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.



1 Significant accounting policies *(Continued)*

(h) Intangible assets

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

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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

— significant financial difficulty of the debtor;

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

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

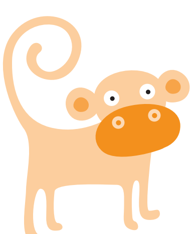
— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

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

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

— For investments in associates recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole 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 trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.



1 Significant accounting policies *(Continued)*

(j) Impairment of assets *(Continued)*

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

If any such evidence exists, any impairment loss is determined and recognised as follows: *(Continued)*

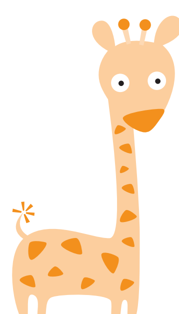
For other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

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

— 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.



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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;

— prepayment;

— intangible assets; and

— investments in subsidiaries.

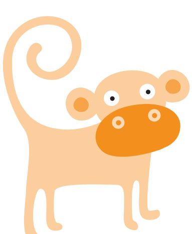
If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

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

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

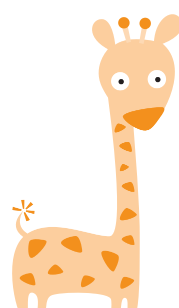
(k) Inventories

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.



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in 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.

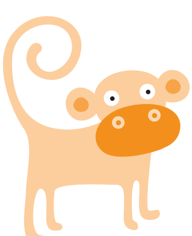
(p) Employee benefits

(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.

(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.



1 Significant accounting policies *(Continued)*

(p) Employee benefits *(Continued)*

(ii) ***Defined benefit retirement plan obligations*** *(Continued)*

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.

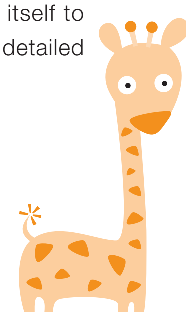
(iii) ***Share-based payments***

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 the grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

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



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies *(Continued)*

(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.

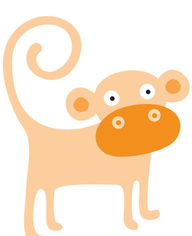
Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

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.



1 Significant accounting policies *(Continued)*

(q) Income tax *(Continued)*

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

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

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

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

  — the same taxable entity; or

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

(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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies *(Continued)*

(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.

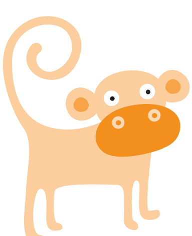
(t) Translation of foreign currencies

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.



1 Significant accounting policies *(Continued)*

(t) Translation of foreign currencies *(Continued)*

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of operations outside Hong Kong are translated into Hong Kong dollars at the 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.

(v) Related parties

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

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

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

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

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

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

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies *(Continued)*

(w) 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 one new HKFRS, a number of amendments to HKFRSs and new Interpretations 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:

— HKFRS 8, *Operating segments*

— HKAS 1 (Revised 2007), *Presentation of financial statements*

— Amendments to HKFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*

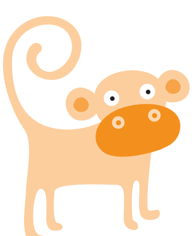
— Improvements to HKFRSs (2008)

— Amendments to HKFRS 2, *Share-based payment — vesting conditions and cancellations*

The "Improvements to HKFRSs (2008)" that comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments, and the amendments to HKFRS 2 have had no material impact on the group's financial statements as the amendments were consistent with policies already adopted by the group. The impact of the remainder of these developments is as follows:

— HKFRS 8 requires segment disclosure to be based on the way that the group's chief operating decision maker regards and manages the group, with the amounts reported for each reportable segment being the measures reported to the group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the group's most senior executive management, but has not resulted in additional reportable segments being identified and presented (see note 13). Corresponding amounts have been provided on a basis consistent with the revised segment information.

— As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.



2 Changes in accounting policies *(Continued)*

— As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in note 29(e) about the fair value measurement of the group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

3 Turnover

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

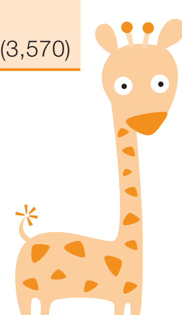
4 Other revenue and net gain/(loss)

(a) Other revenue

	2009 HK$'000	2008 HK$'000
Bank interest income	**1,463**	1,882
Interest income from other financial assets	**423**	3,141
Commission income	**3,763**	5,193
Sales of scrap materials	**—**	988
Sundry income	**3,502**	2,226
	9,151	13,430

(b) Other net gain/(loss)

	2009 HK$'000	2008 HK$'000
Net gain/(loss) on disposal of property, plant and equipment	**605**	(4,206)
Loss on disposal of club memberships	**(191)**	(106)
Net realised and unrealised gain/(loss) on other financial assets	**3,555**	(1,419)
Net loss on forward foreign exchange contracts	**(568)**	—
Net exchange (loss)/gain	**(335)**	1,646
Others	**(556)**	515
	2,510	(3,570)



Notes to the financial statements (Continued)

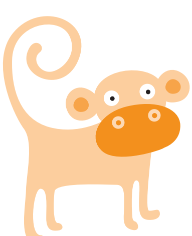
(Expressed in Hong Kong dollars unless otherwise indicated)

5 Profit/(loss) before taxation

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

		Note	2009 HK$'000	2008 HK$'000
(a)	Finance costs			
	Interest expense on bank borrowings wholly repayable within five years		2,690	6,888
(b)	Staff costs #			
	Expenses recognised in respect of defined benefit retirement plan	25(a)(v)	2,984	3,321
	Contributions to defined contribution retirement plans		17,298	12,143
	Total retirement costs		20,282	15,464
	Salaries, wages and other benefits		203,442	221,826
			223,724	237,290
(c)	Other items			
	Amortisation #			
	— land lease premium	14(a)	418	426
	— intangible assets	16	676	676
	Depreciation #	14(a)	21,767	30,550
	(Reversal of impairment)/impairment:			
	— trade receivables		(4,288)	12,310
	— other receivables		(238)	300
	— fixed assets		(5,837)	5,837
	— intangible assets		(153)	173
	— other financial assets		—	911
	Auditors' remuneration		4,114	3,670
	Operating lease charges: minimum lease payments in respect of property rentals #		19,923	22,196
	Cost of inventories #	20(b)	742,063	861,252

Cost of inventories includes HK$183,881,000 (2008: HK$207,454,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.



6 Profit on disposal of land and buildings, and other related fixed assets

On 9 January 2009, a wholly owned subsidiary of the company entered into an agreement with a third party pursuant to which the subsidiary conditionally agreed to dispose of land of approximately 48,000 square meters, certain buildings with total area of approximately 43,600 square meters and other related fixed assets situated at Liutai Lukou, Banmao Road, Banqiao Jiedaoban, Taichang City, Jiangsu Province, the PRC for a total consideration of RMB53,000,000 (equivalent to HK$59,360,000). A profit on disposal of RMB17,476,000 (equivalent to HK$19,748,000) was recognised in the income statement for the year ended 31 December 2009 in respect of this disposal.

7 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2009 HK$'000	2008 HK$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	3,311	2,319
(Over)/under-provision in respect of prior years	(371)	706
	2,940	3,025
Current tax — Outside Hong Kong		
Provision for the year	6,613	7,371
Deferred tax		
Origination and reversal of temporary differences (note 27(b)(i))	(1,688)	3,031
	7,865	13,427

The provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 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% (2008: 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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

7 Income tax in the consolidated income statement *(Continued)*

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

	2009 **HK$'000**	2008 HK$'000
Profit/(loss) before taxation	**86,103**	(42,892)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**21,400**	(7,845)
Tax effect of non-deductible expenses	**7,306**	12,142
Tax effect of non-taxable income	**(16,901)**	(6,531)
Tax effect of utilisation of previously unrecognised tax losses	**(5,979)**	(3,040)
Tax effect of unused tax losses not recognised	**2,410**	17,995
(Over)/under-provision in prior years	**(371)**	706
Actual tax expense	**7,865**	13,427

8 Directors' remuneration

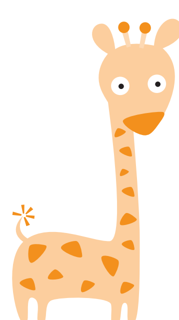
Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees HK$'000	**Salaries, allowances and benefits in kind** HK$'000	**Retirement scheme contributions** HK$'000	**2009 Total** HK$'000
Chairman and executive director				
Kyoo Yoon Choi	240	—	—	240
Executive directors				
Young M Lee	—	1,453	—	1,453
James Chuan Yung Wang	—	1,383	—	1,383
Hyun Ho Kim	—	1,035	—	1,035
Sang Hee Jung (resigned on 31 August 2009)	—	161	—	161
Independent non-executive directors				
Cheong Heon Yi	132	—	—	132
Byong Hun Ahn	122	—	—	122
Oliver, Shing Kay Wong	122	—	—	122
	616	4,032	—	4,648

8 Directors' remuneration *(Continued)*

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

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



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2008: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2008: three) individuals are as follows:

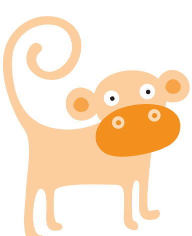
	2009 HK$'000	2008 HK$'000
Salaries and other emoluments	3,391	3,186
Discretionary bonuses	—	—
Retirement scheme contributions	—	—

The emoluments of the two (2008: three) individuals with the highest emolument are within the following bands:

	2009 No. of individuals	2008 No. of individuals
HK$		
500,001 — 1,000,000	—	1
1,000,001 — 1,500,000	1	2
1,500,001 — 2,000,000	—	—
2,000,001 — 2,500,000	1	—

10 Profit/(loss) attributable to equity shareholders of the company

The consolidated profit/(loss) attributable to equity shareholders of the company includes a profit of HK$98,523,000 (2008: HK$4,338,000) which has been dealt with in the financial statements of the company.



