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

Dream
International
Limited

contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

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

Independent non-executive directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 501 & 6/F
China Minmetals Tower
79 Chatham Road South
Tsimshatsui
Kowloon
Hong Kong

COMPANY SECRETARY

Ms Tsz Wai NG, *CPA*

AUDITOR

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

AUTHORISED REPRESENTATIVES

Mr Young M. LEE
Ms Tsz Wai NG

PRINCIPAL BANKERS

Citibank, N.A.
Shinhan Bank
Bank of China

SHARE REGISTRAR

Tricor Abacus Limited	(with effect from 31 March 2014)
26th Floor, Tesbury Centre	Level 22, Hopewell Centre
28 Queen's Road East	183 Queen's Road East
Hong Kong	Hong Kong

FINANCIAL RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit A, 29th Floor, Admiralty Centre I
18 Harcourt Road, Admiralty
Hong Kong

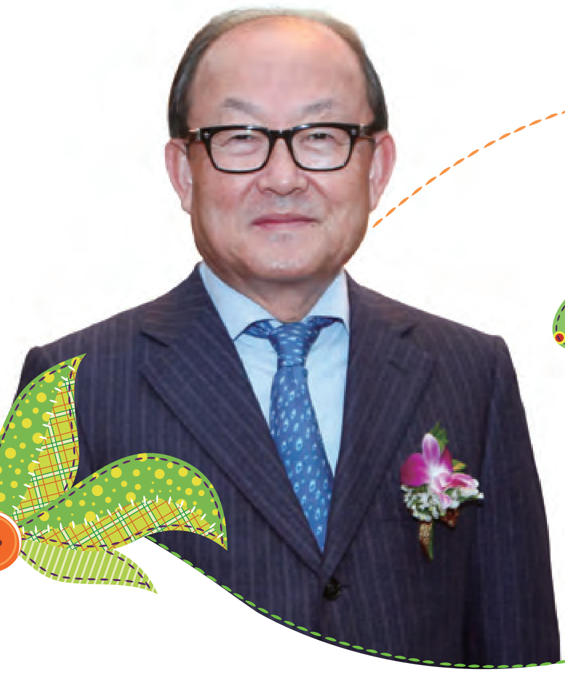
WEBSITE ADDRESS

www.dream-i.com.hk

STOCK CODE

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

CHAIRMAN'S STATEMENT



Kyoo Yoon Choi
Chairman

Dear Shareholders,

In 2013, economic recovery of key markets of Dream International Limited (the "Company" or "Dream International") and its subsidiaries (collectively the "Group") in North America and Europe showed signs of strengthening, though more modest than market expectations, especially in the latter region. However, the improving economic climate has not translated into a significant change in market confidence. Despite of this, Japan, our largest market, has continued to provide a stable source of revenue and remained a key contributor to the Group's financial results. During the past year, we have placed every effort into bolstering our foundation and fine-tuning the Group's business model. Owing to the constant and careful adjustment of our product portfolio and directing resources into business investments that offer higher returns, we successfully maintained a healthy revenue level and reasonable profitability despite operating in a stagnant market.

To cope with the sluggish macroeconomic environment, the Group adopted a two-pronged strategy to sustain stable business growth. We are determined to take advantage of our leading position as one of the world's largest plush toy manufacturers to strengthen our core Original Equipment Manufacturing ("OEM") business. Leveraging our quality products and established reputation, the Group has already built a diversified customer base and become the preferred partner for many leading toy brands from around the world. During the year, further expansion of our client base and development of business opportunities with new customers were pursued. We successfully attracted two new customers that are renowned toy retailers with extensive distribution networks in the US. Consequently, greater business volume from the US market was achieved. We will pursue new product development opportunities with one of the new customers this year, which will further strengthen our partnership. Separately, the move towards producing more cartoon characters from Korea and Japan has begun to bear fruit. During the past year, encouraging progress was made as we had completed shipments to distributors and launched a number of cartoon figures at an upscale retail toy store in New York.

To enhance our competitiveness in plush toys manufacturing, we have been constantly reviewing our product portfolio and focusing on developing new businesses and product lines. Correspondingly, we established the self-owned "Dream, made to Love, made to Hug" brand to target a more premium market. As the brand has been gaining greater recognition, we have started to produce more generic items under this brand to further expand our reach into the mass market as well. The two lines developed under the brand will be well-matched to target different customer groups, enabling us to capture greater market share.

To diversify income streams and invest in the future, the Group introduced a new line of plastic figure products in 2011. During the year under review, this new segment achieved significant growth and contributed positively to the Group's performance. While our customers are expanding their global networks, we have continued to capitalize on our solid relationship with them to secure more stable orders. We will also enrich our product mix in this segment to further grasp market opportunities. Moreover, the strategic move to further boost our production capacity has been planned in anticipation of satisfying flourishing market demand. With strengthened production facilities, we are in our ability to further grow in this sector, transforming the plastic figure products business into a strong growth engine.

Looking ahead, Japan's recovery appears to be gaining traction and the US economy looks set to make further ground. In addition to the traditional toy markets, the Group has been carefully laying the groundwork to tap other high-potential regions. Having established a solid track record of successfully tapping emerging markets including Brazil, we are leveraging our experience to capitalize on World Cup 2014, and are presently developing products inspired by the football spectacular. At the same time, we are striving to capture opportunities from other major events such as the Olympic Games. Apart from Brazil, China continues to present immense opportunities. Aside from rising disposable income resulting from greater economic prosperity, the recent easing of the one child policy in China will have a profound impact on demand for toys. We will therefore pay close attention to the China market and seize on opportunities that develop to fuel our growth.

