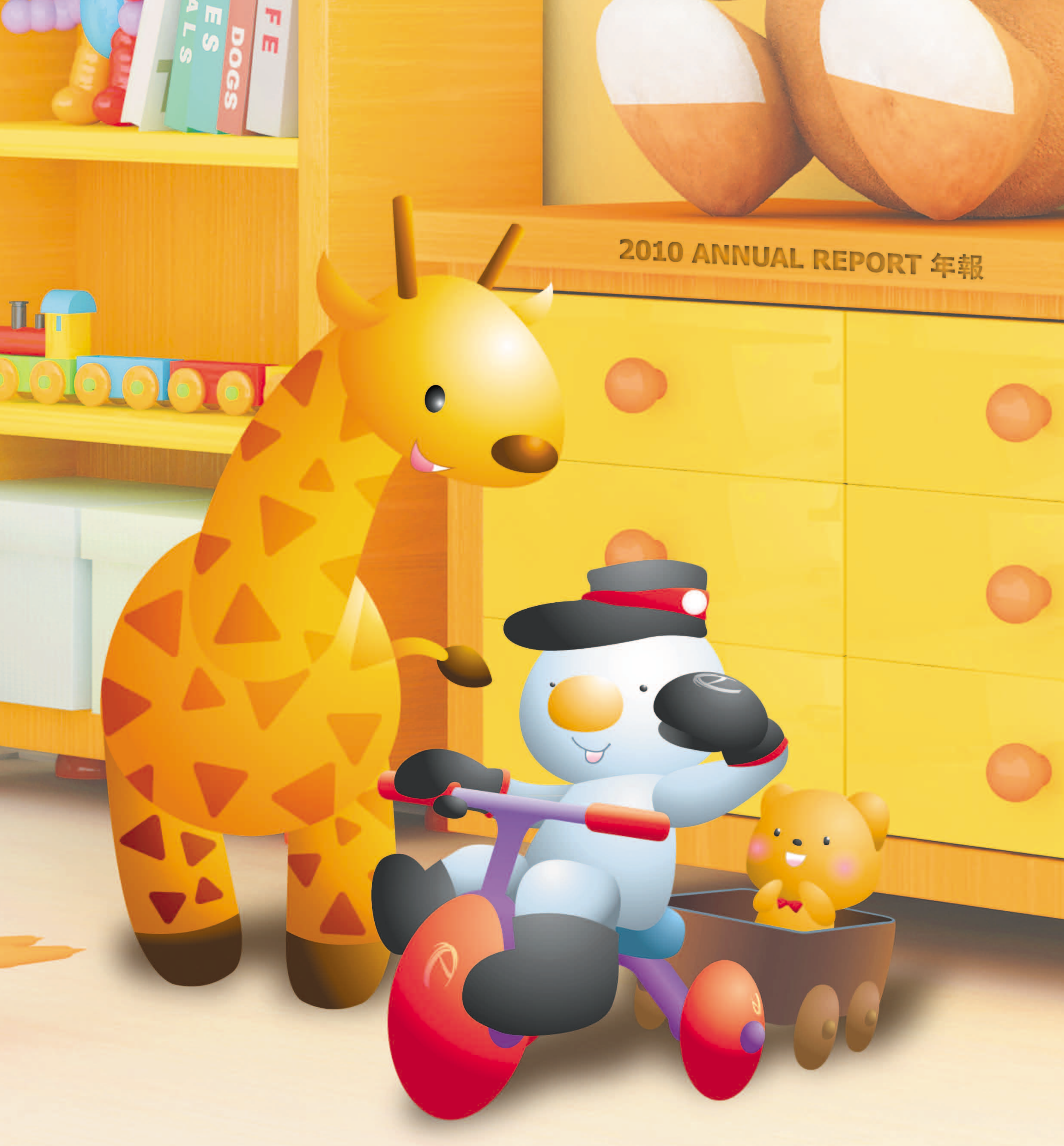

Dream International Limited

DREAM INTERNATIONAL LIMITED
德林國際有限公司

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

Stock Code 股份代號：1126


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

Independent Non-executive Directors

Professor Cheong Heon YI
Professor Byong Hun AHN
Mr. Tae Woong KANG *(appointed on 20 August 2010)*
Mr. Oliver, Shing Kay WONG *(resigned on 20 August 2010)*

AUDIT COMMITTEE

Professor Cheong Heon YI *(Chairman)*
Professor Byong Hun AHN
Mr. Tae Woong KANG *(appointed on 20 August 2010)*
Mr. Oliver, Shing Kay WONG *(resigned on 20 August 2010)*

REMUNERATION COMMITTEE

Professor Cheong Heon YI
Professor Byong Hun AHN *(Chairman)*
Mr. Tae Woong KANG *(appointed on 20 August 2010)*
Mr. Oliver, Shing Kay WONG *(resigned on 20 August 2010)*
Mr. Young M. LEE

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

COMPANY SECRETARY

Mr. Chi Chung SHUM, *CPA*

AUDITOR

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

AUTHORISED REPRESENTATIVES

Mr. Young M. LEE
Mr. Chi Chung SHUM

PRINCIPAL BANKERS

Citibank, N.A.
Shinhan Bank
Bank of China

SHARE REGISTRAR

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

FINANCIAL RELATIONS CONSULTANT

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

WEBSITE ADDRESS

www.dream-i.com.hk

STOCK CODE

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

CHAIRMAN'S STATEMENT

Mr. Kyoo Yoon Choi
Chairman

Dear Shareholders,

On behalf of the Board, I am immensely pleased to report that Dream International Limited (the "Company") and its subsidiaries (collectively the "Group") have achieved encouraging results for the year ended 31 December 2010.

Over the past few years, toy manufacturers, especially those with production based in China, have faced a variety of challenges. Heavy pricing pressure due to keen competition, rising materials costs, labor shortages in China and appreciation of the Renminbi were just some of the factors that conspired to significantly erode profitability. While cost pressure alleviated, the financial crisis that swept the world had a major impact on the US and Europe — two of the largest toy markets. Having witnessed a substantial number of industry players ousted from the market, we — the largest plush stuffed toy manufacture in the world, became more determined to enhance our competitiveness and overcome the tough period head on.

CHAIRMAN'S STATEMENT

Our strategies to reorganize and restructure operations commenced more than five years ago, laying a solid foundation for the Group that has allowed us to weather the most difficult times. In the second half of 2009, the global economy, while yet to return to robust growth, has begun developing at a more stable pace. In addition, the numerous players that exited the market have created tremendous business opportunities for sizable, reputable and reliable toy manufacturers such as us. With lower cost production bases in China and Vietnam, a higher-margin product mix and greater bargaining power on pricing, we have managed to achieve sterling results amid improving market conditions. After experiencing a turnaround in 2009, we capitalized on the growth momentum to achieve the highest revenue and net profit increases since our listing in 2002 — new milestones in our Group's development.

We are extremely glad to share our successful results with shareholders and pleased to propose a final dividend of HK4 cents. Together with an interim dividend of HK2 cents, total dividend for the year will amount to HK6 cents, representing a payout ratio of 20.1%.

The global economy is on the road to recovery, and the toy industry also shows signs of growth. In the US, which was among the hardest hit by the financial crisis, 2% year-on year growth in retail toy sales was recorded in 2010, according to The NPD Group — a leading market research company. However, we still see some challenges emanating from the operation front, including rising wages, continuing appreciation of the Renminbi and possible surge in raw material costs due to political unrest in several petroleum exporting countries. The management therefore remains cautiously optimistic about business prospects, and will aim to maintain stable growth.

To further advance our business, we will leverage the Group's competitive strengths to explore new opportunities. Following on our initiative to manufacture premium gifts for a Brazilian consumer brand — a large order that drove our business growth during the past year — we are now planning to add a new business; specifically, production of plastic figures which will expand our revenue streams and is expected to be a major growth driver in the future. In addition, we are also studying the feasibility of tapping the high-end plush toys market to diversify our product mix. Our quality client base, consisting of the world's most prestigious toy brands and retailers, represents a solid platform for supporting these fresh initiatives.

To better manage costs, we will fully capitalize on the cost advantage of our production base in Vietnam, which already boasts relatively low labor rates and is free from the problem of currency appreciation. Accordingly, we expect the Vietnam plants to take up 30% of total production capacity by 2011. While enjoying sizable production capacity afforded by our facilities in Vietnam and China, as well as a solid reputation and healthy financial position, we will remain vigilant, closely monitoring the market to capture new opportunities and prepare for upcoming challenges as they emerge, thus continue delivering fair returns to 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 contributions, which have helped the Group to overcome difficult times and subsequently realize outstanding results. I would also like to extend my gratitude to our shareholders, business partners and customers for their trust and support irrespective of market conditions or temporary fluctuations in our business performance.

Kyoo Yoon Choi
Chairman
25 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2010

FINANCIAL REVIEW

2010 was an encouraging year for Dream International Limited (the "Company") and its subsidiaries (collectively the "Group"). The US and European economies continued to recover from the global financial crisis, while Asian countries recorded economic growth — positive developments for the toy industry. In this favorable global environment, the Group were able to build on the growth momentum achieved in the past year to realize record-breaking results.

For the year ended 31 December 2010, driven by surging sales from the plush stuffed toys segment — especially in Japan, as well as a large promotional order from a Brazilian client, the Group registered year-on-year turnover increase of 55.4% to HK$1,544.9 million (2009: HK$994.1 million), the highest level since the Company's listing in 2002. Gross profit surged by 84.7% to HK$465.5 million due to better utilization of production capacity during low season — largely the result of greater orders from Brazil. Owing to successful business restructuring, administrative expenses to total turnover ratio dropped significantly from 13.2% in 2009 to 9.5%. The Group achieved operating profit growth of 141.3%, surging to HK$215.0 million (2009: HK$89.1 million), and a 1.7 — fold increase in profit attributable to equity shareholders, representing a record high of HK$199.6 million (2009: HK$74.6 million), thus demonstrating a significant improvement in profitability.

The Group maintained a healthy financial position with cash and bank deposits of HK$277.5 million (2009: HK$324.6 million) as at 31 December 2010.

BUSINESS REVIEW

Product Analysis

Plush stuffed toy segment

For the year ended 31 December 2010, sales of plush stuffed toys jumped by 61.8% to HK$1,383.0 million, representing 89.5% of the Group's total turnover. Original Equipment Manufacturing ("OEM") and licensing business remained the core business of the Group, accounting for 80.1% of sales of the plush stuffed toy segment. For the OEM business, the Group already established strong relationships with existing customers, which are famous character owners and licensors. Such ties have continued to be strengthened during the year. The Group launched a new toy character to partner with an existing popular character and received overwhelmingly positive response from the Japan market. These new products significantly drove sales of the plush stuffed toy segment and attracted new orders from other overseas markets.

Overall performance of the licensing business was satisfactory. Leveraging the "Toy Story 3" movie launched during the summer of 2010, the Group's Toy Story product series enjoyed highly favorable market response. However, in view of strong demand for the OEM business, the Group will shift its focus back to this key interest which allows it to enjoy lower selling, distribution, and administrative costs when compared to the licensing business, and represents better allocation of resources.