11 Other comprehensive income

Tax effects relating to each component of other comprehensive income

	2009			2008		
	Before-tax amount HK$'000	Tax expense HK$'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	18,971	–	18,971	(15,195)	–	(15,195)
Available-for-sale securities: net movement in fair value reserve	112	(27)	85	–	–	–
Other comprehensive income	19,083	(27)	19,056	(15,195)	–	(15,195)

12 Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the company of HK$74,619,000 (2008: loss of HK$41,929,000) and the 668,529,000 ordinary shares (2008: 668,529,000 ordinary shares) in issue during the year.

(b) Diluted earnings/(loss) per shares

The company did not have dilutive potential ordinary shares outstanding during both 2009 and 2008. Accordingly, the diluted earnings per share is the same as the basic earnings per share for both 2009 and 2008.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

13 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 identified the following two 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.

— Steel and plastic toys: this segment is involved in the design, development, manufacture and sale of steel and plastic toys. These products are manufactured in the PRC and sold to customers mainly located in the PRC and Japan.

(a) Segment results, assets and liabilities

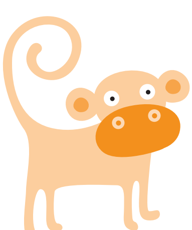
For the purposes of assessing segment performance and allocating resources between segments, the group's senor executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of club memberships, interests in associates, investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade creditors and accruals attributable to the manufacturing and sales activities of the individual segments and bank borrowings 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 expense from cash balances and borrowings 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.



13 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 2009 and 2008 is set out below.

	Plush stuffed toys		Steel and plastic toys		Total	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Revenue from external customers	**854,879**	875,499	**139,173**	173,090	**994,052**	1,048,589
Inter-segment revenue	**—**	—	**—**	24	**—**	24
Reportable segment revenue	**854,879**	875,499	**139,173**	173,114	**994,052**	1,048,613
Reportable segment profit/(loss) (adjusted EBITDA)	**99,447**	65,506	**17,456**	(56,878)	**116,903**	8,628
Interest income from bank deposits	**1,409**	1,673	**54**	209	**1,463**	1,882
Interest income from other financial assets	**423**	3,141	**—**	—	**423**	3,141
Interest expense	**(1,924)**	(4,182)	**(766)**	(2,706)	**(2,690)**	(6,888)
Depreciation and amortisation for the year	**(16,027)**	(23,660)	**(6,834)**	(7,992)	**(22,861)**	(31,652)
Reversal of impairment/(impairment) of:						
— fixed assets	**—**	—	**5,837**	(5,837)	**5,837**	(5,837)
— intangible assets	**(10)**	(10)	**163**	(163)	**153**	(173)
Reportable segment assets	**393,772**	454,496	**99,843**	116,378	**493,615**	570,874
Additions to non-current segment assets during the year	**20,338**	36,077	**4,626**	1,575	**24,964**	37,652
Reportable segment liabilities	**232,501**	154,237	**74,031**	94,629	**306,532**	248,866

Notes to the financial statements (Continued)

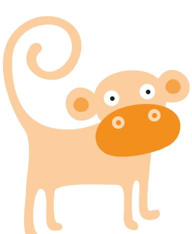
(Expressed in Hong Kong dollars unless otherwise indicated)

13 Segment reporting *(Continued)*

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

	2009 HK$'000	2008 HK$'000
Revenue		
Reportable segment revenue	994,052	1,048,613
Elimination of inter-segment revenue	–	(24)
Consolidated turnover	994,052	1,048,589

	2009 HK$'000	2008 HK$'000
Profit/(loss)		
Reportable segment profit	116,903	8,628
Share of loss of associates	(318)	(509)
Interest income	1,886	5,023
Depreciation and amortisation	(22,861)	(31,652)
Finance costs	(2,690)	(6,888)
Reversal of impairment/(impairment) of non-current assets	5,990	(6,010)
Unallocated head office and corporate expenses	(12,807)	(11,484)
Consolidated profit/(loss) before taxation	86,103	(42,892)

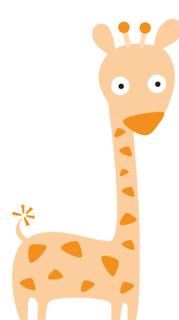


13 Segment reporting *(Continued)*

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

	2009 HK$'000	2008 HK$'000
Assets		
Reportable segment assets	493,615	570,874
Elimination of inter-segment receivables	(33,693)	(43,556)
	459,922	527,318
Club memberships	13,350	11,325
Interests in associates	638	950
Other financial assets	9,501	73,954
Deferred tax assets	2,299	503
Current tax recoverable	33	255
Unallocated head office and corporate assets	324,562	122,370
Consolidated total assets	810,305	736,675

	2009 HK$'000	2008 HK$'000
Liabilities		
Reportable segment liabilities	306,532	248,866
Elimination of inter-segment payables	(33,693)	(43,556)
	272,839	205,310
Current tax payable	5,988	6,976
Unallocated head office and corporate liabilities	55,487	145,692
Consolidated total liabilities	334,314	357,978



Notes to the financial statements (Continued)

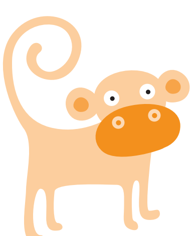
(Expressed in Hong Kong dollars unless otherwise indicated)

13 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, prepayment and interests in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the customer is based. 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 interests in associates.

	Revenue from external customers		**Specified non-current assets**	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Hong Kong (place of domicile)	**6,418**	25,495	**1,063**	1,919
North America	**411,504**	433,999	**239**	256
Japan	**359,128**	333,774	**4,078**	4,196
Europe	**155,004**	170,826	**—**	—
Mainland China	**42,894**	82,220	**84,519**	134,319
Vietnam	**14,553**	—	**70,991**	56,448
Republic of Korea	**3,570**	869	**11,299**	9,657
Other countries	**981**	1,406	**—**	—
	987,634	1,023,094	**171,126**	204,876
	994,052	1,048,589	**172,189**	206,795



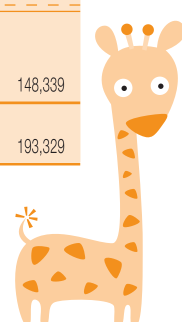
Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

14 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 2008	105,327	16,926	164,899	28,111	9,420	501	325,184	16,548	341,732
Exchange adjustments	4,667	414	5,440	(824)	223	(2)	9,918	600	10,518
Additions	16,469	1,931	10,088	1,562	1,126	347	31,523	6,129	37,652
Disposals	–	(1,138)	(49,018)	(4,351)	(3,561)	–	(58,068)	–	(58,068)
Transfers	–	501	–	–	–	(501)	–	–	–
At 31 December 2008	126,463	18,634	131,409	24,498	7,208	345	308,557	23,277	331,834
At 1 January 2009	126,463	18,634	131,409	24,498	7,208	345	308,557	23,277	331,834
Exchange adjustments	414	43	1,087	464	26	1	2,035	95	2,130
Additions	316	475	4,276	954	450	5,812	12,283	51	12,334
Disposals	(50,977)	(4,258)	(10,017)	(1,418)	(1,511)	–	(68,181)	(5,671)	(73,852)
Transfers	5,730	–	346	–	–	(6,076)	–	–	–
At 31 December 2009	81,946	14,894	127,101	24,498	6,173	82	254,694	17,752	272,446
Accumulated amortisation, depreciation and impairment loss:									
At 1 January 2008	18,889	11,493	86,680	20,870	5,230	–	143,162	1,395	144,557
Exchange adjustments	978	221	2,229	(693)	126	–	2,861	60	2,921
Charge for the year	5,724	2,723	17,715	3,091	1,297	–	30,550	426	30,976
Impairment loss	–	–	5,837	–	–	–	5,837	–	5,837
Written back on disposals	–	(549)	(38,091)	(3,985)	(3,161)	–	(45,786)	–	(45,786)
At 31 December 2008	25,591	13,888	74,370	19,283	3,492	–	136,624	1,881	138,505
At 1 January 2009	25,591	13,888	74,370	19,283	3,492	–	136,624	1,881	138,505
Exchange adjustments	64	24	280	356	14	–	738	4	742
Charge for the year	3,801	1,649	12,882	2,319	1,116	–	21,767	418	22,185
Reversal of impairment loss	–	–	(5,837)	–	–	–	(5,837)	–	(5,837)
Written back on disposals	(17,755)	(3,679)	(6,676)	(1,392)	(976)	–	(30,478)	(1,010)	(31,488)
At 31 December 2009	11,701	11,882	75,019	20,566	3,646	–	122,814	1,293	124,107
Net book value:									
At 31 December 2009	70,245	3,012	52,082	3,932	2,527	82	131,880	16,459	148,339
At 31 December 2008	100,872	4,746	57,039	5,215	3,716	345	171,933	21,396	193,329



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

14 Fixed assets *(Continued)*

(a) The group *(Continued)*

Impairment loss

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

During 2009, due to an up turn in the operations of the group's factories, the group re-assessed the recoverable amounts of the fixed assets at those factories. Based on this assessment, due to the favourable change in the operations of the factories, the impairment loss of HK$5,837,000 was reversed. The estimates of recoverable amount were based on the discounted cash flow forecasts for each cash-generating unit.