Though each market and business segment presents its own unique set of challenges, Dream International remains undaunted. With a broad customer base, healthy financial position, strong R&D capability, solid product portfolio and worldwide reputation for quality, we are able to persevere and achieve long-term development. We are therefore confident in the Group's ability to grow stronger, reach new heights and deliver maximum returns to our shareholders moving forward.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, business partners and customers for their continuous support. Appreciation must also be extended to the management team and the entire workforce for their dedication and contributions.

Kyoo Yoon Choi
Chairman
25 March 2014

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

During 2013, the global economic environment was on a dawdling pace of recovery. Although consumer confidence and employment have displayed signs of recuperation in the U.S. market, the European market continued to exhibit sluggish growth. As a result, the overall performance of the toy industry has undoubtedly experienced a knock-on-effect from the presence of market uncertainty. Nonetheless, Japan, the most important market for the Group, has ensured that the Group continue to enjoy a relatively steady business environment by continuing as the key contributor to the Group's financial results during the year under review.

For the year ended 31 December 2013, the Group's turnover was HK$1,352.6 million (2012: HK$1,353.3 million). Gross profit reached HK$393.6 million, representing a rise of 13.7% from HK$346.1 million of the previous financial year. Gross margins improved further to 29.1% (2012: 25.6%). The Group's operating profit increased by 0.3% to HK$159.7 million (2012 (restated): HK$159.3 million), while net profit attributable to equity shareholders was HK$123.9 million (2012 (restated): HK$133.0 million), with net margin reaching 9.2% (2012 (restated): 9.8%).

The Group maintained a healthy financial position with cash and bank deposits of HK$400.1 million (31 December 2012: HK$438.3 million) as at 31 December 2013.

BUSINESS REVIEW

Product Analysis

Plush stuffed toys segment

During the year under view, the plush stuffed toys business recorded a turnover of HK$1,219.7 million, accounting for 90.2% of the Group's total turnover. The OEM business remained the core contributor of the Group's total turnover, accounting for 91.5% of sales for the plush stuffed toys segment. Riding on the favourable market response to the launch of new products featuring iconic characters from Japan and Korea at the New York Toy Fair 2013, the Group participated in the New York Toy Fair 2014 to enhance its brand awareness as well as approach new customers in the U.S. toy market. One of the new plush stuffed toy characters was also unveiled at an upscale retail toy store in New York during the second half of 2013 and enjoyed a favourable market response. The Group has been working closely with the store to augment variety and further enrich the product design, with new products expected to be unveiled during the first half of 2014. Apart from nurturing close business ties with well-known customers including globally-renowned cartoon character owners and licensors, the Group secured two new customers, which have contributed to the increase in its business volume in the U.S. and anticipates the contribution to keep growing in the future.

The Original Design Manufacturing ("ODM") business recorded a turnover of HK$103.6 million, contributing 8.5% of the total sales of plush stuffed toys. Following the successful establishment of the "Dream, made to love, made to hug" brand for strengthening brand awareness among target customers positioned at the premium market, the Group diversified its product mix to reach major mass markets. The two lines developed under the brand are aimed at diversifying income streams and to capture a larger market share.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW *(Continued)*

Product Analysis *(Continued)*

Ride-on toys segment

For the year ended 31 December 2013, sales generated from the ride-on toys segment were HK$48.2 million, making up 3.6% of the Group's total turnover. The new product launch of the Group's high-margin tricycle product in Japan is scheduled for March 2014 due to a few more modifications on the design by the customer, and the new product is also to be introduced in China by the end of the first half of 2014.

Plastic figures segment

The successful launch of the plastic figures segment in 2011 has continued to demonstrate remarkable growth, with turnover surged by over three-fold to HK$84.7 million (2012: HK$18.4 million). The Group continued to leverage its long term business relationships with existing top-tier customers to secure orders for its plastic figures. The success of this segment can be demonstrated through an upward surge recorded for its business volumes and sales performances. In order to take advantage of the segment's ongoing success, the Group is further expanding the number of categories to increase the volume of orders.

Market Analysis

For the year ended 31 December 2013, Japan remained the Group's largest geographic market, accounting for 46.9% of the Group's total turnover. North America contributed 35.7% of the Group's total turnover, followed by the European market at 9.2% and China at 2.4%.

Operational Analysis

As at 31 December 2013, the Group operated 10 plants in total, 5 of which were in China and 5 in Vietnam, running at an average utilisation rate of 75.0%. In order to sustain business growth of the plastic figures segment, the Group has constructed a clean room in the factory situated in Hanoi, and the construction of the second plant for this segment is expected to be completed by the first half of 2014.

PROSPECTS

The global economy continues to endure a prolonged sluggish recovery of the European economies, as well as the soon-to-be implemented exit strategy in regards to the Quantitative Easing bond purchases by the U.S. Federal Reserve. Nevertheless, the Group is optimistic that the better economic data will gradually be reflected in the improvement of market sentiment and consumer confidence. Indeed, the consolidation of the toy industry over the years due to the difficult operational environment has eliminated many toy manufacturers from the market. As a result, the more competitive toy manufacturers, such as Dream International, are now enjoying increasing orders and stronger bargaining power.

MANAGEMENT DISCUSSION & ANALYSIS

PROSPECTS *(Continued)*

To foster its business expansion and maximise its market share, the Group has continued to ride on its successful track record in the plush toy industry to cultivate close long term business ties with its current customers, as well as explore more partnership opportunities across different geographic regions and product categories to enhance sales growth. As the Group's key growth driver, the plastic figures segment has achieved an exceptional performance this year and is expected to grow rapidly in the coming years.