Sales from the Original Design Manufacturing ("ODM") business almost doubled, achieving turnover of HK$275.5 million, thus accounting for 19.9% of the plush stuffed toy segment's total turnover. The astonishing increase in contributions to total turnover was mainly due to a large order received from a globally recognized Brazilian consumer brand that required the Group to manufacture premium gifts for its promotion campaign. This order has been fully booked in the first half of 2010. In addition, the Group successfully secured another sizable purchase order from the same customer in the second half year and is expected to ship a further lot of products by 2011. Thanks to the global economic recovery and successful network restructuring, overall orders received for products under the "CALTOY" brand for renowned mass US retailers increased steadily.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2010

BUSINESS REVIEW *(Continued)*

Product Analysis *(Continued)*

Steel and plastic toy segment

For the year ended 31 December 2010, sales derived from the steel and plastic toy segment recorded growth of 16.3% to HK$161.9 million, accounting for 10.5% of the Group's total turnover. To raise profitability of this segment, the Group continued to focus on products that have higher selling prices and profit margins.

While sales of scooters co-developed with a customer increased steadily in the European markets during the year, the Group finalized the design of a new concept scooter of which the prototype was introduced at the Hong Kong Toy Fair, drawing generally encouraging responses. Further modifications will be made to the scooter in the near future to meet mass market demand. After restructuring the sales network to strengthen the presence of "Great" and "Far Great" brands in China, sales efficiency has improved and the Group has sought to promote the branded scooters and inline skates in the market.

During the year, the Group-developed bicycle and tricycle products became highly popular in China due to their association with a Japanese cartoon character. The new products continue to gain popularity, paralleling public response toward the cartoon series which is broadcasted in China. The Group has been looking into additional character license opportunities for its ride-on products.

Market Analysis

For the year ended 31 December 2010, the Group's sales in most major regions recorded significant growth. Owing to a large order placed by a Japanese customer for a new plush toy product, Japan became the largest market for the Group, contributing approximately 41.3% of total turnover. North America, traditionally a major toy market, was second with 37.7% of the Group's total turnover, followed by the European market at 10.7%. South America accounted for 9.1% of total turnover mainly because shipments for a large order received from a Brazilian consumer were made during the year.

Operational Analysis

As at 31 December 2010, the Group operated seven plants in total, four of which were in China and three in Vietnam, and all running at an average utilization rate of over 80%. In realizing better production efficiency and cost-effectiveness, as reflected in sharply reduced direct labor costs and administrative expenses, the Group further increased production activities in Vietnam during the year. The new main plant in Mekong Delta and other three factory buildings in the same complex will reach full capacity by the first half of 2011. The Group also outsourced part of its production to reliable subcontractors in order to enjoy greater flexibility — seamlessly adjusting production capacity to meet market demand.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2010

PROSPECTS

With the fast rising Asian economy and increasing orders from other major markets, including the US and Europe, the entire toy manufacturing industry is enjoying revenue growth. However, rising material and labor costs in China, gradual appreciation of the Renminbi and increasing oil prices globally present challenges to most of the toy manufacturers in the country. Keeping such factors in mind, the Group is cautiously optimistic about the outlook for the industry.

With market consolidation in the past few years ousting less competitive companies, large-scale toy manufacturers such as the Group are receiving greater volume of orders. To meet this vast market demand, the Group will continue to employ a dual production strategy, using self-owned production plants in China and Vietnam for a majority of orders while employing subcontractors when flexibility is called for. To shield the Group from the effects of rising production costs in China, it will raise contributions from the Vietnam plants to account for 30% of total production capacity in 2011, thus leverage lower local labor cost and less currency appreciation pressure.

As the world's largest plush toy manufacturer, the Group continues to actively seek new business opportunities to achieve long-term business growth. Leveraging its reputation and association with quality, the Group is exploring the feasibility of penetrating the high-end toy market in 2011, having conducted thorough research and analysis during the past year. Benefiting from the Group's strong partnerships with world renowned toy brands as well as synergies in sourcing and manufacturing, the Group will further diversify its product mix by setting up a new product category to produce plastic figures. The plastic figures' business will serve as one of the Group's newest initiatives to boost revenue in coming years. To further develop in the toy sector, the Group will also seek orders from emerging overseas markets for existing products.

Looking ahead, the Group will continue to focus on profitability and efficiency as prime objectives. Accordingly, it will closely monitor developments in the toy industry, ready to pounce on those that allow the Group to grow and maximize returns to shareholders. With strategic expansion measures in place, the Group is ready to embrace every opportunity ahead.

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2010, the Group had 10,278 employees (2009: 8,773) 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 62, 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 55, 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 49, 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 45, 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 46, 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 64, received his bachelor's degree in Mechanical Engineering from Seoul National University in Korea. Professor Ahn awarded a philosophy of doctorate degree in Engineering Economic Systems in 1978 from Stanford University. Professor Ahn has taught at the Korea Advanced Institute of Science and Technology ("KAIST") since 1978 and he is currently teaching at the KAIST Graduate School of Management and acting as a director of the Corporate Social Responsibility Research Center of KAIST. His research interests focus on Economic of Strategy and Stakeholder Theory of Firms, and Corporate Social Responsibility. He is also a consultant of Hynix Corporation in Seoul.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Tae Woong Kang, aged 50, received his bachelor's degree in Business from Swinburne University of Technology and master's degree in Commerce from The University of Melbourne in Australia. He is a CPA member of the CPA Australia. Mr. Kang is the Vice-President of Highpoint Limited, a Hong Kong consulting company providing advisory services on business and MD&A issues. Before joining Highpoint Limited, Mr. Kang had extensive experience in the area of financial management and business restructuring in Hong Kong and Korea.

SENIOR MANAGEMENT

Mrs. Shin Hee Cha, aged 56, the President of Dream Inko Co., Ltd. Mrs. Cha joined C & H Co., Ltd. in 1984 and has been in charge of the sales and marketing function of the Group. Mrs. Cha was an executive director of the Company from 2006 to 2007 and relocated to Dream Inko Co., Ltd. since 2007. She is the younger sister-in-law of Mr. Kyoo Yoon Choi.

Mr. Sung Sick Kim, aged 59, the President of Dream Vina Co., Ltd. Mr. Kim has been working in the administration of C & H Korea and the Group since 1985 and is in charge of cost control within the Group. Mr. Kim was an executive director of the Company from 1998 to 2003 and relocated to C & H Korea until 2010.

Mr. Dong Wook Cha, aged 50, is the Head of accounting and administration department of the Company. Mr. Cha has over seven years of experience in the field of accounting from his employments with Dongkook Trading Co. and Hyundai Heavy Industrial Co., Ltd. He joined C & H Korea on 1 February 1986 and has been working in the accounting and administrative department of the Group since 1996.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in submitting their annual report with the audited financial statements for the year ended 31 December 2010.

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 20 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries (the "Group") during the financial year are set out in note 15 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2010 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 27 to 113.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$199,597,000 (2009: HK$74,619,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of HK2 cents per share (2009: HK Nil) was paid on 27 September 2010.

The Directors recommend the payment of a final dividend of HK4 cents per share (2009: HK3 cents per share) in respect of the year ended 31 December 2010.

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	32.2%	
Five largest customers in aggregate	70.6%	
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 and has complied with the disclosure requirements in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") ("the Listing Rules"). The Directors, including the independent non-executive directors, of the Company confirmed that the aforesaid connected transactions were entered into:

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

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

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

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

(i) have been approved by the Board of the Company;

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

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

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

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

(1) On 1 June 2010, the Group entered into a property lease agreement with C & H Co., Ltd. for Dream INKO Co., Ltd's principal place of business in Seoul, The Republic of Korea. The property lease agreement is renewable upon its expiry in July 2013. The terms of the property lease agreement were agreed after arm's length negotiation by reference to enquiries made with other landlords, tenants and real estate agents in the nearby area.

During the year ended 31 December 2010, the rent and administrative expenses paid amounted to HK$2,647,000 (2009: HK$2,335,000).

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

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

(1) Sales of raw materials by the Group to C & H Vina Co. Ltd for the financial year ended 31 December 2009;

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

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

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

Details of other connected or related party transactions are set out in note 35 to the financial statements.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2010, the Company has fully complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules.

FIXED ASSETS

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 31(c) to the financial statements. Shares were issued during the year on exercise of share options.

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

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

REPORT OF THE DIRECTORS

DIRECTORS

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

Chairman and executive director

Kyoo Yoon Choi

Executive directors

Young M. Lee
James Chuan Yung Wang
Hyun Ho Kim

Independent non-executive directors

Cheong Heon Yi	
Byong Hun Ahn	
Tae Woong Kang	(appointed on 20 August 2010)
Oliver, Shing Kay Wong	(resigned on 20 August 2010)

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

In accordance with Article 92 of the Articles of Association, Mr Tae Woong Kang shall hold office until the forthcoming Annual General Meeting, being eligible, offers himself for re-election at the Annual General Meeting.

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

DIRECTORS' SERVICE CONTRACTS

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

The service contract of Professor Byong Hun Ahn, independent non-executive director, was renewed by the Board on 30 May 2010 for a term of 2 years commencing on 30 May 2010.

Mr Tae Woong Kang, independent non-executive director, was appointed by the Board on 20 August 2010 for a term of 2 years commencing on 20 August 2010.

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

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

REPORT OF THE DIRECTORS

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

The directors of the Company who held office at 31 December 2010 had the following interests in the shares of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under Section 352 of the SFO or otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listing Issuers (the "Model Code"):

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

	Number of shares held				
	Personal interests (Note 1)	Family interests	Corporate interests	Total	Percentage of issued share capital of the Company
The Company					
— Kyoo Yoon Choi	1,000	—	455,000,000 (Note 2)	455,001,000	67.69%
— Young M. Lee	2,500,000	—	—	2,500,000	0.37%
— James Chuan Yung Wang	520,000	—	—	520,000	0.08%
C & H Co., Ltd.					
— Kyoo Yoon Choi	189,917	124,073 (Note 3)	—	313,990	61.95%

Notes:

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

(2) Kyoo Yoon Choi in his own name holds approximately 37.47% of the issued share capital of C & H Co., Ltd. and together with his wife, Woul Hee Cha, hold approximately 61.95% of the issued share capital of C & H Co., Ltd. which owned 382,850,000 shares in the Company. In addition, Kyoo Yoon Choi beneficially owns 100% of interest of Uni-Link Technology Limited which owned 72,150,000 shares of the Company.

(3) The wife of Kyoo Yoon Choi, Woul Hee Cha, holds approximately 24.48% of the issued share capital of C & H Co., Ltd.

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

(ii) Long positions in underlying shares of the Company

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

Save as disclosed above, none of the directors and chief executives of the Company or any of their spouses or children under 18 years of age has any interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding Company, subsidiaries or other associated corporations, as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code.