(b) The company

	Freehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 1 January 2008	4,603	8,088	29,787	11,341	1,407	55,226
Additions	—	1,142	159	31	160	1,492
Disposals	—	—	—	—	(626)	(626)
At 31 December 2008	4,603	9,230	29,946	11,372	941	56,092
At 1 January 2009	4,603	9,230	29,946	11,372	941	56,092
Additions	—	72	177	109	—	358
At 31 December 2009	4,603	9,302	30,123	11,481	941	56,450
Accumulated depreciation:						
At 1 January 2008	421	6,310	23,988	10,295	1,238	42,252
Charge for the year	115	1,304	3,177	572	151	5,319
Written back on disposals	—	—	—	—	(596)	(596)
At 31 December 2008	536	7,614	27,165	10,867	793	46,975
At 1 January 2009	536	7,614	27,165	10,867	793	46,975
Charge for the year	115	687	1,969	278	71	3,120
At 31 December 2009	651	8,301	29,134	11,145	864	50,095
Net book value:						
At 31 December 2009	3,952	1,001	989	336	77	6,355
At 31 December 2008	4,067	1,616	2,781	505	148	9,117

14 Fixed assets *(Continued)*

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

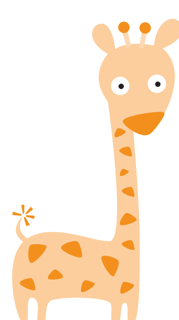
	The group		The company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Outside Hong Kong				
— medium-term leases	**82,752**	118,201	**—**	—
— freehold	**3,952**	4,067	**3,952**	4,067
	86,704	122,268	**3,952**	4,067
Representing:				
Land and buildings carried at cost	**70,245**	100,872	**3,952**	4,067
Interests in leasehold land held for own use under operating leases	**16,459**	21,396	**—**	—
	86,704	122,268	**3,952**	4,067

(d) Pledged assets

Certain fixed assets of the group with total carrying amount as at 31 December 2009 of HK$67,431,000 (2008: HK$60,414,000) were pledged to various banks to secure bank loans granted to the group, see notes 24(ii) and (iii).

15 Prepayment

In May 2009, a subsidiary paid an amount of HK$9,184,000 to the People's Committee of Cai Be District, Vietnam, to acquire the land use right in respect of a piece of land at Tien Giang Province, Vietnam. The land use right was acquired by the subsidiary for the purposes of construction of a soft toys manufacturing factory, which is for a period of 49 years commencing on 26 March 2010.

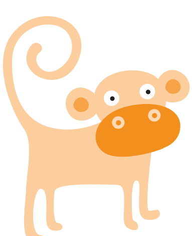


Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Intangible assets

	The group		
	Club memberships HK$'000	**Patent** HK$'000	**Total** HK$'000
Cost:			
At 1 January 2008	16,189	3,382	19,571
Disposals	(903)	—	(903)
Exchange adjustment	(2,975)	—	(2,975)
At 31 December 2008	12,311	3,382	15,693
At 1 January 2009	12,311	3,382	15,693
Additions	3,446	—	3,446
Disposals	(2,153)	—	(2,153)
Exchange adjustment	742	—	742
At 31 December 2009	14,346	3,382	17,728
Accumulated amortisation and impairment losses:			
At 1 January 2008	1,596	1,352	2,948
Charge for the year	—	676	676
Impairment loss	10	163	173
Written back on disposals	(620)	—	(620)
At 31 December 2008	986	2,191	3,177
At 1 January 2009	986	2,191	3,177
Charge for the year	—	676	676
Impairment loss/(reversal of impairment loss)	10	(163)	(153)
At 31 December 2009	996	2,704	3,700
Net book value:			
At 31 December 2009	13,350	678	14,028
At 31 December 2008	11,325	1,191	12,516



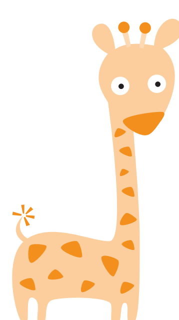
16 Intangible assets *(Continued)*

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

The reversal of the impairment made in prior years arose due to increase in market demand for the related toy products and stabilisation of production costs.

	The company Club memberships HK$'000
Cost:	
At 1 January 2008	1,882
Disposals	(620)
Exchange adjustment	24
At 31 December 2008	1,286
At 1 January 2009	1,286
Exchange adjustment	(3)
At 31 December 2009	1,283
Accumulated impairment losses:	
At 1 January 2008	1,567
Written back on disposal	(620)
At 31 December 2008	947
At 1 January 2009 and 31 December 2009	947
Net book value:	
At 31 December 2009	336
At 31 December 2008	339

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



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

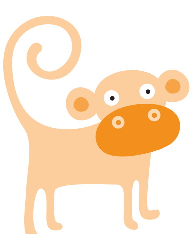
17 Investments in subsidiaries

	The company	
	2009	2008
	HK$'000	HK$'000
Unlisted equities, at cost	**287,813**	223,851
Less: impairment loss	**(57,956)**	(57,956)
	229,857	165,895
Loans to subsidiaries	**202,133**	214,237
Less: impairment loss	**(90,000)**	(90,000)
	112,133	124,237
	341,990	290,132

During the year ended 31 December 2009, the company contributed additional capital of HK$63,962,000 (2008: HK$25,085,000) in respect of certain wholly owned and non-wholly owned subsidiaries in Hong Kong, Vietnam and the PRC.

As a result of the increase in capital contribution in a non-wholly owned subsidiary in Hong Kong, the group's shareholding in the subsidiary increased from 66.47% to 72.86% as at 31 December 2009 and the minority interests share of the net assets of the subsidiary increased by HK$3,062,000.

Loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for loans to subsidiaries of HK$56,231,000 (2008: HK$62,690,000) which are unsecured, interest-bearing at a fixed rate of 1% or LIBOR plus a margin per annum and falls due for repayment from September 2010 to June 2011. Loans falling due within 2010 will be rolled over and, accordingly, have been classified as non-current. The interest rates charged for the year ended 31 December 2009 ranged from 0.76% to 5.50% (2008: 2.84% to 5.50%).



(Expressed in Hong Kong dollars unless otherwise indicated)

17 Investments in subsidiaries *(Continued)*

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

			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. Toys Co., Limited	Hong Kong	Authorised and issued capital of US$1,500,000	100%	100%	–	Inactive
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
Jung Yoon Toys (Shanghai) Co., Limited * #	The PRC	Registered and paid up capital of US$420,000	100%	100%	–	Inactive
C & H Toys (Suzhou) Co., Ltd. * #	The PRC	Registered and paid up capital of US$9,200,000	100%	100%	–	Trading of plush fabrics and plush stuffed toys
Dream Inko Co., Ltd *	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
Dream Vina Co., Ltd	Vietnam	Registered capital of US$12,052,100 and paid up capital of US$11,764,827	100%	66.00%	34.00%	Manufacture of plush stuffed toys and investment holding

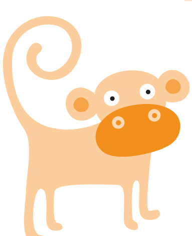
Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

17 Investments in subsidiaries *(Continued)*

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

			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 Vina II Co., Ltd	Vietnam	Registered capital of US$1,000,000 and paid up capital of US$460,719	100%	–	100%	Manufacture of plush stuffed toys
Dream Textile Co., Ltd	Vietnam	Registered and paid up capital of US$4,500,000	100%	66.67%	33.33%	Manufacture of fabrics and dyeing
Dream Mekong Co., Ltd	Vietnam	Registered capital of US$5,000,000 and paid up capital of US$2,125,000	100%	–	100%	Manufacture of plush stuffed toys
C & H Toys (Shuyang) Co., Ltd * #	The PRC	Registered and paid up capital of US$1,200,000	100%	100%	–	Manufacture of plush stuffed toys
C & H HK Corp., Ltd	Hong Kong	Authorised and issued capital of US$10,500,000	72.86%	72.86%	–	Trading of steel and plastic toys and investment holding
J.Y. Plasteel (Suzhou) Co., Ltd * #	The PRC	Registered and paid up capital of US$9,500,000	72.86%	–	72.86%	Manufacture of steel and plastic toys
Guangxi Beiliu Zhengrun Toys Co., Ltd * #	The PRC	Registered and paid up capital of HK$1,670,000	100%	100%	–	Manufacture of plush stuffed toys



17 Investments in subsidiaries *(Continued)*

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

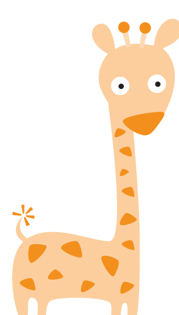
Name of company	Place of incorporation/ registration and operation	Particulars of issued/ registered and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activities
C & H Toys (Mingguang) Co., Ltd * #	The PRC	Registered and 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

* KPMG are not the statutory auditors of these companies. The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total turnover constituting approximately 14.73% and 35.99% respectively of the related consolidated totals.