To further diversify the income stream, the Group is currently developing products for global events, such as the FIFA Football World Cup 2014, and is also committed towards preparation for the opportunity presented by the upcoming Summer Olympics in Brazil. As the Group has established its presence in China by positioning itself in the high-end market, the upcoming opening of a feature park in Shanghai and the easing of China's one child policy should present new opportunities for the Group's business.

Apart from expanding its income stream, the Group will continue to focus on profitability and efficiency as its key objectives. Benefitting from a strong financial position and a tradition of operational excellence, the Group is confident that it can continue to sustain growth and maximise returns for shareholders of the Company.

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2013, the Group had 7,811 (2012: 8,578) employees in Hong Kong, China, Korea, the 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.

LIQUIDITY AND FINANCIAL RESOURCES AND GEARING

The Group continued to maintain a reasonable liquidity position. As at 31 December 2013, the Group had net current assets of HK$614.2 million (2012: HK$604.2 million). The Group's total cash and cash equivalents as at 31 December 2013 amounted to HK$320.6 million (2012: HK$281.6 million). The total bank loans of the Group as at 31 December 2013 amounted to HK$23.1 million (2012: HK$22.6 million). The Group's borrowings are mainly on a floating rate basis.

The Group financed its operations by internally generated cashflows and banking facilities provided by its bankers. The Group maintains a prudent approach in managing its financial requirements.

The Group also maintains a conservative approach to foreign exchange exposure management. The Group is exposed to currency risk primarily through income and expenditure streams denominated in United States Dollar, British Pound, Renminbi Yuan, Vietnamese Dong and Japanese Yen. To manage currency risks, non Hong Kong Dollar assets are financed primarily by matching local currency debts as far as possible.

The Group's gearing ratio, calculated on the basis of total bank loans over the total equity, was at 2.6% at 31 December 2013 (2012 (restated): 2.7%).

PLEDGE ON GROUP ASSETS

Bank loans are secured on the Group's buildings, plant and machinery and land use rights with a net carrying value of HK$24.4 million as at 31 December 2013 (2012: HK$26.5 million).

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr Kyoo Yoon Choi, aged 65, is the Chairman and the Chief Executive Officer 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 58, 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 52, is the managing director of Dream International USA, Inc. He joined Dream International USA, Inc. on 1 July 1991 and has been in charge of the Group's marketing function in the US. Mr Wang graduated from the University of California, Los Angeles, with a bachelor's degree in business administration in 1986. Prior to joining the Group, Mr Wang had extensive experience in the fields of logistics and trading from his previous employments with Trans-union Line, KAL Trading Co. and Daewoo America Corp. He was appointed as an executive director on 1 April 2005.

Mr Hyun Ho Kim, aged 48, 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 Korea. Mr Kim graduated from the Seok-Yeong University in Korea, with a bachelor's degree of Economics in 1995.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Cheong Heon Yi, aged 49, received his bachelor's degree and master's degree in business administration from Seoul National University in Korea. Professor Yi was also awarded a philosophy of doctorate degree in accounting in 1997 from the University of California, Los Angeles. Professor Yi taught at the University of California, Los Angeles for a year before joining the Hong Kong Polytechnic University in 1997. Professor Yi is currently teaching financial accounting and reporting and financial statement analysis in the Accountancy Faculty of the City University of Hong Kong. He was appointed as the Company's independent non-executive director on 22 November 2003.

Professor Byong Hun Ahn, aged 67, 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 had taught at the Korea Advanced Institute of Science and Technology ("KAIST") and the KAIST Graduate School of Management and is currently acting as an Emeritus Professor in KAIST College of Business. His research interests focus on economic of strategy and stakeholder theory of firms, and corporate social responsibility. He is also the independent non-executive director of KB Real Estate Trust Co., Ltd in Seoul, Korea. He was appointed as the Company's independent non-executive director on 30 May 2008.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr Tae Woong Kang, aged 53, 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 mergers and acquisitions issues. Before joining Highpoint Limited, Mr Kang had extensive experience in the area of financial management and business restructuring in Hong Kong and Korea. He was appointed as the Company's independent non-executive director on 20 August 2010.

SENIOR MANAGEMENT

Mrs Shin Hee Cha, aged 59, 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 62, the President of Dream Vina Co., Ltd. Mr Kim has been working in the administration of C & H Group 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 Group until 2010.

Mr Dong Wook Cha, aged 53, 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 Group on 1 February 1986 and has been working in the accounting and administration 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 2013.

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 Unit 501 & 6/F, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the design, development, manufacture and sale of plush stuffed toys, ride-on toys and plastic figures and investment holding. The principal activities and other particulars of the subsidiaries are set out in note 19 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries (the "Group") during the financial year are set out in note 14 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2013 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 30 to 121.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$116,782,000 (2012 (restated): HK$125,763,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of HK3 cents per share (2012: HKNil cents per share) was paid on 18 September 2013.

The Directors recommended the payment of a final dividend of HK5 cents per share (2012: HK8 cents per share) in respect of the year ended 31 December 2013.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales attributable to the major customers during the financial year is as follows:

	Percentage of the Group's total Sales
The largest customer	38.9%
Five largest customers in aggregate	76.8%

Combined purchases attributable to the five largest suppliers of the Group accounted for less than 30% by value of the Group's total purchases for the year.