SHARE OPTION SCHEME

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

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

The total number of securities available for issue under the share option scheme as at 31 December 2010 was 42,835,000 shares (including options for 6,260,000 shares that have been granted but not yet lapsed or exercised) which represented 6.37% of the issued share capital of the Company at 31 December 2010. 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 2010, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company granted at nominal consideration under the share option scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of par value US$0.01 each of the Company.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

				Number of options			
	Date granted	Period during which options exercisable (Note 1)	Exercise price per share	Balance at 1 January 2010	Exercised during the year	Lapsed during The year (Note 2)	Balance at 31 December 2010
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	—	—
Employees in aggregate:	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	1,561,000	1,301,000	—	260,000
	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	6,650,000	—	650,000 (Note 3)	6,000,000
				10,546,000	3,636,000	650,000	6,260,000

Notes:

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

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

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

(3) These 650,000 shares options related to an employee who left the Group on or before 30 September 2010. These outstanding share options were lapsed by 31 December 2010.

(4) 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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

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

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

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31 December 2010, the Company has been notified of the following interests in the Company's issued shares at 31 December 2010 amounting to 5% or more of the ordinary shares in issue:

Name	Capacity in which shares held	Number of shares held	Percentage of the issued share capital of the Company
C & H Co., Ltd	Beneficial owner	382,850,000	56.96%
Uni-Link Technology Limited	Beneficial owner	72,150,000	10.73%

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

Save as disclosed above, as at 31 December 2010, 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 35 to the financial statements, no contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2010, C & H Korea Group, as set out below, is principally engaged in the business of property investment in Seoul, The Republic of Korea, leather goods and accessories agency, fabric and textile manufacturing and investment holding in the PRC, Vietnam and Sri Lanka through its wholly owned subsidiaries C & H Creative Co., Ltd., C & H Vina Co., Ltd., Vina Tarpaulin Inc. and C & H Lanka (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.

The transactions with the above companies are set out in the paragraph headed "Connected transactions" and note 35 to the financial statements.

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

Bank loans

Particulars of the bank loans of the Company and the Group as at 31 December 2010 are set out in note 27 to the financial statements.

Five year summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 114 of the annual report.

REPORT OF THE DIRECTORS

Retirement schemes

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

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 28 to the financial statements.

CONFIRMATION OF INDEPENDENCE

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting policies, principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of annual results for year ended 31 December 2010.

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, 25 March 2011

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the "Board") is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2010.

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 2010.

The Company reviews its corporate governance practice regularly to ensure compliance with the CG Code.

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

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 independent non-executive directors ("INEDs") is to bring an independent and objective view to the board's deliberations and decisions. Professor Cheong Heon Yi is currently teaching financial accounting and corporate governance in the Accountancy Faculty of the Hong Kong Polytechnic University and Mr. Tae Woong Kang is a member of Certified Public Accountants Australia. 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 are independent.

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

As at 31 December 2010, the board consisted of four executive directors, namely Mr. Kyoo Yoon Choi (Chairman), Mr. Young M. Lee (Vice President and Chief Financial Officer ("CFO")), Mr. James Chuan Yuan Wang and Mr. Hyun Ho Kim, and three INEDs (collectively the "Directors"), namely Professor Cheong Heon Yi ("Professor Yi"), Professor Byong Hun Ahn ("Professor Ahn") and Mr. Tae Woong Kang. There is no financial, business, family or other material/relevant relationship among members of the Board.

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 twenty 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.

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)*	5/20
Young M. Lee	20/20
James Chuan Yung Wang	6/20
Hyun Ho Kim	16/20
Cheong Heon Yi	11/20
Byong Hun Ahn	9/20
Tae Woong Kang (appointed on 20 August 2010) (Note 1)	4/8
Oliver, Shing Kay Wong (resigned on 20 August 2010) (Note 2)	8/12

Note 1: There are 8 meetings held between the period from 20 August 2010 to 31 December 2010.

Note 2: There are 12 meetings held between the period from 1 January 2010 to 20 August 2010.

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.

CORPORATE GOVERNANCE REPORT

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 Company's 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 the year of 2010. The attendance of each remuneration committee member is set out as follows:

Name of director	Number of attendance/ meetings held
Byong Hun Ahn (Chairman)	2/2
Cheong Heon Yi	2/2
Young M. Lee	2/2
Tae Woong Kang (appointed on 20 August 2010)	1/1
Oliver, Shing Kay Wong (resigned on 20 August 2010)	1/1

REMUNERATION COMMITTEE *(Continued)*

At the meetings held during the year, the retirement compensation and incentive bonus for Directors were reviewed and discussed. The Company has adopted a share option scheme on 22 January 2002, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out in note 29 to the financial statements. The emolument payable to Directors will depend on their respective contractual terms and nature under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the financial statements. The major roles and functions of the Group's Remuneration Committee are as follows:

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

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

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

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

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

The Directors acknowledge their responsibility to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders in a timely manner. The Directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and all applicable disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2010, 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.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

Name of director	Number of attendance/meetings held
Cheong Heon Yi (Chairman)	2/2
Byong Hun Ahn	2/2
Tae Woong Kang (appointed on 20 August 2010)	1/1
Oliver, Shing Kay Wong (resigned on 20 August 2010)	1/1

During the year ended 31 December 2010, the Audit Committee performed the following work:

(i) reviewed the interim financial report for the six months ended 30 June 2010 and annual financial report for the year ended 31 December 2010;

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

(iii) reviewed the effectiveness of internal control system;

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

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

(vi) reviewed and recommended to the Board for approval of the 2010 audit scope, fee and supply of any non-audit services; and

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

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

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

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

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

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

AUDIT COMMITTEE *(Continued)*

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

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

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

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

AUDITORS' REMUNERATION

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

Service rendered	**Fees paid/payable** HK$'000
Audit services	3,414
Non-audit services	453
	3,867

INTERNAL CONTROLS

The Company set up an internal audit department in May 2006. The head of the internal audit department was appointed by the Board to review of the effectiveness of the internal control system of the Group which covers all material controls, including financial, operational and compliance controls as well as risk management functions. The internal auditor has performed a review of the internal control system of the Group for the year ended 31 December 2010 and the relevant review report has been submitted to the Audit Committee in March 2011 for consideration. The Board, through the reviews made by the internal auditor and the Audit Committee, considers that the Group's internal control system has operated effectively.

During the year ended 31 December 2010, the Board has conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. The board has not identified any major issues during their course of review.

CORPORATE GOVERNANCE REPORT

COMMUNICATIONS WITH SHAREHOLDERS

The Board recognises the importance of good communications with all shareholders. The Company's 2010 Annual General Meeting ("AGM") is a valuable forum for the Board to communicate directly with the shareholders. The Vice President and Chief Financial Officer of the Company attened the AGM in the absence of the Chairman of the Board. Other members of the Board and the Chairman of the Audit and Remuneration Committees together with the external auditors are also present at the AGM to answer shareholders' questions.

During the year ended 31 December 2010, the Company convened one extraordinary general meeting ("EGM") on 23 July 2010. The Chairman of the Audit Committee and other board members are present at the EGM.

All shareholders' circulars set out the relevant information of the proposed resolutions. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

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

VOTING BY POLL

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of Dream International Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Dream International Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 27 to 113, which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 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

25 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Turnover	3 & 15	**1,544,857**	994,052
Cost of sales		**(1,079,378)**	(742,063)
Gross profit		**465,479**	251,989
Other revenue	4(a)	**14,279**	9,151
Other net gain	4(b)	**3**	2,510
Distribution costs		**(117,705)**	(69,113)
Administrative expenses		**(146,532)**	(131,011)
Profit on disposal of land and buildings, and other related fixed assets	8	**—**	19,748
(Impairment)/reversal of impairment of fixed assets	17(a)	**(538)**	5,837
Profit from operations		**214,986**	89,111
Finance costs	5(a)	**(873)**	(2,690)
Share of loss of associates	21	**(196)**	(318)
Profit before taxation	5	**213,917**	86,103
Income tax	9	**(10,958)**	(7,865)
Profit for the year		**202,959**	78,238
Attributable to:			
Equity shareholders of the Company	12	**199,597**	74,619
Non-controlling interests		**3,362**	3,619
Profit for the year		**202,959**	78,238
Earnings per share	14		
Basic		**29.83¢**	11.16¢
Diluted		**29.83¢**	11.16¢

The notes on pages 34 to 113 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Profit for the year		**202,959**	78,238
Other comprehensive income for the year (after tax adjustments):	13		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**9,001**	18,971
Available-for-sale securities: net movement in fair value reserve		**314**	85
		9,315	19,056
Total comprehensive income for the year		**212,274**	97,294
Attributable to:			
Equity shareholders of the Company		**208,480**	93,596
Non-controlling interests		**3,794**	3,698
Total comprehensive income for the year		**212,274**	97,294

The notes on pages 34 to 113 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Fixed assets	17(a)		
— Interests in leasehold land held for own use under operating leases		**20,022**	16,459
— Other property, plant and equipment		**163,838**	131,880
		183,860	148,339
Long term receivables	16	**7,231**	—
Prepayments	18	**1,992**	9,184
Intangible assets	19	**16,690**	14,028
Interest in associates	21	**522**	638
Deferred tax assets	30(b)	**13,625**	2,299
Other financial assets	22	**10,162**	6,142
		234,082	180,630
Current assets			
Inventories	23	**197,813**	149,246
Trade and other receivables	24	**224,085**	152,475
Current tax recoverable	30(a)	**—**	33
Other financial assets	22	**19,030**	3,359
Bank deposits	25	**16,006**	36,801
Cash and cash equivalents	25	**261,534**	287,761
Assets held for sale	7	**2,722**	—
		721,190	629,675
Current liabilities			
Trade and other payables	26	**264,738**	271,793
Bank loans	27	**7,904**	55,487
Current tax payable	30(a)	**17,019**	5,988
		289,661	333,268
Net current assets		**431,529**	296,407
Total assets less current liabilities		**665,611**	477,037
Non-current liabilities			
Bank loans	27	**6,101**	—
Net defined benefit retirement obligation	28	**268**	1,046
		6,369	1,046
NET ASSETS		**659,242**	475,991

CONSOLIDATED BALANCE SHEET

At 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
CAPITAL AND RESERVES			
Share capital	31(c)	**52,303**	52,019
Reserves		**591,830**	412,657
Total equity attributable to equity shareholders of the Company		**644,133**	464,676
Non-controlling interests		**15,109**	11,315
TOTAL EQUITY		**659,242**	475,991

Approved and authorised for issue by the board of directors on 25 March 2011.

Young M. Lee
Director

Hyun Ho Kim
Director

The notes on pages 34 to 113 form part of these financial statements.