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

18 Interests in associates

	The group 2009 HK$'000	The group 2008 HK$'000	The company 2009 HK$'000	The company 2008 HK$'000
Unlisted equities, at cost	—	—	1,248	1,248
Share of net assets	638	950	—	—
	638	950	1,248	1,248



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

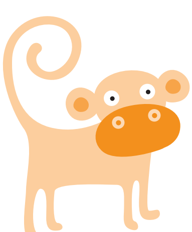
18 Interests in associates *(Continued)*

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:

Name of associate	Place of incorporation/ registration and operation	Particulars of issued share capital/ registered capital	Proportion of ownership interest			Principal activities
			group's effective interest	Held by the company	Held by an associate	
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%	—	20%	Manufacture of plush stuffed toys

Summary of financial information on associates

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenue HK$'000	Loss HK$'000
2009					
100 per cent	**24,803**	**(21,612)**	**(3,191)**	**33,132**	**(1,588)**
Group's effective interest	**4,960**	**(4,322)**	**(638)**	**6,626**	**(318)**
2008					
100 per cent	27,995	(23,244)	(4,751)	55,745	(2,544)
Group's effective interest	5,599	(4,649)	(950)	11,149	(509)



19 Other financial assets

	The group		The company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Non-current				
Available-for-sale debt securities — unlisted (note (ii))	**6,142**	—	**—**	—
Current				
Long-term structured deposit (note (i))	**—**	73,954	**—**	73,954
Held-to-maturity debt securities — unlisted (note (ii))	**3,359**	—	**—**	—
	3,359	73,954	**—**	73,954
	9,501	73,954	**—**	73,954

Notes:

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

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

The long-term structured deposit was pledged to a bank as at 31 December 2008, see note 24(i).

Prior to 31 December 2008, the group elected to early terminate the contract and redeemed the long-term structured deposit for total proceeds of HK$77,509,000 on 15 January 2009. Accordingly, the long-term structured deposit was classified as a current asset as at 31 December 2008.

(ii) Neither the available-for-sale nor the held-to-maturity debt securities are past due or impaired.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

20 Inventories

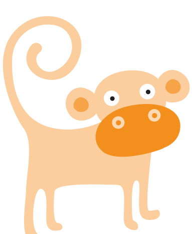
(a) Inventories in the balance sheets comprise:

	The group		The company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Raw materials	**44,371**	40,821	**9,468**	10,096
Work in progress	**39,272**	40,229	**7,894**	3,548
Finished goods	**65,603**	51,859	**26,055**	18,506
	149,246	132,909	**43,417**	32,150

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

	The group	
	2009 HK$'000	2008 HK$'000
Carrying amount of inventories sold	**732,760**	850,544
Write-down of inventories	**17,668**	14,012
Reversal of write-down of inventories	**(8,365)**	(3,304)
	742,063	861,252

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

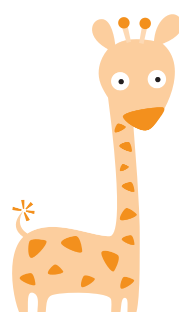


21 Trade and other receivables

	The group		The company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Trade debtors and bills receivable	**107,150**	157,532	**75,771**	121,335
Less: allowance for doubtful debts (note 21(b))	**(1,444)**	(8,572)	**—**	(6,935)
	105,706	148,960	**75,771**	114,400
Other receivables and prepayments	**41,429**	43,763	**13,328**	9,138
Amount due from ultimate holding company	**4,070**	6,115	**—**	—
Amount due from a fellow subsidiary	**1,270**	1,000	**369**	785
Amounts due from subsidiaries	**—**	—	**54,276**	64,886
Amount due from an associate	**—**	51	**—**	—
	152,475	199,889	**143,744**	189,209

The amount of the group's and the company's other receivables and prepayments expected to be recovered or charged as expenses after more than one year is HK$1,259,000 (2008: HK$1,577,000) and HK$Nil (2008: HK$176,000) respectively. All of the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

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



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

21 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	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Current	**93,533**	135,716	**68,417**	108,008
Less than 1 month past due	**10,967**	5,373	**7,287**	3,866
1 to 3 months past due	**601**	6,378	**67**	2,524
More than 3 months past due but less than 12 months past due	**598**	1,468	**—**	2
More than 12 months past due	**7**	25	**—**	—
	105,706	148,960	**75,771**	114,400

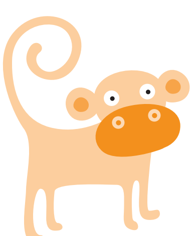
Trade debtors and bills receivable are due within 30 to 60 days from the date of billing. Further details on the group's credit policy are set out in note 29(a).

(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	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
At 1 January	**8,572**	2,955	**6,935**	—
Impairment loss recognised	**216**	14,509	**—**	9,655
Reversal of impairment loss	**(4,504)**	(2,199)	**(4,189)**	—
Uncollectible amounts written off	**(2,816)**	(6,798)	**(2,746)**	(2,720)
Exchange differences	**(24)**	105	**—**	—
At 31 December	**1,444**	8,572	**—**	6,935



21 Trade and other receivables *(Continued)*

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

At 31 December 2009, the group's and the company's trade debtors and bills receivable of HK$2,391,000 (2008: HK$9,636,000) and HK$Nil (2008: HK$6,937,000) 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, specific allowances for doubtful debts of HK$1,444,000 (2008: HK$8,572,000) and HK$Nil (2008: HK$6,935,000) respectively were recognised. 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	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Neither past due nor impaired	**92,983**	135,494	**68,417**	108,008
Less than 1 month past due	**10,968**	5,327	**7,287**	3,866
1 to 3 months past due	**353**	5,857	**67**	2,524
More than 3 months past due but less than 12 months past due	**448**	1,194	**—**	—
More than 12 months past due	**7**	24	**—**	—
	11,776	12,402	**7,354**	6,390
	104,759	147,896	**75,771**	114,398

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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

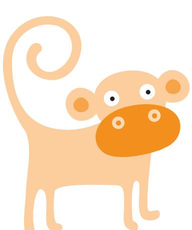
22 Cash and cash equivalents and bank deposits

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

	The group		The company	
	2009 **HK$'000**	2008 HK$'000	**2009** **HK$'000**	2008 HK$'000
Bank deposits within three months to maturity when placed	**89,491**	39,807	**81,593**	23,253
Cash at bank and in hand	**198,270**	82,563	**49,244**	17,250
Cash and cash equivalents in the balance sheet and consolidated cash flow statement	**287,761**	122,370	**130,837**	40,503
Bank deposits with more than three months to maturity when placed	**36,801**	—	**4,266**	—
	324,562	122,370	**135,103**	40,503

Included in the balance of cash and cash equivalents, and bank deposits with more than three months to maturity when placed is an amount of approximately HK$51,233,000 (2008: HK$24,207,000) 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.

As at 31 December 2009, certain bank deposits with more than three months to maturity when placed of the group totalling HK$29,185,000 (2008: HK$Nil) were pledged to a bank to secure bank loans granted to the group, see note 24(v).