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

During the year, the Group has entered into connected transactions and continuing connected transactions with connected persons and has complied with the disclosure requirements in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") (the "Listing Rules"). The Directors, including the independent non-executive Directors ("INEDs"), of the Company confirmed that the aforesaid connected transactions were entered into:

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

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

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

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

(i) have been approved by the Board;

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

(iii) were entered into, in all material respects, in accordance with the relevant agreements 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 transactions, which were exempt from the approval of independent shareholders of the Company but were subject to the announcement and reporting requirements under the Listing Rules, with C & H Co., Ltd and its subsidiaries ("C & H Group") were as follows:

(1) On 1 June 2013, the Company entered into a Supply Agreement with C & H Co., Ltd, which the Company agreed to sell various types of toy products for the period of three years ending 31 December 2015.

(2) On 6 August 2013, the Group entered into an office lease agreement with C & H Co., Ltd for Dream Inko Co., Ltd's principal place of business in Seoul, Korea. The office lease agreement is renewable upon its expiry in July 2014. The terms of the office lease agreement are comparable to the terms offered to other non-connected tenants in the same building.

During the year ended 31 December 2013, the rent and administrative expenses paid amounted to HK$3,108,000 (2012: HK$2,998,000).

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

Mr Kyoo Yoon Choi is the controlling shareholder of both C & H Group and the Group, therefore, each member of the C & H Group is deemed to be a connected person of the Company.

Relevant details of the above connected transactions were set out in the announcements of the Company dated 3 June 2013, 6 August 2013 and 25 September 2013 respectively published on the website of the SEHK at www.hkexnews.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 33 to the financial statements.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 20 to 28 of this annual report.

FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 16 to the financial statements.

SHARE CAPITAL

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

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

During the year ended 31 December 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REPORT OF THE DIRECTORS

DIRECTORS

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

Chairman and executive director

Mr Kyoo Yoon Choi

Executive directors

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

Independent non-executive directors

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

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

In accordance with Article 101 of the Articles of Association, Mr Young M. Lee, Mr James Chuan Yung Wang and Mr Tae Woong Kang shall retire by rotation, and being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM").

DIRECTORS' SERVICE CONTRACTS

The service contract of Professor Cheong Heon Yi, INED, was renewed on 21 November 2013 for a term of two years commencing on 22 November 2013.

The service contract of Professor Byong Hun Ahn, INED, was renewed on 30 May 2012 for a term of two years commencing on 30 May 2012.

The service contract of Mr Tae Woong Kang, INED, was renewed on 20 August 2012 for a term of two years commencing on 20 August 2012.

Their remuneration is determined by the Remuneration Committee and is approved by the Board on the renewal of their service contracts.

No Director proposed for re-election at the forthcoming AGM 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 who held office at 31 December 2013 had the following interests in the shares of the Company, its 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 ordinary shares held				
	Personal interests (Note 1)	**Family interests**	**Corporate interests**	**Total**	**Percentage of issued share capital of the company**
The Company					
– Kyoo Yoon Choi	382,851,000	–	72,150,000 (Note 2)	455,001,000	67.69%
– Young M. Lee	2,500,000	–	–	2,500,000	0.37%
– James Chuan Yung Wang	200,000	–	–	200,000	0.03%
– Hyun Ho Kim	150,000	–	–	150,000	0.02%
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) Mr Kyoo Yoon Choi beneficially owns 100% of interest of Uni-Link Technology Limited which owned 72,150,000 shares of the Company.

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

REPORT OF THE DIRECTORS

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, as at 31 December 2013, none of the Directors and chief executives of the Company or any of their spouses or children under 18 years of age had interests or short positions in the shares, underlying shares or debentures of the Company, or any of its subsidiaries or other associated corporations, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company 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 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 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 2013 was 42,835,000 shares (2012: 42,835,000 shares) (including options for 4,700,000 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 2013. 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 2013, the Directors and employees of the Group 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)*

	Date granted	Period during which options are exercisable (Note 1)	Exercise price per share	Number of options: Balance at 1 January 2013	Lapsed during the year (Note 2)	Balance at 31 December 2013
Directors: (Note 3)						
Young M. Lee	23 December 2011	23 December 2013 to 22 December 2016	HK$0.466	200,000	–	200,000
James Chuan Yung Wang	23 December 2011	23 December 2013 to 22 December 2016	HK$0.466	200,000	–	200,000
Hyun Ho Kim	23 December 2011	23 December 2013 to 22 December 2016	HK$0.466	150,000	–	150,000
Employees in aggregate:	23 December 2011	23 December 2013 to 22 December 2016	HK$0.466	4,250,000	(100,000)	4,150,000
				4,800,000	(100,000)	4,700,000

Notes:

(1) Share options shall be wholly exercisable from the 2nd anniversary of the date of grant.

(2) Pursuant to the conditions of the share option scheme, any unexercised number of options granted to any employee will lapse three months after the employee ceases the employment relationship with the Group. These 100,000 lapsed shares options related to an employee who left the Group on or before 30 September 2013.

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

(4) No share option has been granted, exercised or cancelled during the year.

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

REPORT OF THE DIRECTORS

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 2013, the Company has been notified of the following interests in the Company's issued shares at 31 December 2013 amounting to 5% or more of the ordinary shares in issue:

Substantial shareholders	Capacity	Number of ordinary shares held	Percentage of the issued share capital of the Company
Uni-Link Technology Limited (Note)	Beneficial owner	72,150,000	10.73%

Note: Mr Kyoo Yoon Choi beneficially owns 100% of the issued share capital of Uni-Link Technology Limited. Mr James Chuan Yung Wang, being a Director, is also a director of Uni-Link Technology Limited.