BALANCE SHEET

At 31 December 2010

	Note	**2010 HK$'000**	2009 HK$'000
Non-current assets			
Fixed assets	17(b)	**7,182**	6,355
Long term receivables	16	**4,665**	—
Intangible assets	19	**354**	336
Investments in subsidiaries	20	**409,016**	341,990
Interest in associates	21	**1,248**	1,248
Deferred tax assets	30(b)	**261**	353
		422,726	350,282
Current assets			
Inventories	23	**62,147**	43,417
Trade and other receivables	24	**182,955**	143,744
Bank deposits	25	**4,276**	4,266
Cash and cash equivalents	25	**126,815**	130,837
		376,193	322,264
Current liabilities			
Trade and other payables	26	**199,255**	198,004
Current tax payable	30(a)	**4,661**	1,555
		203,916	199,559
Net current assets		**172,277**	122,705
Total assets less current liabilities		**595,003**	472,987
Non-current liabilities			
Net defined benefit retirement obligation	28	**1,522**	1,604
NET ASSETS		**593,481**	471,383
CAPITAL AND RESERVES	31(a)		
Share capital		**52,303**	52,019
Reserves		**541,178**	419,364
TOTAL EQUITY		**593,481**	471,383

Approved and authorised for issue by the board of directors on 25 March 2011.

Young M. Lee
Director

Hyun Ho Kim
Director

The notes on pages 34 to 113 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

		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	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 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:											
Profit for the year		—	—	—	—	—	—	74,619	74,619	3,619	78,238
Other comprehensive income	13	—	—	—	—	18,892	85	—	18,977	79	19,056
Total comprehensive income for the year		—	—	—	—	18,892	85	74,619	93,596	3,698	97,294
Increase in non-controlling interests resulting from change in shareholding	20	—	—	(3,062)	—	—	—	—	(3,062)	3,062	—
Lapse of share options		—	—	(265)	—	—	—	265	—	—	—
Appropriation to general reserve fund		—	—	—	675	—	—	(675)	—	—	—
Balance at 31 December 2009		52,019	176,893	626	19,102	34,049	85	181,902	464,676	11,315	475,991
Balance at 1 January 2010		**52,019**	**176,893**	**626**	**19,102**	**34,049**	**85**	**181,902**	**464,676**	**11,315**	**475,991**
Changes in equity for 2010:											
Profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**199,597**	**199,597**	**3,362**	**202,959**
Other comprehensive income	13	**—**	**—**	**—**	**—**	**8,569**	**314**	**—**	**8,883**	**432**	**9,315**
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**8,569**	**314**	**199,597**	**208,480**	**3,794**	**212,274**
Dividend approved in respect of the previous year	31(b)	**—**	**—**	**—**	**—**	**—**	**—**	**(20,056)**	**(20,056)**	**—**	**(20,056)**
Dividend declared in respect of the current year	31(b)	**—**	**—**	**—**	**—**	**—**	**—**	**(13,371)**	**(13,371)**	**—**	**(13,371)**
Shares issued under share option scheme	31(c)	**284**	**4,120**	**—**	**—**	**—**	**—**	**—**	**4,404**	**—**	**4,404**
Lapse of share options		**—**	**—**	**(344)**	**—**	**—**	**—**	**344**	**—**	**—**	**—**
Disposal of interest in a subsidiary		**—**	**—**	**—**	**(675)**	**(1,579)**	**—**	**2,254**	**—**	**—**	**—**
Deregistration of a subsidiary		**—**	**—**	**—**	**—**	**460**	**—**	**(460)**	**—**	**—**	**—**
Balance at 31 December 2010		**52,303**	**181,013**	**282**	**18,427**	**41,499**	**399**	**350,210**	**644,133**	**15,109**	**659,242**

The notes on pages 34 to 113 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	**2010 HK$'000**	2009 HK$'000
Operating activities			
Cash generated from operations	25(b)	**108,049**	194,949
Tax paid			
— Hong Kong Profits Tax paid		**(4,060)**	(2,691)
— Tax paid outside Hong Kong		**(7,246)**	(7,867)
Net cash generated from operating activities		**96,743**	184,391
Investing activities			
Payment for purchase of property, plant and equipment		**(63,698)**	(12,334)
Proceeds from the disposal of property, plant and equipment		**918**	62,717
Payment for purchase of club memberships		**(3,667)**	(3,446)
Proceeds from the disposal of club memberships		**1,323**	1,962
Payment for purchase of other financial assets		**(21,359)**	(8,849)
Proceeds received upon maturity of held-to-maturity debt securities		**3,359**	77,509
Proceeds from disposal of a subsidiary		**4,945**	—
Prepayment in respect of land use right		**—**	(9,184)
Interest received		**2,126**	1,886
Withdrawn/(placement) of bank deposits with maturity over three months		**20,795**	(36,801)
Net cash (used in)/generated from investing activities		**(55,258)**	73,460
Financing activities			
Interest paid		**(873)**	(2,690)
Proceeds from borrowings		**21,297**	36,760
Repayment of borrowings		**(63,097)**	(126,965)
Dividend paid	31	**(33,427)**	—
Proceeds from shares issued under share option scheme	31	**4,404**	—
Net cash used in financing activities		**(71,696)**	(92,895)
Net (decrease)/increase in cash and cash equivalents		**(30,211)**	164,956
Cash and cash equivalents at 1 January		**287,761**	122,370
Effect of foreign exchange rate changes		**3,984**	435
Cash and cash equivalents at 31 December	25(a)	**261,534**	287,761

The notes on pages 34 to 113 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 2010 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 38.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests

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

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

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Other investments in debt and equity securities

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

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

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated 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.

(g) Property, plant and equipment

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

— freehold land and buildings;

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

— other items of plant and equipment.

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)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

— Freehold land is not depreciated.

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

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

— Plant and machinery	5-10 years
— Other fixed assets	3-10 years

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

(h) Intangible assets

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Leased assets

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

(i) Classification of assets leased to the Group

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

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

(ii) Operating lease charges

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets

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

Investments in debt and equity securities (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.

  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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

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

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.

(ii) Impairment of other assets

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

— property, plant and equipment;

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

— prepayments;

— intangible assets; and

— investments in subsidiaries.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

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

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.

— 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits *(Continued)*

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

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On 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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

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

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

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

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

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

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

— 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions and contingent liabilities

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

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

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

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

(ii) Interest income

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

(iii) Commission income

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Translation of foreign currencies

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Non-current assets held for sale

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

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

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

(w) Related parties

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Segment reporting

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

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two 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 3 (revised 2008), *Business combinations*

— Amendments to HKAS 27, *Consolidated and separate financial statements*

— Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary*

— Improvements to HKFRSs (2009)

— HK(IFRIC) 17, *Distributions of non-cash assets to owners*

— HK (Int) 5, *Presentation of financial statements — classification by the borrower of a term loan that contains a repayment on demand clause*

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

The issuance of HK(Int) 5 has had no material impact on the Group's financial statements as the Interpretation's conclusion was consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

— The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a partial disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

— The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

— The amendment introduced by the *Improvements to HKFRSs (2009)* omnibus standard in respect of HKAS 17, *Leases*, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

Further details of these changes in accounting policy are as follows:

— As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

  — Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  — Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

  — In addition to the Group's existing policy of measuring the non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

— As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

— If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

— If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

— In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, *Investments in associates*, and HKAS 31, *Interests in joint ventures*, the following policies will be applied as from 1 January 2010:

— If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and reacquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

— If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

— As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

— As a result of the amendment to HKAS 17, *Leases*, arising from the *"Improvements to HKFRSs (2009)"* omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate as the leases do not transfer significantly all the risks and rewards of ownership of the land to the Group.

3 TURNOVER

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 OTHER REVENUE AND NET GAIN

(a) Other revenue

	2010 HK$'000	2009 HK$'000
Bank interest income	1,368	1,463
Interest income from other financial assets	758	423
Commission income	3,819	3,763
Compensation claimed (note 34(a))	4,191	—
Sundry income	4,143	3,502
	14,279	9,151

(b) Other net gain

	2010 HK$'000	2009 HK$'000
Net gain on disposal of property, plant and equipment	118	605
Gain/(loss) on disposal of club memberships	31	(191)
Net realised and unrealised gain on other financial assets	1,113	3,555
Net gain/(loss) on forward foreign exchange contracts	661	(568)
Net exchange loss	(2,682)	(335)
Gain on disposal of a subsidiary (note 6)	68	—
Others	694	(556)
	3	2,510

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

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

	Note	2010 HK$'000	2009 HK$'000
(a) Finance costs			
Interest expense on bank borrowings wholly repayable within five years		**873**	2,690
(b) Staff costs#			
Expenses recognised in respect of defined benefit retirement plan	28(a)(v)	**2,080**	2,984
Contributions to defined contribution retirement plans		**19,879**	17,298
Total retirement costs		**21,959**	20,282
Salaries, wages and other benefits		**276,776**	203,442
		298,735	223,724
(c) Other items			
Amortisation:#			
— land lease premium	17(a)	**508**	418
— intangible assets	19	**678**	676
Depreciation#	17(a)	**22,838**	21,767
Impairment/(reversal of impairment):			
— trade receivables		**2,368**	(4,288)
— other receivables		**(193)**	(238)
— fixed assets		**538**	(5,837)
— intangible assets		**10**	(153)
Auditors' remuneration		**4,527**	4,114
Operating lease charges: minimum lease payments in respect of property rentals#		**21,258**	19,923
Cost of inventories#	23(b)	**1,079,378**	742,063

Cost of inventories includes HK$259,448,000 (2009: HK$183,881,000) 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 GAIN ON DISPOSAL OF INTEREST IN SUBSIDIARY

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

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

In accordance with the sale and purchase agreement, the outstanding consideration as at 31 December 2010 is receivable as follows:

	HK$'000
Within 1 year	**2,177**
After 1 year but within 5 years	**4,665**
	6,842

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

7 ASSETS HELD FOR SALE

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

8 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.

9 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2010 **HK$'000**	2009 HK$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	**7,073**	3,311
Over-provision in respect of prior years	**(615)**	(371)
	6,458	2,940
Current tax — Outside Hong Kong		
Provision for the year	**15,643**	6,613
Deferred tax		
Origination and reversal of temporary differences (note 30 (b)(i))	**(11,143)**	(1,688)
	10,958	7,865

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(a) Taxation in the consolidated income statement represents: *(Continued)*

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 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% (2009: 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.

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

	2010 **HK$'000**	2009 HK$'000
Profit before taxation	**213,917**	86,103
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**43,895**	21,400
Tax effect of non-deductible expenses	**3,613**	7,306
Tax effect of non-taxable income	**(19,541)**	(16,901)
Tax effect of utilisation of previously unrecognised tax losses	**(7,630)**	(5,979)
Tax effect of unused tax losses not recognised	**3,805**	2,410
Tax effect of recognition of previously unrecognised tax losses	**(12,569)**	—
Over-provision in prior years	**(615)**	(371)
Actual tax expense	**10,958**	7,865

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

10 DIRECTORS' REMUNERATION

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

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

	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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2009: three) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other three (2009: two) individuals are as follows:

	2010 **HK$'000**	2009 HK$'000
Salaries and other emoluments	**4,779**	3,391
Discretionary bonuses	**—**	—
Retirement scheme contributions	**—**	—

The emoluments of the three (2009: two) individuals with the highest emolument are within the following bands:

	2010 **No. of** **individuals**	2009 No. of individuals
HK$		
500,001-1,000,000	**—**	—
1,000,001-1,500,000	**2**	1
1,500,001-2,000,000	**—**	—
2,000,001-2,500,000	**1**	1

12 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$151,120,000 (2009: HK$98,523,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

13 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	2010			2009		
	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	**9,001**	**—**	**9,001**	18,971	—	18,971
Available-for-sale securities: net movement in fair value reserve	**398**	**(84)**	**314**	112	(27)	85
Other comprehensive income	**9,399**	**(84)**	**9,315**	19,083	(27)	19,056

14 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$199,597,000 (2009: HK$74,619,000) and the weighted average of 669,086,238 ordinary shares (2009: 668,529,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2010 '000	2009 '000
Issued ordinary shares at 1 January	**668,529**	668,529
Effect of share options exercised (note 29)	**557**	—
Weighted average number of ordinary shares at 31 December	**669,086**	668,529

(b) Diluted earnings per share

The Company did not have dilutive potential ordinary shares outstanding during both 2010 and 2009. Accordingly, the diluted earnings per share is the same as the basic earnings per share for both 2010 and 2009.