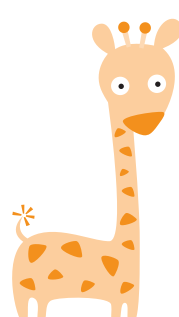


(Expressed in Hong Kong dollars unless otherwise indicated)

22 Cash and cash equivalents and bank deposits *(Continued)*

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

	Note	2009 HK$'000	2008 HK$'000
Profit/(loss) before taxation		86,103	(42,892)
Adjustments for:			
— Bank interest income	4(a)	(1,463)	(1,882)
— Interest income from other financial assets	4(a)	(423)	(3,141)
— Profit on disposal of land and buildings, and other related fixed assets	6	(19,748)	—
— (Gain)/loss on disposal of property, plant and equipment	4(b)	(605)	4,206
— Loss on disposal of club memberships	4(b)	191	106
— Net realised and unrealised (gain)/loss on other financial assets	4(b)	(3,555)	1,419
— Net loss on forward foreign exchange contracts	4(b)	568	—
— Finance costs	5(a)	2,690	6,888
— Amortisation of land lease premium	14(a)	418	426
— Amortisation of intangible assets	16	676	676
— Depreciation	14(a)	21,767	30,550
— (Reversal of)/provision for impairment loss:			
— Fixed assets	14(a)	(5,837)	5,837
— Intangible assets	16	(153)	173
— Other financial assets	5(c)	—	911
— Share of loss of associates		318	509
— Foreign exchange loss/(gain)		15,969	(14,910)
Changes in working capital:			
— (Increase)/decrease in inventories		(16,337)	23,728
— Decrease/(increase) in trade and other receivables		47,414	(39,796)
— Increase in trade and other payables		72,888	48,487
— Decrease in defined benefit obligations		(5,932)	(3,711)
Cash generated from operations		194,949	17,584



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

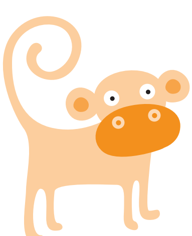
23 Trade and other payables

	The group		The company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**85,476**	91,578	**9,072**	4,950
Accrued charges and other payables	**161,872**	80,320	**99,024**	20,177
Loan from minority shareholder	**15,512**	15,502	**—**	—
Amount due to ultimate holding company	**1,627**	—	**1,627**	—
Amounts due to fellow subsidiaries	**5,657**	9,079	**3,155**	6,510
Amounts due to subsidiaries	**—**	—	**85,126**	109,316
Amounts due to associates	**1,076**	1,853	**—**	—
	271,220	198,332	**198,004**	140,953
Derivative financial instruments:				
— Forward foreign exchange contracts	**573**	—	**—**	—
	271,793	198,332	**198,004**	140,953

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

Loan from minority shareholder 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.



23 Trade and other payables *(Continued)*

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

	The group		The company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Due within 1 month or on demand	**56,969**	59,984	**9,072**	4,950
Due after 1 month but within 3 months	**28,489**	31,484	**—**	—
Due after 3 months but within 6 months	**18**	—	**—**	—
Due after 6 months but within 1 year	**—**	—	**—**	—
Due after 1 year	**—**	110	**—**	—
	85,476	91,578	**9,072**	4,950

24 Bank loans

At 31 December 2009, the bank loans and overdrafts were secured as follows:

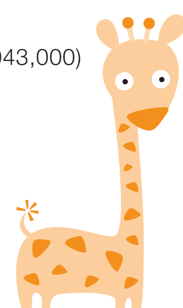
	The group		The company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Current				
— Secured bank loans	**34,991**	126,977	**—**	112,706
— Guaranteed bank loans	**20,496**	18,715	**—**	—
	55,487	145,692	**—**	112,706

Bank loans of the group are secured as follows:

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

(ii) Plant and machinery and land with a carrying value as at 31 December 2009 of HK$36,733,000 (2008: HK$28,371,000) were pledged to a bank in respect of a loan amounting to HK$4,158,000 (2008: HK$1,840,000).

(iii) Land and buildings with a carrying value as at 31 December 2009 of HK$30,698,000 (2008: HK$32,043,000) was pledged to a bank in respect of a loan amounting to HK$1,710,000 (2008: HK$12,430,000).



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

24 Bank loans *(Continued)*

Bank loans of the group are secured as follows: *(Continued)*

(iv) A bank loan of HK$77,755,000 as at 31 December 2008 was secured on a deposit placed by a director of the company of HK$81,288,000.

(v) Bank deposits with more than three months to maturity when placed with a carrying value as at 31 December 2009 of HK$29,185,000 (2008: HK$Nil) was pledged to a bank in respect of bank loans granted amounting to HK$29,123,000 as at 31 December 2009.

Bank loans of the group are guaranteed as follows:

(i) A bank loan totalling HK$18,727,000 (2008: HK$18,715,000) was guaranteed by the group's immediate holding company, C&H Co., Ltd.

(ii) A bank loan totalling HK$1,769,000 (2008: HK$Nil) was guaranteed by the group's immediate holding company, C&H Co., Ltd, and a director of the company.

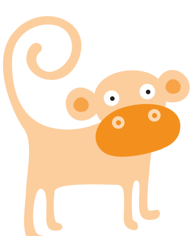
As at 31 December 2009, the group's banking facilities were not subject to the fulfilment of financial covenants (2008: Nil).

25 Employees retirement schemes

(a) Defined benefit retirement plans

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 2009 and was prepared by qualified actuaries of Watson Wyatt 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 52.6% (2008: 33.6%) covered by the plan assets held by the trustees.



25 Employees retirement schemes *(Continued)*

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

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

	The group		The company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Present value of wholly or partly funded obligations	**9,442**	13,397	**1,604**	9,101
Fair value of plan assets	**(4,965)**	(4,502)	**—**	—
	4,477	8,895	**1,604**	9,101
Net unrecognised actuarial losses	**(3,431)**	(1,917)	**—**	—
	1,046	6,978	**1,604**	9,101

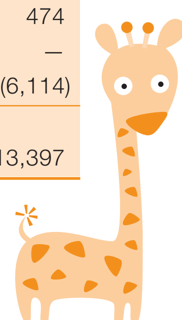
A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months. The group expects to pay HK$1,675,000 in contributions to the defined benefit retirement plan in 2010.

(ii) Plan assets

As at 31 December 2009 and 2008, 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.

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

	The group	
	2009 HK$'000	2008 HK$'000
At 1 January	**13,397**	19,536
Benefits paid by the plan	**(9,950)**	(3,865)
Current service cost	**1,277**	2,339
Interest cost	**542**	1,027
Actuarial losses	**2,070**	474
Losses on curtailment/settlement	**320**	—
Exchange differences	**1,786**	(6,114)
At 31 December	**9,442**	13,397



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

25 Employees retirement schemes *(Continued)*

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

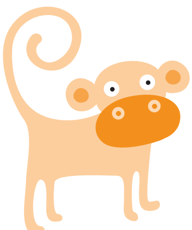
(iv) Movements in plan assets

	The group	
	2009 HK$'000	2008 HK$'000
At 1 January	**4,502**	6,282
Group's contributions paid to the plan	**1,525**	1,440
Benefits paid by the plan	**(1,976)**	(1,525)
Actuarial expected return on plan assets	**79**	111
Actuarial gains	**74**	211
Exchange differences	**761**	(2,017)
At 31 December	**4,965**	4,502

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

	The group	
	2009 HK$'000	2008 HK$'000
Current service cost	**1,277**	2,339
Interest cost	**542**	1,027
Actuarial expected return on plan assets	**(79)**	(111)
Net actuarial losses recognised	**57**	66
Losses on curtailment/settlement	**1,187**	—
	2,984	3,321

As of 28 February 2009, the group changed its policy to exclude the directors of the company and certain other employees from the plan. Corresponding severance payments were paid to the affected members on 28 February 2009 and losses on curtailment/settlement arose due to such event.



25 Employees retirement schemes *(Continued)*

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

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

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

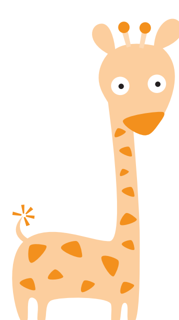
	The group	
	2009	2008
	HK$'000	HK$'000
Cost of sales	**369**	555
Administrative expenses	**2,615**	2,766
	2,984	3,321

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$154,000 (2008: HK$322,000).

(vi) The principal actuarial assumptions used as at 31 December 2009 (expressed as weighted averages) are as follows:

	2009	2008
Discount rate	**6.7%**	7.8%
Expected rate of return on plan assets	**4.5%**	3.5%
Future salary increases		
— 2010 to 2012	**6.0%**	5.0%
— thereafter	**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.



Notes to the financial statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

25 Employees retirement schemes *(Continued)*

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

(vi) *The principal actuarial assumptions used as at 31 December 2009 (expressed as weighted averages) are as follows:* *(Continued)*

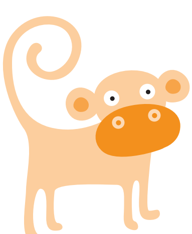
Historical information

	The group			
	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
Present value of the defined benefit obligations	**9,442**	13,397	19,536	17,903
Fair value of plan assets	**(4,965)**	(4,502)	(6,282)	(6,608)
Deficit in the plan	**4,477**	8,895	13,254	11,295
Experience adjustments arising on plan liabilities	**1,574**	989	1,990	1,356
Experience adjustments arising on plan assets	**(82)**	(211)	(60)	(18)

(b) Defined contribution retirement plans

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

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



26 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.