Save as disclosed above, as at 31 December 2013, 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 as at the latest practicable date prior to the issue 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 33 to the financial statements, no contract of significance to which the Company, or any of its subsidiaries or related companies was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2013, C & H Group is principally engaged in the business of property investment in Seoul, Korea, leather goods and accessories agency, garment, fabric and textile manufacturing and investment holding in Vietnam. Mr Kyoo Yoon Choi is a shareholder and a director of C & H Co., Ltd, therefore, is deemed to be interested in these businesses, some of which may compete with the Group's businesses.

The transactions with the above companies are set out in the paragraph headed "Connected transactions" and note 33 to the financial statements.

BANK LOANS

Particulars of bank loans of the Company and the Group as at 31 December 2013 are set out in note 26 to the financial statements.

REPORT OF THE DIRECTORS

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 page 122 of the annual report.

RETIREMENT SCHEMES

The Group operates a defined benefit retirement scheme which covers 0.4% of the Group's employees and a Mandatory Provident Fund Scheme.

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

Particulars of these retirement schemes are set out in note 27 to the financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the INEDs an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the INEDs 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 of the Company has reviewed with the management of the Company with respect to the accounting policies, principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the annual results for year ended 31 December 2013.

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 AGM.

By order of the board

Young M. Lee
Director

Hong Kong, 25 March 2014

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2013.

The Board believes that corporate governance is essential to the sustainable success of the Company and trust that all stakeholders of the Company can benefit from better transparency and accountability of a high standard of corporate governance. The corporate governance principles of the Company emphasize a quality Board, sound internal control, transparency, independence and accountability to all shareholders.

Throughout the year ended 31 December 2013, the Company has applied the principles and complied with the code provisions contained in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, save for the deviation from the code provision A.2.1 of the CG Code.

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

BOARD OF DIRECTORS

Composition and responsibilities

The principal functions of the Board are to supervise management of the business and affairs; to approve strategic plans, investment and funding decisions; and to review the Group's financial performance and operating initiatives.

As at 31 December 2013, the Board consisted of four executive directors, namely Mr Kyoo Yoon Choi (Chairman and Chief Executive Officer ("CEO")), Mr Young M. Lee (Vice President and Chief Financial Officer ("CFO")), Mr James Chuan Yung Wang and Mr Hyun Ho Kim, and three INEDs, namely Professor Cheong Heon Yi, Professor Byong Hun Ahn and Mr Tae Woong Kang (collectively the "Directors"). There is no financial, business, family or other material/relevant relationship among members of the Board.

All Directors are committed to devote sufficient time and attention to the affairs of the Group. Directors have also disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisations. Directors are reminded to notify the Company in a timely manner of any changes of such information.

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

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.

Directors' securities transactions

The Company has adopted the code of conduct regarding Directors' securities transactions as set out in the Model Code of the Listing Rules. The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board meeting and general meeting

Eight board meetings and an AGM were held during the year with details of the Directors' attendance set out below:

	Number of attendance/Meetings held	
Name of Director	**Board meetings**	**AGM**
Kyoo Yoon Choi (Chairman)	3/8	1/1
Young M. Lee	7/8	1/1
James Chuan Yung Wang	5/8	1/1
Hyun Ho Kim	7/8	1/1
Cheong Heon Yi	5/8	1/1
Byong Hun Ahn	5/8	1/1
Tae Woong Kang	6/8	1/1

Directors' training and professional development

During the year, Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

All Directors have participated in appropriate continuous professional development activities by attending training courses and reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

According to the records provided by the Directors, a summary of training received by the Directors during the year ended 31 December 2013 is as follows:

Name of Director	**Type of continuous professional development activities**
Kyoo Yoon Choi (Chairman)	A,B
Young M. Lee	A,B
James Chuan Yung Wang	A,B
Hyun Ho Kim	A,B
Cheong Heon Yi	A,B
Byong Hun Ahn	A,B
Tae Woong Kang	A,B

Notes:

A: attending training courses and/or seminars

B: reading materials relevant to the Company's business or to the Directors' duties and responsibilities

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Independent non-executive directors

The role of INEDs is to bring an independent and objective view to the Board's deliberations and decisions. Professor Byong Hun Ahn is the Emeritus Professor of KAIST College of Business. Professor Cheong Heon Yi is currently teaching financial accounting and reporting and financial statement analysis in the Accountancy Faculty of the City University of Hong Kong and Mr Tae Woong Kang is a CPA member of CPA Australia. The Board considers all of them to have profound professional qualifications and expertise in accounting and financial management so that they are of sufficient caliber and number for their independent views to carry weight.

The Company has received from each of the INEDs, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

Professor Cheong Heon Yi was appointed as the Company's INED on 22 November 2003 and has served on the Board for more than 10 years. To the best knowledge of the Board, Professor Cheong Heon Yi has not relied on the remuneration given by the Company and he is independent of any connected person and substantial shareholder of the Company. Therefore, the Board believes that Professor Cheong Heon Yi is able to exercise his professional judgment and draw upon his extensive knowledge in accounting and financial management and corporate governance matters for the benefit of the Company and its shareholders as a whole and, in particular, the independent shareholders. The Board considers that Professor Cheong Heon Yi meets the independence guidelines set out in Rule 3.13 of the Listing Rules and is independent in accordance with the terms of the guidelines.