15 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has 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 senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of club memberships, interest in associates, investments in financial assets, deferred tax assets 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.

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 2010 and 2009 is set out below.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

15 SEGMENT REPORTING *(Continued)*

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

	Plush stuffed toys		Steel and plastic toys		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**1,383,005**	854,879	**161,852**	139,173	**1,544,857**	994,052
Inter-segment revenue	**—**	—	**895**	—	**895**	—
Reportable segment revenue	**1,383,005**	854,879	**162,747**	139,173	**1,545,752**	994,052
Reportable segment profit (adjusted EBITDA)	**223,298**	99,447	**27,674**	17,456	**250,972**	116,903
Interest income from bank deposits	**1,319**	1,409	**49**	54	**1,368**	1,463
Interest income from other financial assets	**758**	423	**—**	—	**758**	423
Interest expense	**(869)**	(1,924)	**(4)**	(766)	**(873)**	(2,690)
Depreciation and amortisation for the year	**(16,200)**	(16,027)	**(7,824)**	(6,834)	**(24,024)**	(22,861)
(Impairment)/reversal of impairment of:						
— fixed assets	**(538)**	—	**—**	5,837	**(538)**	5,837
— intangible assets	**(10)**	(10)	**—**	163	**(10)**	153
Reportable segment assets	**538,258**	393,772	**108,216**	99,843	**646,474**	493,615
Additions to non-current segment assets during the year	**69,717**	20,338	**1,173**	4,626	**70,890**	24,964
Reportable segment liabilities	**228,144**	232,501	**65,633**	74,031	**293,777**	306,532

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

15 SEGMENT REPORTING *(Continued)*

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

	2010 HK$'000	2009 HK$'000
Revenue		
Reportable segment revenue	**1,545,752**	994,052
Elimination of inter-segment revenue	**(895)**	—
Consolidated turnover	**1,544,857**	994,052
Profit		
Reportable segment profit	**250,972**	116,903
Share of loss of associates	**(196)**	(318)
Interest income	**2,126**	1,886
Depreciation and amortisation	**(24,024)**	(22,861)
Finance costs	**(873)**	(2,690)
(Impairment)/reversal of impairment of non-current assets	**(548)**	5,990
Unallocated head office and corporate expenses	**(13,540)**	(12,807)
Consolidated profit before taxation	**213,917**	86,103
Assets		
Reportable segment assets	**646,474**	493,615
Elimination of inter-segment receivables	**(28,771)**	(33,693)
	617,703	459,922
Club memberships	**16,690**	13,350
Interest in associates	**522**	638
Other financial assets	**29,192**	9,501
Deferred tax assets	**13,625**	2,299
Current tax recoverable	**—**	33
Unallocated head office and corporate assets	**277,540**	324,562
Consolidated total assets	**955,272**	810,305
Liabilities		
Reportable segment liabilities	**293,777**	306,532
Elimination of inter-segment payables	**(28,771)**	(33,693)
	265,006	272,839
Current tax payable	**17,019**	5,988
Unallocated head office and corporate liabilities	**14,005**	55,487
Consolidated total liabilities	**296,030**	334,314

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

15 SEGMENT REPORTING *(Continued)*

(c) Geographical information

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

	Revenue from external customers		Specified non-current assets	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong (place of domicile)	**2,737**	1,316	**—**	1,063
North America	**582,993**	443,383	**213**	239
Japan	**637,336**	359,128	**3,981**	4,078
Europe	**164,607**	160,106	**—**	—
South America	**140,150**	—	**—**	—
Mainland China	**11,107**	11,015	**69,749**	84,519
Vietnam	**—**	14,553	**113,862**	70,991
Republic of Korea	**2,485**	3,570	**15,259**	11,299
Other countries	**3,442**	981	**—**	—
	1,542,120	992,736	**203,064**	171,126
	1,544,857	994,052	**203,064**	172,189

16 LONG TERM RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Claim receivables (note 34(a))	**2,566**	—	**—**	—
Other receivables (note 6)	**4,665**	—	**4,665**	—
	7,231	—	**4,665**	—

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 FIXED ASSETS

(a) The Group

	Freehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Sub-total HK$'000	Interests in leasehold land held for own use under operating leases HK$'000	Total HK$'000
Cost:									
At 1 January 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
At 1 January 2010	81,946	14,894	127,101	24,498	6,173	82	254,694	17,752	272,446
Exchange adjustments	1,308	155	1,713	358	129	—	3,663	233	3,896
Additions	1,191	404	26,465	2,509	3,907	28,538	63,014	7,876	70,890
Disposals	—	(362)	(2,840)	(1,669)	(981)	—	(5,852)	—	(5,852)
Transfer to assets held-for sale	—	—	—	—	—	—	—	(3,615)	(3,615)
Disposal of a subsidiary	(10,258)	(410)	(1,585)	(197)	—	—	(12,450)	(648)	(13,098)
Transfers	27,247	—	—	—	—	(27,247)	—	—	—
At 31 December 2010	101,434	14,681	150,854	25,499	9,228	1,373	303,069	21,598	324,667
Accumulated amortisation, depreciation and impairment loss:									
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
At 1 January 2010	11,701	11,882	75,019	20,566	3,646	—	122,814	1,293	124,107
Exchange adjustments	225	108	1,234	272	66	—	1,905	21	1,926
Charge for the year	4,066	1,565	13,748	2,029	1,430	—	22,838	508	23,346
Impairment loss	—	—	—	—	—	—	—	538	538
Written back on disposals	—	(361)	(2,286)	(1,676)	(732)	—	(5,055)	—	(5,055)
Transfer to assets held-for sale	—	—	—	—	—	—	—	(719)	(719)
Written back on disposal of a subsidiary	(2,093)	(379)	(644)	(155)	—	—	(3,271)	(65)	(3,336)
At 31 December 2010	13,899	12,815	87,071	21,036	4,410	—	139,231	1,576	140,807
Net book value:									
At 31 December 2010	87,535	1,866	63,783	4,463	4,818	1,373	163,838	20,022	183,860
At 31 December 2009	70,245	3,012	52,082	3,932	2,527	82	131,880	16,459	148,339

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 FIXED ASSETS *(Continued)*

(a) The Group *(Continued)*

Impairment loss

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 brought forward from prior years 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 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
At 1 January 2010	4,603	9,302	30,123	11,481	941	56,450
Additions	—	405	1,585	340	626	2,956
Disposals	—	—	—	—	(415)	(415)
At 31 December 2010	4,603	9,707	31,708	11,821	1,152	58,991
Accumulated depreciation:						
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
At 1 January 2010	651	8,301	29,134	11,145	864	50,095
Charge for the year	115	656	925	222	211	2,129
Written back on disposals	—	—	—	—	(415)	(415)
At 31 December 2010	766	8,957	30,059	11,367	660	51,809
Net book value:						
At 31 December 2010	3,837	750	1,649	454	492	7,182
At 31 December 2009	3,952	1,001	989	336	77	6,355

17 FIXED ASSETS *(Continued)*

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

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Outside Hong Kong				
— medium-term leases	**103,720**	82,752	**—**	—
— freehold	**3,837**	3,952	**3,837**	3,952
	107,557	86,704	**3,837**	3,952
Representing:				
Land and buildings carried at cost	**87,535**	70,245	**3,837**	3,952
Interests in leasehold land held for own use under operating leases	**20,022**	16,459	**—**	—
	107,557	86,704	**3,837**	3,952

(d) Pledged assets

Certain fixed assets of the Group with an aggregate carrying amount as at 31 December 2010 of HK$38,098,000 (2009: HK$67,431,000) were pledged to various banks to secure bank loans granted to the Group, see notes 27(i) and (ii).

18 PREPAYMENTS

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 certain land use rights in respect of land at Tien Giang Province, Vietnam. The land use rights were acquired by the subsidiary for the purposes of construction of a soft toys manufacturing factory, which are for a period of 49 years commencing on 26 March 2010. Certificate of land use rights in the amount of HK$7,192,000 were obtained during the year ended 31 December 2010 and the associated prepayments were reclassified as interests in leasehold land held for own use under operating leases.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 INTANGIBLE ASSETS

	The Group		
	Club memberships HK$'000	**Patent** HK$'000	**Total** HK$'000
Cost:			
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
At 1 January 2010	14,346	3,382	17,728
Additions	3,667	—	3,667
Disposals	(705)	—	(705)
Exchange adjustment	388	—	388
At 31 December 2010	17,696	3,382	21,078
Accumulated amortisation and impairment losses:			
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
At 1 January 2010	996	2,704	3,700
Charge for the year	—	678	678
Impairment loss	10	—	10
At 31 December 2010	1,006	3,382	4,388
Net book value:			
At 31 December 2010	16,690	—	16,690
At 31 December 2009	13,350	678	14,028

19 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 2009	1,286
Exchange adjustment	(3)
At 31 December 2009	1,283
At 1 January 2010	1,283
Exchange adjustment	18
At 31 December 2010	1,301
Accumulated impairment losses:	
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	947
Net book value:	
At 31 December 2010	354
At 31 December 2009	336

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 INVESTMENTS IN SUBSIDIARIES

	2010 HK$'000	2009 HK$'000
Unlisted equities, at cost	**276,792**	287,813
Less: impairment loss	**(31,474)**	(57,956)
	245,318	229,857
Loans to subsidiaries	**253,698**	202,133
Less: impairment loss	**(90,000)**	(90,000)
	163,698	112,133
	409,016	341,990

During the year ended 31 December 2009, the Company contributed additional capital of HK$63,962,000 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 during 2009, the Group's shareholding in the subsidiary increased from 66.47% to 72.86% as at 31 December 2009 and the non-controlling 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$106,812,000 (2009: HK$56,231,000) which are unsecured, interest-bearing at a fixed rate of 1% or LIBOR plus a margin per annum and falls due for repayment from January 2012 to September 2015, accordingly, have been classified as non-current. The interest rates charged for the year ended 31 December 2010 ranged from 0.79% to 1.54% (2009: 0.76% to 5.50%).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 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.