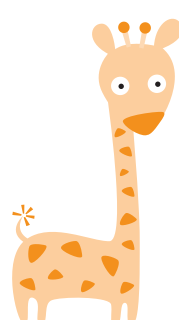
(a) The terms and conditions of the grants that existed are as follows:

		Number of options	
Exercisable period	**Exercise price per share**	**2009 '000**	2008 '000
Options granted to directors:			
7 February 2003 to 7 February 2012	HK$1.18	**1,880**	2,400
Options granted to employees:			
7 February 2003 to 7 February 2012	HK$1.18	**1,561**	2,081
15 April 2004 to 15 April 2013	HK$1.43	**455**	455
2 January 2005 to 2 January 2014	HK$1.87	**6,650**	7,150
Total share options granted		**10,546**	12,086

The movement in the number of options during the year resulted from the resignation of certain employees and a director.

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

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



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

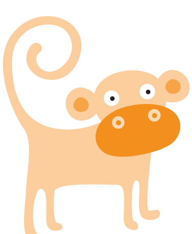
26 Equity-settled share-based transactions *(Continued)*

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

	2009		2008	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the period	**HK$1.60**	**12,086**	HK$1.57	14,346
Lapsed	**HK$1.40**	**(1,540)**	HK$1.39	(2,260)
Outstanding at the end of the period	**HK$1.63**	**10,546**	HK$1.60	12,086
Exercisable at the end of the period	**HK$1.63**	**10,546**	HK$1.60	12,086

No options were granted or exercised during the year (2008: Nil).

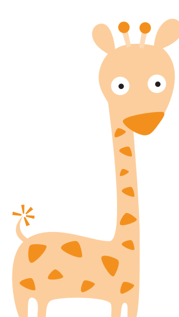
The options outstanding at 31 December 2009 had an exercise price of HK$1.18, HK$1.43 or HK$1.87 (2008: HK$1.18, HK$1.43 or HK$1.87) and a weighted average remaining contractual life of 3.3 years (2008: 4.3 years).



27 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The group		The company	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Provision for Hong Kong Profits Tax for the year	**3,311**	2,319	**3,311**	2,127
Provisional Profits Tax paid	**(1,756)**	(1,090)	**(1,756)**	(1,089)
	1,555	1,229	**1,555**	1,038
Balance of Profits Tax provision relating to prior years	**841**	918	**–**	–
Provision for tax outside Hong Kong	**3,559**	4,574	**–**	–
	5,955	6,721	**1,555**	1,038
Representing:				
Tax recoverable	**(33)**	(255)	**–**	–
Tax payable	**5,988**	6,976	**1,555**	1,038
	5,955	6,721	**1,555**	1,038



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

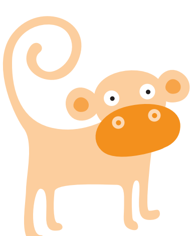
27 Income tax in the balance sheet *(Continued)*

(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 in excess of/ (less than) the related depreciation HK$'000	Future benefit of tax losses HK$'000	Defined benefit retirement plan liability HK$'000	General provisions HK$'000	Revaluation of available-for-sale securities HK$'000	Total HK$'000
At 1 January 2008	(72)	(733)	273	(3,046)	–	(3,578)
Charged to the consolidated income statement (note 7(a))	227	733	909	1,162	–	3,031
Exchange adjustments	(102)	–	(195)	341	–	44
At 31 December 2008	53	–	987	(1,543)	–	(503)
At 1 January 2009	53	–	987	(1,543)	–	(503)
(Credited)/charged to the consolidated income statement (note 7(a))	(388)	–	116	(1,416)	–	(1,688)
Charged to reserves (note 11)	–	–	–	–	27	27
Exchange adjustments	(2)	–	91	(224)	–	(135)
At 31 December 2009	(337)	–	1,194	(3,183)	27	(2,299)



(Expressed in Hong Kong dollars unless otherwise indicated)

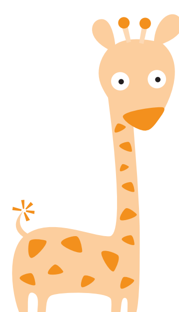
27 Income tax in the balance sheet *(Continued)*

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

(ii) The company

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

	Depreciation allowances in excess of/ (less than) the related depreciation HK$'000	Future benefit of tax losses HK$'000	Total HK$'000
At 1 January 2008	981	(733)	248
(Credited)/charged to the income statement	(987)	733	(254)
At 31 December 2008	(6)	—	(6)
At 1 January 2009	(6)	—	(6)
Credited to the income statement	(347)	—	(347)
At 31 December 2009	(353)	—	(353)



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

27 Income tax in the balance sheet *(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$175,937,000 (2008: HK$185,894,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entity. Tax losses amounting to HK$29,275,000 (2008: HK$24,127,000) do not expire under current tax legislation, while the remaining tax losses amounting to HK$146,662,000 (2008: HK$161,767,000) expire at various dates up to and including 2014 (2008: 2013) as follows:

	2009 HK$'000	2008 HK$'000
2009	**—**	1,844
2010	**11,956**	11,915
2011	**14,620**	19,268
2012	**29,524**	47,792
2013	**81,518**	80,948
2014	**9,044**	—
	146,662	161,767
No expiry date	**29,275**	24,127
	175,937	185,894

(d) Deferred tax liabilities not recognised

At 31 December 2009, temporary differences relating to the undistributed profits of subsidiaries based in Mainland China amounted to HK$45,834,000 (2008: HK$38,626,000). Deferred tax liabilities of HK$2,292,000 (2008: HK$1,931,000) 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.

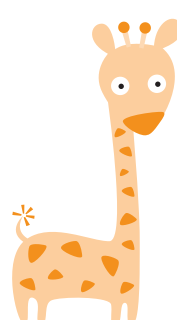
28 Capital, reserves and dividends

(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 HK$'000	Share premium HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2008	52,019	176,893	6,829	132,781	368,522
Changes in equity for 2008:					
Lapse of share options	—	—	(2,876)	2,876	—
Total comprehensive income for the year	—	—	—	4,338	4,338
At 31 December 2008	52,019	176,893	3,953	139,995	372,860
At 1 January 2009	52,019	176,893	3,953	139,995	372,860
Changes in equity for 2009:					
Lapse of share options	—	—	(265)	265	—
Total comprehensive income for the year	—	—	—	98,523	98,523
At 31 December 2009	52,019	176,893	3,688	238,783	471,383



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

28 Capital, reserves and dividends *(Continued)*

(b) Dividend

Dividend payable to equity shareholders of the company attributable to the year

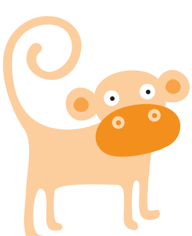
	2009 HK$'000	2008 HK$'000
Final dividend proposed after the balance sheet date of HK3 cents per ordinary share (2008: HK Nil cents per ordinary share)	**20,056**	—

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(c) Share capital

	2009		**2008**	
	Number of shares '000	**HK$'000**	Number of shares '000	HK$'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 31 December	**668,529**	**52,019**	668,529	52,019

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



28 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

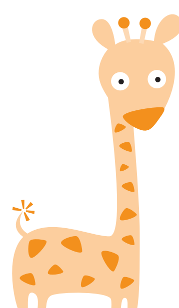
According to the PRC laws applicable to wholly-owned foreign investment enterprises, the subsidiaries of the company established in the PRC are required to set up a general reserve fund and appropriate at least 10% of their annual net profits after taxation, as determined under PRC accounting regulations, 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) 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).

(v) Distributability of reserves

At 31 December 2009, 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$238,783,000 (2008: HK$139,995,000). After the balance sheet date the directors proposed a final dividend of HK3 cents per ordinary share (2008: HK Nil cents per ordinary share), amounting to HK$20,056,000. This dividend has not been recognised as a liability at the balance sheet date.



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

28 Capital, reserves and dividends *(Continued)*

(e) Capital management

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

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

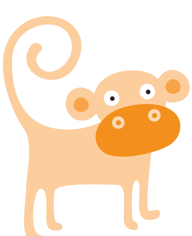
The group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the group defines net debt as total debt (which includes interest-bearing loans and borrowings and trade and other payables) less cash and cash equivalents and bank deposits with more than three months to maturity when placed.

During 2009, 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.

The net debt-to-capital ratio at 31 December 2009 and 2008 was as follows:

		The group		The company	
	Note	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Current liabilities					
Trade and other payables	23	**271,793**	198,332	**198,004**	140,953
Bank loans	24	**55,487**	145,692	**—**	112,706
Total debt		**327,280**	344,024	**198,004**	253,659
Less: Cash and cash equivalents	22(a)	**(287,761)**	(122,370)	**(130,837)**	(40,503)
Bank deposits with more than three months to maturity when placed	22(a)	**(36,801)**	—	**(4,266)**	—
Net debt		**2,718**	221,654	**62,901**	213,156
Total equity		**475,991**	378,697	**471,383**	372,860
Net debt-to-capital ratio		**1%**	59%	**13%**	57%

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



29 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 is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

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

(a) Credit risk

The group's credit risk is primarily attributable to trade and other receivables 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 21% (2008: 19%) and 54% (2008: 47%) 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.

Placement of bank deposits are normally with counterparties that have sound credit ratings.