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 CEO, CFO and Chief Operations Officer. The Board and management will also seek advice from the Audit Committee, Remuneration Committee and Nomination 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 caliber, 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 of the INEDs gives an annual confirmation of his independence to the Company, and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules. These three INEDs comprise the Audit, Remuneration and Nomination Committees formed by the Board.

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

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD *(Continued)*

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1, the roles of Chairman and CEO should be separated and should not held by the same individual. The Chairman of the Board 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.

Mr Kyoo Yoon Choi has been appointed as the CEO on 4 October 2012 and has performed both the roles as the Chairman and CEO of the Company. The Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr Kyoo Yoon Choi to hold both positions as it helps to maintain the continuity of the policies and stability of the operations of the Company. The Board including three INEDs has a fairly independence element in the composition and will play an active role to ensure a balance of power and authority.

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 during the year. 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
Tae Woong Kang	2/2
Young M. Lee	2/2

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE *(Continued)*

At the meetings held during the year, the retirement compensation and incentive bonus for the Directors were reviewed and discussed. The Company has adopted a share option scheme on 22 January 2002, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out in note 28 to the financial statements. The emolument payable to the Directors will depend on their respective contractual terms and nature under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 9 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 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 recommend to the Board on the remuneration of non-executive Directors; and

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

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

The Directors acknowledge their responsibility to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders in a timely manner. The Directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance ("Companies Ordinance"), all applicable to 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 2013, 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 inside information 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	2/2

During the year ended 31 December 2013, the Audit Committee performed the following works:

(i) reviewed the annual financial report for the year ended 31 December 2012 and interim financial report for the six months ended 30 June 2013;

(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 final audit of the Group;

(vi) reviewed and recommended to the Board for approval of the 2013 audit scope, fee and supply of any other audit-related services; and

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE *(Continued)*

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

NOMINATION COMMITTEE

Nomination Committee of the Company was established by the Board on 23 March 2012 and comprises one executive Director and three INEDs. The Nomination Committee is primarily responsible to consider and recommend to the Board suitably qualified persons to become the member of the Board and is also responsible for reviewing the structure, size and composition of the Board on a regular basis and as required. Two meetings were held during the year. The attendance of each Nomination Committee member is set out as follows:

Name of Director	Number of attendance/ Meetings held
Tae Woong Kang (Chairman)	2/2
Cheong Heon Yi	2/2
Byong Hun Ahn	2/2
Young M. Lee	2/2

During the year ended 31 December 2013, the Nomination Committee performed the following work:

(i) reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board;

(ii) assessed the independence of INEDs; and

(iii) made recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive.

During the year, the Board adopted a board diversity policy setting out the approach to diversify members of the Board. The Company believes that a diversified perspective can be achieved through considering a number of factors, including but not limited to skills, regional and industry experience, background, race, gender and other qualities. The Company will also take into account factors based on its own business model and specific needs from time to time. Board appointments will continue to be made on a merit basis and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board.

The Nomination Committee will review the board diversity policy on a regular basis to ensure its continued effectiveness.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(i) To develop and review the Group's policies and practices on corporate governance and make recommendations;

(ii) To review and monitor the training and continuous professional development of Directors and senior management;

(iii) To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements;

(iv) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and Directors of the Group; and

(v) To review the Group's compliance with the CG Code and disclosure requirements in the Corporate Governance Report.

During the year under review, the Board approved the policies and procedures for handling inside information and the board diversity policy.

AUDITORS' REMUNERATION

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

Services rendered	**Fees paid/payable** HK$'000
Audit services	3,915
Audit-related services	618
Non-audit services	400
	4,933

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 2013 and the relevant review report has been submitted to the Audit Committee in March 2014 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 2013, 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

COMPANY SECRETARY

Ms Ng Tsz Wai was appointed as the Company Secretary of the Company with effect from 27 November 2012. All Directors have access to the advice and services of the Company Secretary. During the year ended 31 December 2013, Ms Ng Tsz Wai has taken no less than 15 hours of relevant professional trainings to update her skills and knowledge.

COMMUNICATIONS WITH SHAREHOLDERS

The Board recognises the importance of good communications with all shareholders. The Company's 2013 AGM is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board and the Chairman of the Audit, Remuneration and Nomination Committees together with the external auditors are also present at the AGM to answer shareholders' questions.

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

Pursuant to the Companies Ordinance, an extraordinary general meeting ("EGM") may be convened by a written request signed by shareholders holding not less than one-twentieth of the paid-up share capital of the Company, stating the objects of the meeting, and deposited at our registered office in Hong Kong at Unit 501 & 6/F, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong. Shareholders should follow the requirements and procedures as set out in Section 113 of the Companies Ordinance for convening an EGM.

Shareholders representing not less than one-fortieth of the total voting rights of all shareholders; or not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000, may make requisition in writing for proposing resolution or business to be dealt with at the next general meeting. Shareholders should follow the requirements and procedures as set out in Section 115A of the Companies Ordinance for putting forward a proposal at a general meeting.

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 inside information, announcements, interim and annual results in a timely manner in compliance with the Listing Rules. The Company also maintains a company website as a channel to let shareholders know the Company's news and raise questions through emails and telephone.

There have been no changes in the Company's constitutional documents during the year.

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 AGM shall therefore demand voting on all resolutions set out in the notice of the AGM 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 AGM.