Name of company	Place of incorporation/ registration and operation	Particulars of issued/ registered and paid up capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Dream 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 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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration and operation	Particulars of issued/ registered and paid up capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Dream Vina Co., Ltd	Vietnam	Registered and paid up capital US$12,764,827	100%	60.83%	39.17%	Manufacture of plush stuffed toys and investment holding
Dream Vina II Co., Ltd	Vietnam	Registered capital of US$1,000,000 and paid up capital of US$460,719	100%	—	100%	Inactive
Dream Textile Co., Ltd	Vietnam	Registered and paid up capital of US$5,500,000	100%	54.55%	45.45%	Manufacture of fabrics and dyeing
Dream Mekong Co., Ltd	Vietnam	Registered capital of US$5,000,000 and paid up capital of US$3,000,000	100%	—	100%	Manufacture of plush stuffed toys
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$10,500,000	72.86%	—	72.86%	Manufacture of steel and plastic toys
C & H Toys (Mingguang) Co., Ltd*#	The PRC	Registered and paid up capital of US$1,000,000	100%	100%	—	Manufacture of plush stuffed toys
C & H Toys (Chaohu) Co., Ltd*#	The PRC	Registered and paid up capital of US$2,000,000	100%	—	100%	Manufacture of plush stuffed toys

* KPMG are not the statutory auditors of these companies. The financial statements of the subsidiaries not audited by KPMG reflect total net liabilities and total turnover constituting approximately 1.05% and 0.96% respectively of the related consolidated totals.

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

21 INTEREST IN ASSOCIATES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted equities, at cost	**—**	—	**1,248**	1,248
Share of net assets	**522**	638	**—**	—
	522	638	**1,248**	1,248

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

Name of associate	Place of incorporation/ registration and operation	Particulars of issued share capital/ registered capital	Proportion ofownership interest: Group's effective interest	Held by the Company	Held by an associate	Principal activities
Kedington Enterprises Inc.	British Virgin Islands	US$800,000	20%	20%	—	Investment holding
Yuan Lin Toys (Suzhou) Co., Ltd	The PRC	US$800,000	20%	—	20%	Manufacture of plush stuffed toys

Summary of financial information on associates

	Assets	Liabilities	Equity	Revenue	Loss
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2010					
100 per cent	**27,262**	**(24,652)**	**(2,610)**	**42,335**	**(983)**
Group's effective interest	**5,452**	**(4,930)**	**(522)**	**8,467**	**(196)**
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)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

22 OTHER FINANCIAL ASSETS

	The Group	
	2010	2009
	HK$'000	HK$'000
Non-current		
Equity-linked securities (notes (i), (iii) and (iv))	**3,442**	—
Available-for-sale debt securities — unlisted(note (iv))	**6,720**	6,142
	10,162	6,142
Current		
Equity-linked deposits (notes (ii), (iii) and (iv))	**15,645**	—
Held-to-maturity debt securities — unlisted(note (iv))	**3,385**	3,359
	19,030	3,359
	29,192	9,501

Notes:

(i) Equity-linked securities represent 18 months deposits placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date of 25 May 2012.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

23 INVENTORIES

(a) Inventories in the balance sheets comprise:

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Raw materials	**84,804**	44,371	**20,230**	9,468
Work in progress	**33,038**	39,272	**8,015**	7,894
Finished goods	**79,971**	65,603	**33,902**	26,055
	197,813	149,246	**62,147**	43,417

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount of inventories sold	**1,082,888**	732,760
Write-down of inventories	**7,765**	17,668
Reversal of write-down of inventories	**(11,275)**	(8,365)
	1,079,378	742,063

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

24 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors and bills receivable	**161,190**	107,150	**98,423**	75,771
Less: allowance for doubtful debts (note 24(b))	**(3,873)**	(1,444)	**(1,944)**	—
	157,317	105,706	**96,479**	75,771
Other receivables and prepayments	**58,756**	41,429	**5,419**	13,328
Claim receivable (note 34(a))	**1,633**	—	**—**	—
Amount due from ultimate holding company	**5,246**	4,070	**—**	—
Amount due from a fellow subsidiary	**1,133**	1,270	**540**	369
Amounts due from subsidiaries	**—**	—	**80,517**	54,276
	224,085	152,475	**182,955**	143,744

The amount of the Group's other receivables and prepayments expected to be recovered or charged as expenses after more than one year is HK$1,408,000 (2009: HK$1,259,000). 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 and subsidiaries are trade related, unsecured, interest-free and repayable on demand.

(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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current	**141,481**	93,533	**89,655**	68,417
Less than 1 month past due	**7,136**	10,967	**5,845**	7,287
1 to 3 months past due	**7,455**	601	**979**	67
More than 3 months past due but less than 12 months past due	**1,158**	598	**—**	—
More than 12 months past due	**87**	7	**—**	—
	157,317	105,706	**96,479**	75,771

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 32(a).

24 TRADE AND OTHER RECEIVABLES *(Continued)*

(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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**1,444**	8,572	**—**	6,935
Impairment loss recognised	**2,437**	216	**1,944**	—
Reversal of impairment loss	**(69)**	(4,504)	**—**	(4,189)
Uncollectible amounts written off	**—**	(2,816)	**—**	(2,746)
Exchange differences	**61**	(24)	**—**	—
At 31 December	**3,873**	1,444	**1,944**	—

At 31 December 2010, the Group's and the Company's trade debtors and bills receivable of HK$9,167,000 (2009: HK$2,391,000) and HK$5,540,000 (2009: HK$Nil) respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of HK$3,873,000 (2009: HK$1,444,000) and HK$1,944,000 (2009: HK$Nil) respectively were recognised. The Group does not hold any collateral over these balances.

24 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**141,166**	92,983	**89,655**	68,417
Less than 1 month past due	**4,230**	10,968	**3,228**	7,287
1 to 3 months past due	**6,065**	353	**—**	67
More than 3 months past due but less than 12 months past due	**475**	448	**—**	—
More than 12 months past due	**87**	7	**—**	—
	10,857	11,776	**3,228**	7,354
	152,023	104,759	**92,883**	75,771

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

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CASH AND CASH EQUIVALENTS AND BANK DEPOSITS

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

	The Group		**The Company**	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank deposits within three months to maturity when placed	**31,549**	89,491	**9,486**	81,593
Cash at bank and in hand	**229,985**	198,270	**117,329**	49,244
Cash and cash equivalents in the balance sheet and consolidated cash flow statement	**261,534**	287,761	**126,815**	130,837
Bank deposits with more than three months to maturity when placed	**16,006**	36,801	**4,276**	4,266
	277,540	324,562	**131,091**	135,103

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$39,933,000 (2009: HK$51,233,000) 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 were pledged to a bank to secure bank loans granted to the Group, see note 27(iii).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CASH AND CASH EQUIVALENTS AND BANK DEPOSITS *(Continued)*

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

	Note	2010 HK$'000	2009 HK$'000
Profit before taxation		**213,917**	86,103
Adjustments for:			
Bank interest income	4(a)	**(1,368)**	(1,463)
Interest income from other financial assets	4(a)	**(758)**	(423)
Profit on disposal of land and buildings, and other related fixed assets	8	**—**	(19,748)
Gain on disposal of property, plant and equipment	4(b)	**(118)**	(605)
(Gain)/loss on disposal of club memberships	4(b)	**(31)**	191
Gain on disposal of a subsidiary	6	**(68)**	—
Net realised and unrealised gain on other financial assets	4(b)	**(1,113)**	(3,555)
Net (gain)/loss on forward foreign exchange contracts	4(b)	**(661)**	568
Finance costs	5(a)	**873**	2,690
Amortisation of land lease premium	17(a)	**508**	418
Amortisation of intangible assets	19	**678**	676
Depreciation	17(a)	**22,838**	21,767
Provision for/(reversal of) impairment loss:			
— Fixed assets	17(a)	**538**	(5,837)
— Intangible assets	19	**10**	(153)
Share of loss of associates		**196**	318
Foreign exchange loss		**3,116**	15,969
Changes in working capital:			
Increase in inventories		**(48,610)**	(16,337)
(Increase)/decrease in trade and other receivables		**(73,149)**	47,414
Increase in long term receivables		**(7,220)**	—
(Decrease)/increase in trade and other payables		**(751)**	72,888
Decrease in defined benefit obligations		**(778)**	(5,932)
Cash generated from operations		**108,049**	194,949

26 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**107,824**	85,476	**11,820**	9,072
Accrued charges and other payables	**135,074**	161,872	**53,663**	99,024
Loan from a minority shareholder	**15,550**	15,512	**—**	—
Amount due to ultimate holding company	**805**	1,627	**805**	1,627
Amounts due to fellow subsidiaries	**3,406**	5,657	**945**	3,155
Amounts due to subsidiaries	**—**	—	**132,022**	85,126
Amount due to an associate	**2,079**	1,076	**—**	—
	264,738	271,220	**199,255**	198,004
Derivative financial instruments:				
— Forward foreign exchange contracts	**—**	573	**—**	—
	264,738	271,793	**199,255**	198,004

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

Loan from a 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.

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

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due within 1 month or on demand	**58,004**	56,969	**11,820**	9,072
Due after 1 month but within 3 months	**49,715**	28,489	**—**	—
Due after 3 months but within 6 months	**—**	18	**—**	—
Due after 6 months but within 1 year	**83**	—	**—**	—
Due after 1 year	**22**	—	**—**	—
	107,824	85,476	**11,820**	9,072

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27 BANK LOANS

At 31 December 2010, the bank loans and overdrafts were secured as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Current		
— Secured bank loans	**7,904**	34,991
— Guaranteed bank loans	**—**	20,496
	7,904	55,487
Non-current		
— Secured bank loans	**6,101**	—
	14,005	55,487

Bank loans of the Group are secured as follows:

(i) Plant and machinery and land with a carrying value as at 31 December 2010 of HK$38,098,000 (2009: HK$36,733,000) were pledged to a bank in respect of a loan amounting to HK$14,005,000 (2009: HK$4,158,000).

(ii) Land and buildings with a carrying value of HK$30,698,000 were pledged to a bank in respect of a loan amounting to HK$1,710,000 as at 31 December 2009.

(iii) Bank deposits with more than three months to maturity when placed with a carrying value of HK$29,185,000 as at 31 December 2009 were 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 as at 31 December 2009 was guaranteed by the Group's immediate holding company, C&H Co., Ltd.

(ii) A bank loan totalling HK$1,769,000 as at 31 December 2009 was guaranteed by the Group's immediate holding company, C&H Co., Ltd, and a director of the Company.

As at 31 December 2010, the Group's banking facilities were not subject to the fulfilment of financial covenants (2009: Nil).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

28 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 2010 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 60.1% (2009: 52.6%) covered by the plan assets held by the trustees.

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

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Present value of wholly or partly funded obligations	**7,710**	9,442	**1,522**	1,604
Fair value of plan assets	**(4,634)**	(4,965)	**—**	—
	3,076	4,477	**1,522**	1,604
Net unrecognised actuarial losses	**(2,808)**	(3,431)	**—**	—
	268	1,046	**1,522**	1,604

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$1,104,000 in contributions to the defined benefit retirement plan in 2011.