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

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

Further quantitative disclosures in respect of the group's exposure to credit risk arising from trade and other receivables are set out in note 21.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

29 Financial risk management and fair values *(Continued)*

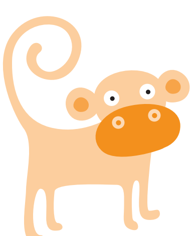
(b) Liquidity risk

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 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

	2009		2008	
	Contractual undiscounted cash outflow repayable within 1 year or on demand HK$'000	**Balance sheet carrying amount HK$'000**	Contractual undiscounted cash outflow repayable within 1 year or on demand HK$'000	Balance sheet carrying amount HK$'000
Bank loans	**56,111**	**55,487**	147,096	145,692
Trade and other payables	**271,793**	**271,793**	198,332	198,332
	327,904	**327,280**	345,428	344,024



29 Financial risk management and fair values *(Continued)*

(b) Liquidity risk *(Continued)*

The company

	2009		2008	
	Contractual undiscounted cash outflow repayable within 1 year or on demand HK$'000	**Balance sheet carrying amount HK$'000**	Contractual undiscounted cash outflow repayable within 1 year or on demand HK$'000	Balance sheet carrying amount HK$'000
Bank loans	–	–	113,135	112,706
Trade and other payables	198,004	198,004	140,953	140,953
	198,004	198,004	254,088	253,659

As shown in the above analysis, bank loans of the group and the company amounting to HK$56,111,000 and HK$Nil respectively were due to be repaid during 2010. 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 short-term borrowings. Borrowings issued at variable rates and at fixed rates expose the group to cash flow interest rate risk and fair value interest rate risk respectively. The group monitors the level of its fixed rate and variable rate borrowings and manages the contractual terms of the interest-bearing financial assets and liabilities. For this purpose the group defines "net borrowings" as being interest-bearing financial liabilities less interest-bearing investments (excluding cash held for short-term working capital purposes). The group's interest rate profile as monitored by management is set out in (i) below.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

29 Financial risk management and fair values *(Continued)*

(c) Interest rate risk *(Continued)*

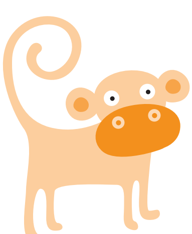
(i) ***The following table details the interest rate profile of the group's and the company's net borrowings (as defined above) at the balance sheet date.***

The group

	2009		2008	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Fixed rate borrowings:				
Bank loans	**1.52**	**30,892**	2.61	91,294
Variable rate borrowings:				
Bank loans	**4.46**	**24,595**	4.71	54,398
Total borrowings		**55,487**		145,692
Fixed rate borrowings as a percentage of total net borrowings		**55.67%**		62.66%

The company

	2009		2008	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Fixed rate borrowings:				
Bank loans	**N/A**	**–**	2.42	89,453
Variable rate borrowings:				
Bank loans	**N/A**	**–**	2.50	23,253
Total borrowings		**–**		112,706
Fixed rate borrowings as a percentage of total net borrowings		**N/A**		79.37%



29 Financial risk management and fair values *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2009, 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 decreased/increased the group's retained profits by approximately HK$477,000 (2008: increased/decreased the group's loss after taxation and decreased/increased the group's retained profits by HK$1,219,000). 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/(loss) after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the group which expose the group to fair value interest rate risk at the balance sheet date, the impact on the group's profit/(loss) after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis has been performed on the same basis for 2008.

(d) Currency risk

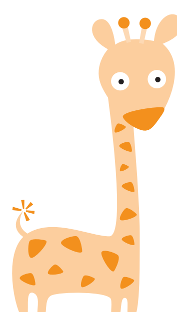
The group is exposed to foreign currency risk primarily through sales, purchases and cash balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars ("USD"), Renminbi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

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

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

(i) Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss (see note 4(b)). The net fair value of forward exchange contracts used by the group as economic hedges of monetary liabilities denominated in foreign currencies at 31 December 2009 was HK$573,000 (2008: HK$Nil), recognised as derivative financial instruments, see note 23.



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

29 Financial risk management and fair values *(Continued)*

(d) Currency risk *(Continued)*

(ii) Exposure to currency risk

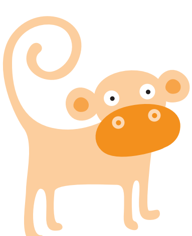
The following table details the group's and the company's exposure at the balance sheet date to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

The group

	2009			2008		
	United States Dollars '000	Renminbi Yuan '000	Japanese Yen '000	United States Dollars '000	Renminbi Yuan '000	Japanese Yen '000
Trade and other receivables	15,824	2,771	4,635	18,242	1,014	37
Cash and cash equivalents	13,691	113	14,513	9,211	548	38,901
Bank loans	(3,742)	–	–	(5,000)	–	–
Trade and other payables	(1,200)	(4,092)	(1,018)	(4,025)	(13,265)	(2,928)
Gross exposure arising from recognised assets and liabilities	24,573	(1,208)	18,130	18,428	(11,703)	36,010
Notional amounts of forward exchange contracts used as economic hedges	3,786	–	–	–	–	–
Net exposure arising from recognised assets and liabilities	28,359	(1,208)	18,130	18,428	(11,703)	36,010
Hong Kong dollar equivalent	219,952	(1,377)	1,523	142,836	(13,226)	3,097

The company

	2009			2008		
	United States Dollars '000	Renminbi Yuan '000	Japanese Yen '000	United States Dollars '000	Renminbi Yuan '000	Japanese Yen '000
Trade and other receivables	13,066	28,175	–	17,938	35,724	–
Cash and cash equivalents	6,177	113	779	5,062	541	424
Bank loans	–	–	–	(5,000)	–	–
Trade and other payables	(11,326)	(4,092)	(1,000)	(14,374)	(13,277)	(3,720)
Net exposure arising from recognised assets and liabilities	7,917	24,196	(221)	3,626	22,988	(3,296)
Hong Kong dollar equivalent	61,404	27,583	(19)	28,107	25,977	(283)



29 Financial risk management and fair values *(Continued)*

(d) Currency risk *(Continued)*

(iii) Sensitivity analysis

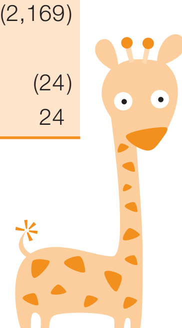
The following table indicates the instantaneous change in the group's profit after taxation and retained profits and other components of consolidated equity that would arise if foreign exchange rates to which the group has significant exposure at the balance sheet date had changed at that date, assuming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

The group

	2009		2008	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and retained profits HK$'000
Renminbi Yuan	**10%**	**(115)**	10%	1,104
	(10)%	**115**	(10)%	(1,104)
Japanese Yen	**10%**	**116**	10%	(253)
	(10)%	**(116)**	(10)%	253

The company

	2009		2008	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and retained profits HK$'000
Renminbi Yuan	**10%**	**2,303**	10%	2,169
	(10)%	**(2,303)**	(10)%	(2,169)
Japanese Yen	**10%**	**(2)**	10%	(24)
	(10)%	**2**	(10)%	24



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

29 Financial risk management and fair values *(Continued)*

(d) Currency risk *(Continued)*

(iii) Sensitivity analysis (Continued)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the group which expose the group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the group's presentation currency. The analysis is performed on the same basis for 2008.

(e) Fair values

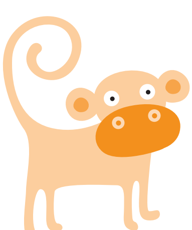
(i) Financial instruments carried at fair value

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



29 Financial risk management and fair values *(Continued)*

(e) Fair values *(Continued)*

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

2009

	The group		
	Level 1 HK$'000	**Level 2** HK$'000	**Total** HK$'000
Assets			
Available-for-sale debt securities:			
— Unlisted	6,142	—	6,142
Liabilities			
Derivative financial instruments:			
— Forward foreign exchange contracts	—	573	573

During the year 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 2009 and 2008.

(f) Estimation of fair values

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

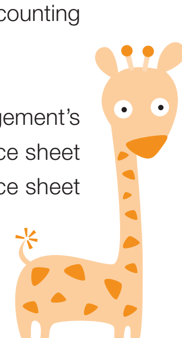
(i) Securities

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

(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.



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

30 Commitments

(a) Capital commitments outstanding at 31 December 2009 not provided for in the financial statements were as follows:

	2009 HK$'000	2008 HK$'000
Contracted for	**18,365**	4,960

(b) At 31 December 2009, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:

	2009 HK$'000	2008 HK$'000
Within 1 year	**9,907**	17,158
After 1 year but within 5 years	**4,823**	18,495
After 5 years	**2,239**	—
	16,969	35,653

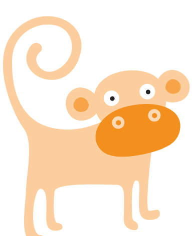
The group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

31 Contingent liabilities

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

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

On 25 September 2008, the courts entered an interlocutory order of summary judgement of no infringement, and accordingly, no provision has been recorded in the financial statements as at 31 December 2009 or 2008 in respect of the claim under the Litigation. The company has issued a counter claim alleging various matters. In accordance with paragraph 92 of Hong Kong Accounting Standard 37 ("HKAS 37"), *Provisions, contingent liabilities and contingent assets*, it would be against the interests of the company to make further disclosure of the information required by HKAS 37.