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 30 to 121, which comprise the consolidated and company balance sheets as at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 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 2014

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000 (restated)
Turnover	3&14	**1,352,607**	1,353,340
Cost of sales		**(958,980)**	(1,007,276)
Gross profit		**393,627**	346,064
Other revenue	4(a)	**11,573**	20,894
Other net loss	4(b)	**(22,718)**	(3,324)
Distribution costs		**(47,352)**	(49,242)
Administrative expenses		**(175,398)**	(155,134)
Profit from operations		**159,732**	159,258
Finance costs	5(a)	**(836)**	(3,139)
Share of profits less losses of associates	20	**467**	(664)
Profit before taxation	5	**159,363**	155,455
Income tax	8	**(42,581)**	(29,692)
Profit for the year		**116,782**	125,763
Attributable to:			
Equity shareholders of the Company		**123,934**	133,001
Non-controlling interests		**(7,152)**	(7,238)
Profit for the year		**116,782**	125,763
Earnings per share	13		
Basic		**18.44 ¢**	19.79 ¢
Diluted		**18.37 ¢**	19.79 ¢

The notes on pages 37 to 121 form part of these consolidated financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 30(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000 (restated)
Profit for the year		**116,782**	125,763
Other comprehensive income for the year (after tax adjustments):	12		
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit retirement obligation		**515**	(2,367)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**2,880**	12,647
Available-for-sale securities: net movement in the fair value reserve		**(174)**	(156)
		2,706	12,491
Other comprehensive income for the year		**3,221**	10,124
Total comprehensive income for the year		**120,003**	135,887
Attributable to:			
Equity shareholders of the Company		**127,106**	143,029
Non-controlling interests		**(7,103)**	(7,142)
Total comprehensive income for the year		**120,003**	135,887

The notes on pages 37 to 121 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2013

	Notes	31 December 2013 HK$'000	31 December 2012 HK$'000 (restated)	1 January 2012 HK$'000 (restated)
Non-current assets				
Fixed assets				
– Interests in leasehold land held for own use under operating leases	16(a)	**31,314**	22,596	22,884
– Other property, plant and equipment		**184,778**	169,046	158,686
		216,092	191,642	181,570
Long term receivables	15	**6,368**	930	2,796
Prepayments		**–**	–	1,990
Goodwill	18	**2,753**	2,753	–
Other intangible assets	17	**9,583**	9,029	12,191
Interest in associates	20	**502**	27	690
Deferred tax assets	29(b)	**7,697**	7,825	11,625
Other financial assets	21	**28,980**	24,925	23,048
		271,975	237,131	233,910
Current assets				
Inventories	22	**175,854**	183,572	231,565
Trade and other receivables	23	**263,718**	208,496	240,083
Current tax recoverable	29(a)	**45**	1,016	4,125
Other financial assets	21	**11,035**	14,674	13,339
Time deposits	24(a)	**79,476**	156,735	38,000
Cash and cash equivalents	24(a)	**320,617**	281,550	177,115
		850,745	846,043	704,227
Current liabilities				
Trade and other payables	25	**186,714**	208,006	201,343
Bank loans	26	**22,274**	20,810	17,900
Current tax payable	29(a)	**27,541**	12,991	9,554
		236,529	241,807	228,797
Net current assets		**614,216**	604,236	475,430
Total assets less current liabilities		**886,191**	841,367	709,340
Non-current liabilities				
Bank loans	26	**777**	1,812	4,924
Net defined benefit retirement obligation	27(a)	**439**	750	2,329
Deferred tax liabilities	29(b)	**–**	394	22
		1,216	2,956	7,275
NET ASSETS		**884,975**	838,411	702,065

CONSOLIDATED BALANCE SHEET

At 31 December 2013

	Note	31 December 2013 HK$'000	31 December 2012 HK$'000 (restated)	1 January 2012 HK$'000 (restated)
CAPITAL AND RESERVES				
Share capital	30(c)	**52,303**	52,303	52,303
Reserves		**835,125**	781,458	637,970
Total equity attributable to equity shareholders of the Company		**887,428**	833,761	690,273
Non-controlling interests		**(2,453)**	4,650	11,792
TOTAL EQUITY		**884,975**	838,411	702,065

Approved and authorised for issue by the board of directors on 25 March 2014

Young M. Lee
Director

Hyun Ho Kim
Director

The notes on pages 37 to 121 form part of these consolidated financial statements.

BALANCE SHEET

At 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Fixed assets	16(b)	**5,280**	7,433
Long term receivables	15	**3,277**	930
Other intangible assets	17	**2,516**	356
Investments in subsidiaries	19	**551,833**	604,683
Interest in associates	20	**1,248**	1,248
Deferred tax assets	29(b)	**231**	–
		564,385	614,650
Current assets			
Inventories	22	**1,200**	51,383
Trade and other receivables	23	**230,706**	160,519
Current tax recoverable	29(a)	**–**	1,008
Time deposits	24(a)	**–**	76,735
Cash and cash equivalents	24(a)	**98,122**	44,887
		330,028	334,532
Current liabilities			
Trade and other payables	25	**149,241**	195,118
Current tax payable	29(a)	**15,000**	–
		164,241	195,118
Net current assets		**165,787**	139,414
Total assets less current liabilities		**730,172**	754,064
Non-current liabilities			
Deferred tax liabilities	29(b)	**–**	394
NET ASSETS		**730,172**	753,670
CAPITAL AND RESERVES	30(a)		
Share capital		**52,303**	52,303
Reserves		**677,869**	701,367
TOTAL EQUITY		**730,172**	753,670