(ii) Plan assets

As at 31 December 2010 and 2009, 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

28 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

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

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**9,442**	13,397
Benefits paid by the plan	**(3,539)**	(9,950)
Current service cost	**1,414**	1,277
Interest cost	**574**	542
Actuarial (gains)/losses	**(405)**	2,070
Losses on curtailment/settlement	**—**	320
Exchange differences	**224**	1,786
At 31 December	**7,710**	9,442

(iv) Movements in plan assets

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**4,965**	4,502
Group's contributions paid to the plan	**1,072**	1,525
Benefits paid by the plan	**(1,744)**	(1,976)
Actuarial expected return on plan assets	**184**	79
Actuarial gains	**24**	74
Exchange differences	**133**	761
At 31 December	**4,634**	4,965

28 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Current service cost	**1,414**	1,277
Interest cost	**574**	542
Actuarial expected return on plan assets	**(184)**	(79)
Net actuarial losses recognised	**276**	57
Losses on curtailment/settlement	**—**	1,187
	2,080	2,984

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.

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Cost of sales	**481**	369
Administrative expenses	**1,599**	2,615
	2,080	2,984

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$207,000 (2009: HK$154,000).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

28 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

(vi) The principal actuarial assumptions used as at 31 December 2010 (expressed as weighted averages) are as follows:

	2010	2009
Discount rate	**6.0%**	6.7%
Expected rate of return on plan assets	**4.8%**	4.5%
Future salary increases		
— 2010 to 2012	**5.0%**	6.0%
— 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.

Historical information

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

28 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

(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.

29 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

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

Exercisable period	Exercise price per share	Number of options 2010 '000	2009 '000
Options granted to directors:			
7 February 2003 to 7 February 2012	HK$1.18	—	1,880
Options granted to employees:			
7 February 2003 to 7 February 2012	HK$1.18	**260**	1,561
15 April 2004 to 15 April 2013	HK$1.43	—	455
2 January 2005 to 2 January 2014	HK$1.87	**6,000**	6,650
		6,260	10,546

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

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%

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

	2010		2009	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the period	**HK$1.63**	**10,546**	HK$1.60	12,086
Exercised during the period	**HK$1.21**	**(3,636)**	N/A	—
Lapsed	**HK$1.87**	**(650)**	HK$1.40	(1,540)
Outstanding at the end of the period	**HK$1.84**	**6,260**	HK$1.63	10,546
Exercisable at the end of the period	**HK$1.84**	**6,260**	HK$1.63	10,546

No options were granted during the year (2009: Nil).

The options outstanding at 31 December 2010 had an exercise price of HK$1.18 or HK$1.87 (2009: HK$1.18, HK$1.43 or HK$1.87) and a weighted average remaining contractual life of 2.9 years (2009: 3.3 years).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

30 INCOME TAX IN THE BALANCE SHEETS

(a) Current taxation in the balance sheets represents:

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Provision for Hong Kong Profits Tax for the year	**7,073**	3,311	**7,073**	3,311
Provisional Profits Tax paid	**(2,697)**	(1,756)	**(2,697)**	(1,756)
	4,376	1,555	**4,376**	1,555
Balance of Profits Tax provision relating to prior years	**418**	841	**—**	—
Provision for tax outside Hong Kong	**12,225**	3,559	**285**	—
	17,019	5,955	**4,661**	1,555
Representing:				
Tax recoverable	**—**	(33)	**—**	—
Tax payable	**17,019**	5,988	**4,661**	1,555
	17,019	5,955	**4,661**	1,555

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Deferred tax assets and liabilities recognised:

(i) The Group

The components of deferred tax liabilities/(assets) 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 2009	53	—	987	(1,543)	—	(503)
(Credited)/charged to the consolidated income statement (note 9(a))	(388)	—	116	(1,416)	—	(1,688)
Charged to reserves (note 13)	—	—	—	—	27	27
Exchange adjustments	(2)	—	91	(224)	—	(135)
At 31 December 2009	(337)	—	1,194	(3,183)	27	(2,299)
At 1 January 2010	(337)	—	1,194	(3,183)	27	(2,299)
Charged/(credited) to the consolidated income statement (note 9(a))	95	(12,314)	(327)	1,403	—	(11,143)
Charged to reserves (note 13)	—	—	—	—	84	84
Exchange adjustments	1	(255)	26	(39)	—	(267)
At 31 December 2010	(241)	(12,569)	893	(1,819)	111	(13,625)

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

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

(ii) The Company

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

	Depreciation allowances less than the related depreciation HK$'000
At 1 January 2009	(6)
Credited to the income statement	(347)
At 31 December 2009	(353)
At 1 January 2010	(353)
Charged to the income statement	92
At 31 December 2010	(261)

(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$67,983,000 (2009: HK$175,937,000) 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$9,628,000 (2009: HK$29,275,000) do not expire under current tax legislation, while the remaining tax losses amounting to HK$58,355,000 (2009: HK$146,662,000) expire at various dates up to and including 2015 (2009: 2014) as follows:

	2010 **HK$'000**	2009 HK$'000
2010	**—**	11,956
2011	**14,788**	14,620
2012	**9,775**	29,524
2013	**2,176**	81,518
2014	**8,400**	9,044
2015	**23,216**	—
	58,355	146,662
No expiry date	**9,628**	29,275
	67,983	175,937

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Deferred tax liabilities not recognised

At 31 December 2010, temporary differences relating to the undistributed profits of subsidiaries based in Mainland China and The Republic of Korea amounted to HK$43,210,000 (2009: HK$45,834,000) and HK$100,266,000 (2009: HK$49,521,000) respectively. Deferred tax liabilities of HK$2,160,000 (2009: HK$2,292,000) and HK$20,053,000 (2009: HK$9,904,000) 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.

31 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 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
At 1 January 2010	52,019	176,893	3,688	238,783	471,383
Changes in equity for 2010:					
Dividends approved in respect of the previous year	—	—	—	(20,056)	(20,056)
Dividends declared in respect of the current year	—	—	—	(13,371)	(13,371)
Share issued under share option scheme	284	4,120	—	—	4,404
Lapse of share options	—	—	(344)	344	—
Total comprehensive income for the year	—	—	—	151,121	151,121
At 31 December 2010	52,303	181,013	3,344	356,821	593,481

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividend

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

	2010 HK$'000	2009 HK$'000
Interim dividend declared and paid of HK2 cents per ordinary share (2009: HK Nil cents per ordinary share)	**13,371**	—
Final dividend proposed after the balance sheet date of HK4 cents per ordinary share (2009: HK3 cents per ordinary share)	**26,887**	20,056
	40,258	20,056

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

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

	2010 HK$'000	2009 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3 cents per ordinary share (2009: HK Nil cents per ordinary share)	**20,056**	—

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital

	2010		2009	
	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 1 January	**668,529**	**52,019**	668,529	52,019
Shares issued under share option scheme	**3,636**	**284**	—	—
At 31 December	**672,165**	**52,303**	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.

During the year, options were exercised to subscribe for 3,636,000 ordinary shares in the Company at a consideration of HK$4,404,000 of which HK$284,000 was credited to share capital and the balance of HK$4,120,000 was credited to the share premium account.

(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).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

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

(iii) General reserve fund

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

(iv) 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) Fair value reserve

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

(vi) Distributability of reserves

At 31 December 2010, 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$356,821,000 (2009: HK$238,783,000). After the balance sheet date the directors proposed a final dividend of HK4 cents per ordinary share (2009: HK3 cents per ordinary share), amounting to HK$26,887,000 (2009: HK$20,056,000). This dividend has not been recognised as a liability at the balance sheet date.

(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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Capital management *(Continued)*

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 2010 and 2009 was as follows:

		The Group		The Company	
		2010	2009	**2010**	2009
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Current liabilities:					
Trade and other payables	26	**264,738**	271,793	**199,255**	198,004
Bank loans	27	**7,904**	55,487	**—**	—
		272,642	327,280	**199,255**	198,004
Less: Cash and cash equivalents	25(a)	**(261,534)**	(287,761)	**(126,815)**	(130,837)
Bank deposits with more than three months to maturity when placed	25(a)	**(16,006)**	(36,801)	**(4,276)**	(4,266)
Non-current liabilities:					
Bank loans	27	**6,101**	—	**—**	—
Total debt		**1,203**	2,718	**68,164**	62,901
Add: Proposed dividends	31(b)	**26,887**	20,056	**26,887**	20,056
Net debt		**28,090**	22,774	**95,051**	82,957
Total equity		**659,242**	475,991	**593,481**	471,383
Net debt-to-capital ratio		**4%**	5%	**16%**	18%

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 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, financial assets and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within thirty to sixty days from the date of billing. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, the Group has a certain concentration of credit risk as 24% (2009: 21%) and 73% (2009: 54%) 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 24.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 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

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

	2009				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Balance sheet carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Bank loan	56,111	—	—	56,111	55,487
Trade and other payables	271,793	—	—	271,793	271,793
	327,904	—	—	327,904	327,280

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

(b) Liquidity risk *(Continued)*

The Company

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

	2009 Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total HK$'000	Balance sheet carrying amount HK$'000
Trade and other payables	198,004	—	—	198,004	198,004

As shown in the above analysis, bank loans of the Group amounting to HK$8,664,000 (2009: HK$56,111,000) were due to be repaid during 2011. 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

(Expressed in Hong Kong dollars unless otherwise indicated)

32 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 net borrowings (as defined above) at the balance sheet date.

The Group

	2010 Effective interest rate %	2010 HK$'000	2009 Effective interest rate %	2009 HK$'000
Fixed rate borrowings:				
Bank loans	**14.00**	**2,146**	1.52	30,892
Variable rate borrowings:				
Bank loans	**5.43**	**11,859**	4.46	24,595
Total borrowings		**14,005**		55,487
Fixed rate borrowings as a percentage of total net borrowings		**15.32%**		55.67%

(ii) Sensitivity analysis

At 31 December 2010, 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$140,000 (2009: decreased/increased the Group's profit after taxation and decreased/increased the Group's retained profits by HK$477,000). 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 2009.

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

(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"), Vietnamese Dong ("VND") and Japanese Yen ("JPY").