32 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

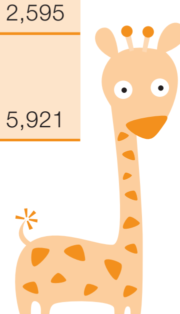
Remuneration for key management personnel of the group, including amounts paid to the company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2009 HK$'000	2008 HK$'000
Short-term employee benefits	**8,692**	7,814
Post employment benefits	**—**	—

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

		2009 HK$'000	2008 HK$'000
(b)	**Sales of goods to:**		
	— a fellow subsidiary	**1,995**	1,651
	— an associate	**—**	327
(c)	**Sales of materials to:**		
	— a fellow subsidiary	**14,553**	—
(d)	**Purchase of goods from:**		
	— an associate	**20,608**	14,505
(e)	**Purchase of materials from:**		
	— an associate	**1,310**	—
(f)	**Commission received/receivable from:**		
	— a fellow subsidiary	**2,948**	3,671
(g)	**Sharing of administrative services from:**		
	— ultimate holding company	**6,961**	—
(h)	**Rental paid/payable to:**		
	— ultimate holding company	**2,335**	2,595
(i)	**Processing fees paid/payable to:**		
	— an associate	**1,328**	5,921

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



Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

33 Comparative figures

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to the current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

34 Immediate and ultimate controlling party

At 31 December 2009, 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.

35 Accounting judgements and estimates

Notes 25, 26 and 29 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.

(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.

35 Accounting judgements and estimates *(Continued)*

(c) Impairment of receivables

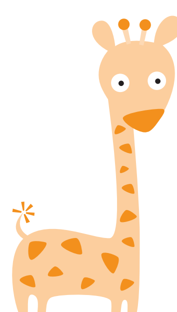
Receivables that are measured at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recorded. Objective evidence of impairment includes observable data that comes to the attention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

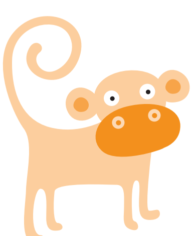
(Expressed in Hong Kong dollars unless otherwise indicated)

36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2009

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

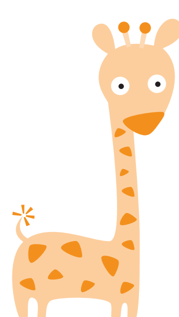
	Effective for accounting periods beginning on or after
HKFRS 3 (Revised), *Business combinations*	1 July 2009
Amendments to HKAS 27, *Consolidated and separate financial statements*	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010

The group is in the process of making an assessment of what the impact of these amendments, new standards and new Interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a restatement of the group's or the company's results of operations and financial position.



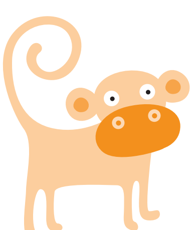
Five year financial summary

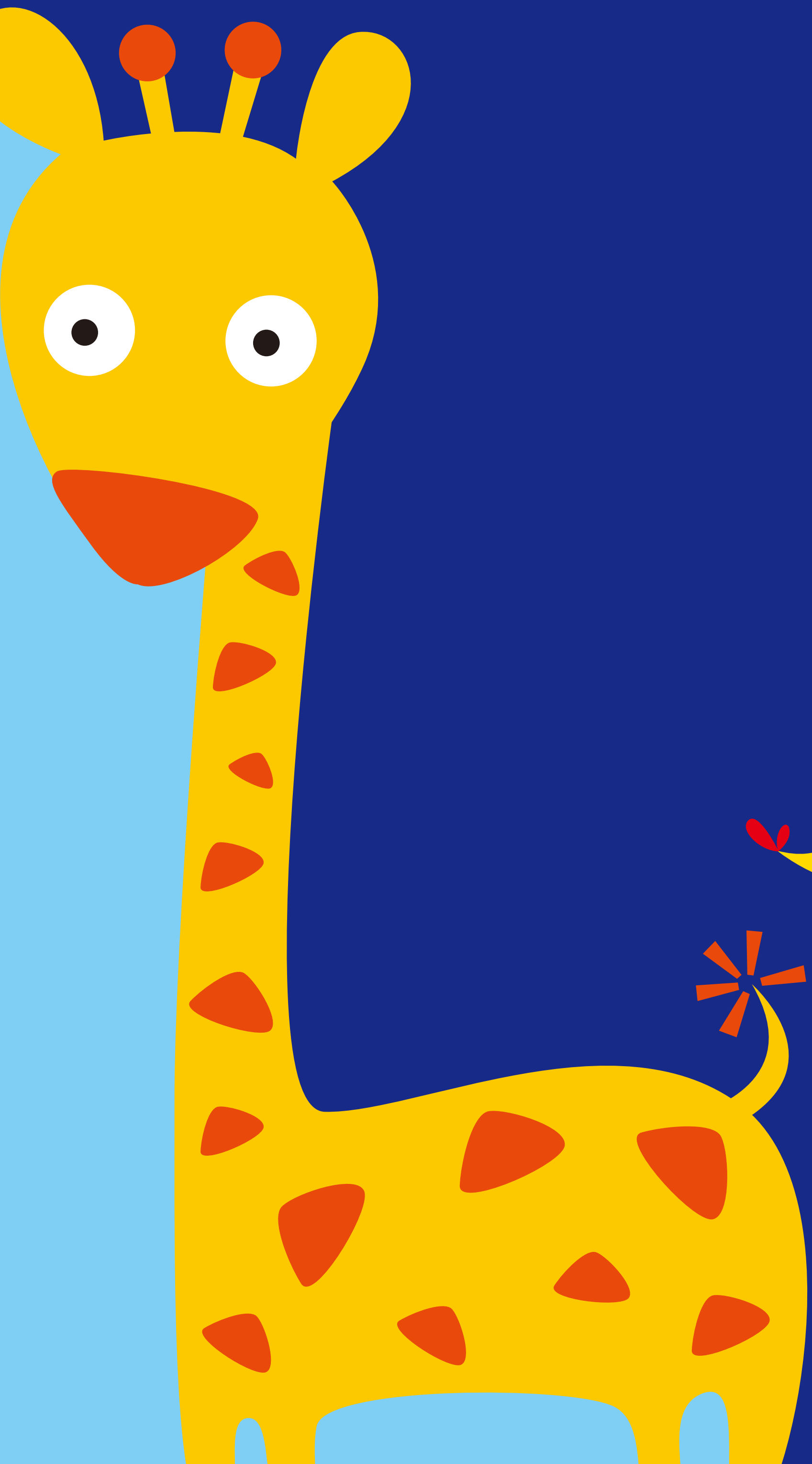
	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	**2009 HK$'000**
Results					
Turnover	1,040,444	1,084,357	946,328	1,048,589	**994,052**
(Loss)/profit from operations	(30,367)	(117,732)	(12,067)	(35,495)	**89,111**
Finance costs	(3,339)	(4,842)	(8,132)	(6,888)	**(2,690)**
Share of profits/(loss) of associates	652	(237)	(16)	(509)	**(318)**
(Loss)/profit before taxation	(33,054)	(122,811)	(20,215)	(42,892)	**86,103**
Income tax (expense)/credit	(3,416)	(8,673)	11,986	(13,427)	**(7,865)**
(Loss)/profit for the year	(36,470)	(131,484)	(8,229)	(56,319)	**78,238**
Attributable to:					
— Equity shareholders of the company	(36,348)	(129,671)	(4,831)	(41,929)	**74,619**
— Minority interests	(122)	(1,813)	(3,398)	(14,390)	**3,619**
(Loss)/profit for the year	(36,470)	(131,484)	(8,229)	(56,319)	**78,238**
(Loss)/earnings per share					
Basic	HK$ (5.44)¢	HK$(19.40)¢	HK$ (0.72)¢	HK$ (6.27)¢	**HK$ 11.16¢**
Diluted	HK$ (5.44)¢	HK$(19.40)¢	HK$ (0.72)¢	HK$ (6.27)¢	**HK$ 11.16¢**



Five year financial summary (Continued)

	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	**2009 HK$'000**
Assets and liabilities					
Fixed assets	158,359	216,046	197,175	193,329	**148,339**
Prepayment	—	—	—	—	**9,184**
Intangible assets	112,659	17,268	16,623	12,516	**14,028**
Interests in associates	1,483	1,298	1,373	950	**638**
Deferred tax assets	7,460	3,180	3,826	503	**2,299**
Other financial assets	71,670	71,054	76,284	—	**6,142**
Net current assets	217,877	152,974	166,647	178,377	**296,407**
Total assets less current liabilities	569,508	461,820	461,928	385,675	**477,037**
Deferred tax liabilities	(741)	(322)	(248)	—	**—**
Other non-current liabilities	(10,820)	(19,387)	(11,469)	(6,978)	**(1,046)**
NET ASSETS	557,947	442,111	450,211	378,697	**475,991**





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