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

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

(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, recognised as derivative financial instruments, see note 26. There were no outstanding forward exchange contracts as at 31 December 2010.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 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

	2010				2009			
	United States Dollars '000	Renminbi Yuan '000	Vietnamese Dong '000	Japanese Yen '000	United States Dollars '000	Renminbi Yuan '000	Vietnamese Dong '000	Japanese Yen '000
Trade and other receivables	26,838	566	6,883,552	3,577	15,824	2,771	20,086,207	4,635
Cash and cash equivalents	20,692	534	12,700,282	25,942	13,691	113	3,960,164	14,513
Bank loans	–	–	(5,382,000)	–	(3,742)	–	–	–
Trade and other payables	(23,328)	(5,958)	(51,031,176)	(350)	(1,200)	(4,092)	(33,914,551)	(1,018)
Gross exposure arising from recognised assets and liabilities	24,202	(4,858)	(36,829,342)	29,169	24,573	(1,208)	(9,868,180)	18,130
Notional amounts of forward exchange contracts used as economic hedges	–	–	–	–	3,786	–	–	–
Net exposure arising from recognised assets and liabilities	24,202	(4,858)	(36,829,342)	29,169	28,359	(1,208)	(9,868,180)	18,130
Hong Kong dollar equivalent	188,171	(5,732)	(13,898)	2,800	219,952	(1,377)	(4,145)	1,523

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

(d) Currency risk *(Continued)*

(ii) Exposure to currency risk *(Continued)*

The Company

	2010			2009		
	United States Dollars '000	**Renminbi Yuan '000**	**Japanese Yen '000**	United States Dollars '000	Renminbi Yuan '000	Japanese Yen '000
Trade and other receivables	**19,407**	**566**	**—**	13,066	28,175	—
Cash and cash equivalents	**16,591**	**534**	**458**	6,177	113	779
Bank loans	**—**	**—**	**—**	—	—	—
Trade and other payables	**(17,715)**	**(3,149)**	**(49)**	(11,326)	(4,092)	(1,000)
Net exposure arising from recognised assets and liabilities	**18,283**	**(2,049)**	**409**	7,917	24,196	(221)
Hong Kong dollar equivalent	**142,150**	**(2,418)**	**39**	61,404	27,583	(19)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 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

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000
Renminbi Yuan	**10%**	**(454)**	10%	(115)
	(10)%	**454**	(10)%	115
Vietnamese Dong	**10%**	**(1,108)**	10%	(308)
	(10)%	**1,108**	(10)%	308
Japanese Yen	**10%**	**213**	10%	116
	(10)%	**(213)**	(10)%	(116)

The Company

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000
Renminbi Yuan	**10%**	**(202)**	10%	2,303
	(10)%	**202**	(10)%	(2,303)
Japanese Yen	**10%**	**3**	10%	(2)
	(10)%	**(3)**	(10)%	2

32 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 2009.

(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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(e) Fair values *(Continued)*

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

2010

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

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 2010 and 2009.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(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.

33 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2010 not provided for in the financial statements were as follows:

	2010 HK$'000	2009 HK$'000
Contracted for	**796**	18,365

(b) At 31 December 2010, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:

	2010 HK$'000	2009 HK$'000
Within 1 year	**11,085**	9,907
After 1 year but within 5 years	**1,371**	4,823
After 5 years	**2,190**	2,239
	14,646	16,969

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

34 CONTINGENT LIABILITIES

(a) 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 was recorded in the financial statements in respect of the claim under the Litigation. During the year ended 31 December 2008, the Company had issued a counter claim alleging various matters.

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

	2010 **HK$'000**
Within 1 year (note 24)	**1,633**
After 1 year but within 5 years (note 16)	**2,566**
	4,199

(b) In March 2011, a customer ("the Customer") initiated a claim against a subsidiary of the Company in Mainland China ("the PRC Subsidiary") in respect of products manufactured by the PRC Subsidiary and sold to the Customer during the year ended 31 December 2010 (the "Claim"). The Customer has not brought the Claim to court but requested compensation from the PRC Subsidiary. Having considered the Claim in conjunction with the Company's legal counsel, the board of directors believes that the PRC Subsidiary is unlikely liable to the Claim. Accordingly, no provision has been recorded in the financial statements as at 31 December 2010 in respect of the Claim. The board of directors considers that it is not possible to make further disclosure of the information required by HKAS 37 at this stage.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

35 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	2010 HK$'000	2009 HK$'000
Short-term employee benefits	**9,013**	8,692

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

	2010 HK$'000	2009 HK$'000
(b) Sales of goods to		
— a fellow subsidiary	**2,247**	1,995
(c) Sales of materials to		
— a fellow subsidiary	**—**	14,553
(d) Purchase of goods from		
— an associate	**15,758**	20,608
(e) Purchase of materials from		
— an associate	**374**	1,310
(f) Commission received/receivable from		
— a fellow subsidiary	**3,819**	2,948
(g) Sharing of administrative services from		
— ultimate holding company	**7,053**	6,961
(h) Rental paid/payable to		
— ultimate holding company	**2,647**	2,335
(i) Processing fees paid/payable to		
— an associate	**5,300**	1,328

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

36 NON-ADJUSTING POST BALANCE SHEET EVENT

On 11 March 2011, an earthquake hit Japan and gave rise to uncertain market condition in Japan. As disclosed in note 15, the Group has certain customers located in Japan and has exposure to market condition in Japan. The board of directors considers that the disaster has no significant impact on the financial statements for the year ended 31 December 2010 and it is not possible to reliably measure the potential impact on the Group in the future at this stage.

37 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2010, 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.

38 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 28, 29 and 32 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.

38 ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(b) Impairment of intangible assets

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

(c) Impairment of receivables

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

(d) Write down of inventories

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

(e) Taxation, indirect taxes and duties

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

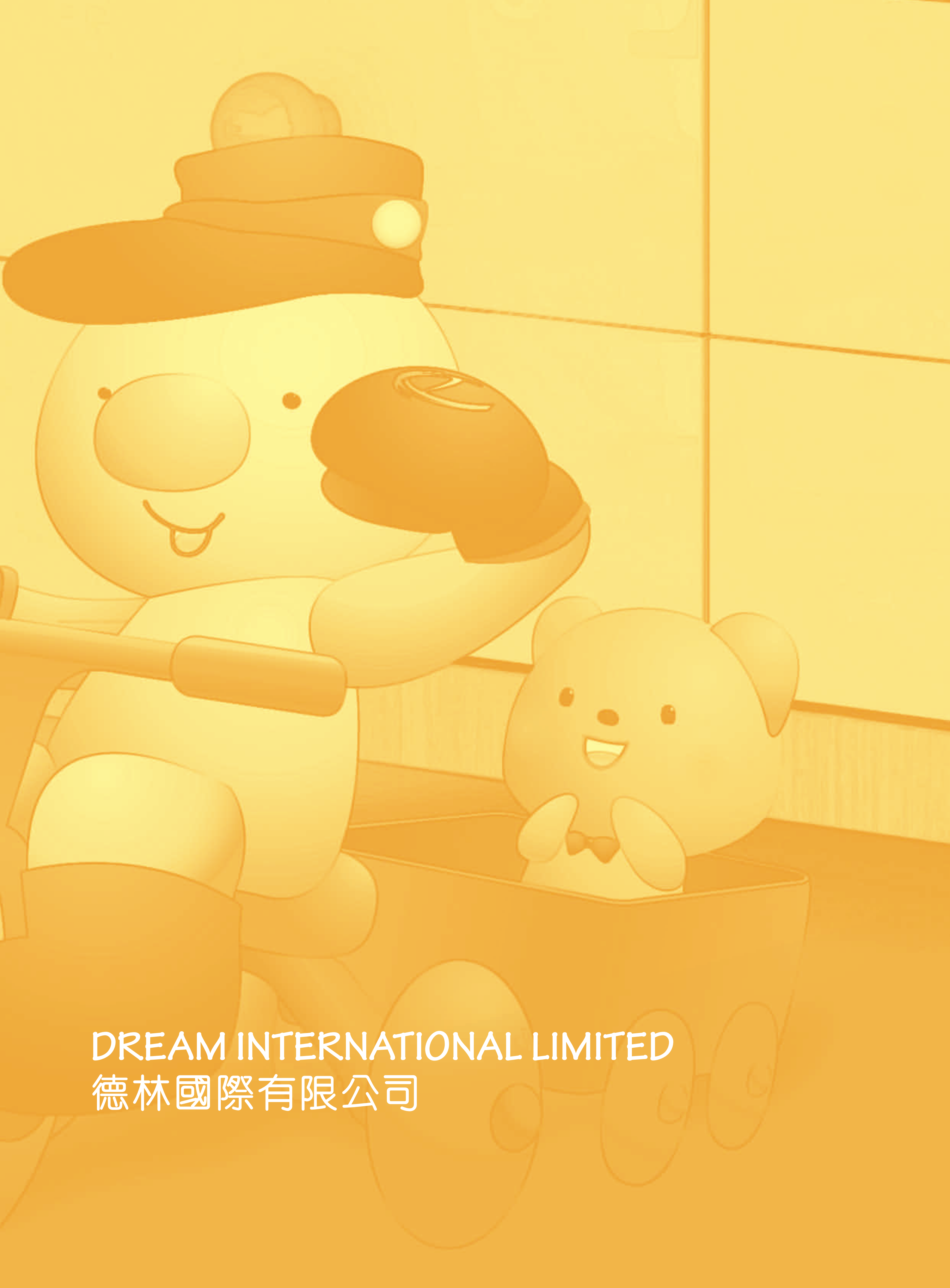
Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Revised HKAS 24, *Related party disclosures*	1 January 2011
HKFRS 9, *Financial instruments*	1 January 2013
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011

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

	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	**2010** **HK$'000**
Results					
Turnover	1,084,357	946,328	1,048,589	994,052	**1,544,857**
(Loss)/profit from operations	(117,732)	(12,067)	(35,495)	89,111	**214,986**
Finance costs	(4,842)	(8,132)	(6,888)	(2,690)	**(873)**
Share of loss of associates	(237)	(16)	(509)	(318)	**(196)**
(Loss)/profit before taxation	(122,811)	(20,215)	(42,892)	86,103	**213,917**
Income tax (expense)/credit	(8,673)	11,986	(13,427)	(7,865)	**(10,958)**
(Loss)/profit for the year	(131,484)	(8,229)	(56,319)	78,238	**202,959**
Attributable to:					
— Equity shareholders of the Company	(129,671)	(4,831)	(41,929)	74,619	**199,597**
— Non-controlling interests	(1,813)	(3,398)	(14,390)	3,619	**3,362**
(Loss)/profit for the year	(131,484)	(8,229)	(56,319)	78,238	**202,959**
(Loss)/earnings per share					
Basic	HK$(19.40)¢	HK$ (0.72)¢	HK$ (6.27)¢	HK$ 11.16¢	**HK$ 29.83¢**
Diluted	HK$(19.40)¢	HK$ (0.72)¢	HK$ (6.27)¢	HK$ 11.16¢	**HK$ 29.83¢**
Assets and liabilities					
Fixed assets	216,046	197,175	193,329	148,339	**183,860**
Long term receivables	—	—	—	—	**7,231**
Prepayment	—	—	—	9,184	**1,992**
Intangible assets	17,268	16,623	12,516	14,028	**16,690**
Interest in associates	1,298	1,373	950	638	**522**
Deferred tax assets	3,180	3,826	503	2,299	**13,625**
Other financial assets	71,054	76,284	—	6,142	**10,162**
Net current assets	152,974	166,647	178,377	296,407	**431,529**
Total assets less current liabilities	461,820	461,928	385,675	477,037	**665,611**
Deferred tax liabilities	(322)	(248)	—	—	**—**
Other non-current liabilities	(19,387)	(11,469)	(6,978)	(1,046)	**(6,369)**
NET ASSETS	442,111	450,211	378,697	475,991	**659,242**



DREAM INTERNATIONAL LIMITED
德林國際有限公司