Approved and authorised for issue by the board of directors on 25 March 2014

Young M. Lee
Director

Hyun Ho Kim
Director

The notes on pages 37 to 121 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Note	Attributable to equity shareholders of the Company										
		Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve fund HK$'000	Other reserve HK$'000	Exchange reserve HK$'000	Fair value reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2012		52,303	181,013	10	18,427	(3,062)	44,761	379	401,390	695,221	11,792	707,013
Impact of change in accounting policy	2	–	–	–	–	–	–	–	(4,948)	(4,948)	–	(4,948)
Restated balance at 1 January 2012		52,303	181,013	10	18,427	(3,062)	44,761	379	396,442	690,273	11,792	702,065
Changes in equity for 2012:												
Profit for the year (restated)		–	–	–	–	–	–	–	133,001	133,001	(7,238)	125,763
Other comprehensive income (restated)	12	–	–	–	–	–	12,551	(156)	(2,367)	10,028	96	10,124
Total comprehensive income (restated)		–	–	–	–	–	12,551	(156)	130,634	143,029	(7,142)	135,887
Equity settled share-based transactions		–	–	459	–	–	–	–	–	459	–	459
Restated balance at 31 December 2012 and 1 January 2013		52,303	181,013	469	18,427	(3,062)	57,312	223	527,076	833,761	4,650	838,411
Balance at 1 January 2013		52,303	181,013	469	18,427	(3,062)	57,312	223	527,076	833,761	4,650	838,411
Changes in equity for 2013:												
Profit for the year		–	–	–	–	–	–	–	123,934	123,934	(7,152)	116,782
Other comprehensive income	12	–	–	–	–	–	2,831	(174)	515	3,172	49	3,221
Total comprehensive income for the year		–	–	–	–	–	2,831	(174)	124,449	127,106	(7,103)	120,003
Final dividend approved in respect of the previous year	30(b)(ii)	–	–	–	–	–	–	–	(53,773)	(53,773)	–	(53,773)
Equity settled share-based transactions		–	–	499	–	–	–	–	–	499	–	499
Dividends declared in respect of the current year	30(b)(i)	–	–	–	–	–	–	–	(20,165)	(20,165)	–	(20,165)
Balance at 31 December 2013		52,303	181,013	968	18,427	(3,062)	60,143	49	577,587	887,428	(2,453)	884,975

The notes on pages 37 to 121 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Operating activities			
Cash generated from operations	24(b)	**118,582**	272,417
Tax paid			
– Hong Kong Profits Tax paid		**(2,513)**	–
– Hong Kong Profits Tax refund		**211**	–
– Tax paid outside Hong Kong		**(25,018)**	(18,854)
Net cash generated from operating activities		**91,262**	253,563
Investing activities			
Payment for purchase of property, plant and equipment		**(50,953)**	(39,645)
Proceeds from the disposal of property, plant and equipment		**1,335**	894
Payment for purchase of club memberships		**(2,160)**	–
Proceeds from the disposal of club memberships		**–**	4,328
Payment for purchase of other financial assets		**(33,439)**	(13,800)
Acquisition of a subsidiary, net of cash acquired		**–**	(1,816)
Interest received		**7,747**	7,618
Decrease/(increase) in time deposits with maturity over three months		**77,259**	(118,735)
Proceeds received upon maturity of other financial assets		**21,595**	12,953
Net cash generated from/(used in) investing activities		**21,384**	(148,203)
Financing activities			
Interest paid		**(836)**	(3,139)
Proceeds from bank loans		**55,934**	53,213
Repayment of bank loans		**(55,611)**	(53,753)
Dividends paid		**(73,938)**	–
Net cash used in financing activities		**(74,451)**	(3,679)
Net increase in cash and cash equivalents		**38,195**	101,681
Cash and cash equivalents at 1 January		**281,550**	177,115
Effect of foreign exchange rate changes		**872**	2,754
Cash and cash equivalents at 31 December	24(a)	**320,617**	281,550

The notes on pages 37 to 121 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") (the "Listing Rules"). A summary of the significant accounting policies adopted by Dream International Limited (the "Company") and its subsidiaries (together 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 2013 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 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and their parties) are considered.

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, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' 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.

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 appropriate, the cost on initial recognition of an investment in an associate (see note 1(d)).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method, and the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(k)(i)). 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.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, 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)).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) 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 it is determined that the fair value at initial recognition differs from the transaction price and that fair value evidenced by a quoted price in an active market for an identical asset or liability or based on valuation techniques that uses only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

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

Investments in securities which do not fall into any of the above categories 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. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(k)(i)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in note 1(t)(ii). Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in debt and equity securities *(Continued)*

When the investments are derecognised or impaired (see note 1(k)(i)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the group commits to purchase/sell the investments or they expire.

(g) 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.

(h) 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(k)(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(j)); 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(v)).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

– 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.

(i) Intangible assets (other than goodwill)

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(k)(ii)).

Acquired patents are shown at historical cost. Patents have finite useful lives 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 CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets

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

(i) Classification of assets leased to the Group

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

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

(ii) Operating lease charges

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets

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

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

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

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

– For investments in associates accounted for under that equity method in the consolidated financial statements, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(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(k)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

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

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

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

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired, except in the case of goodwill, 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;

– other intangible assets;

– goodwill; and

– investments in subsidiaries and associates in the Company's balance sheet.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, other intangible assets that are not yet available for use and other 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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Trade and other receivables

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

(n) 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.

(o) Trade and other payables

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

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Employee benefits *(Continued)*

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit or loss and allocated by function as part of "cost of sales" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability/(asset). The discount rate is the yield at the end of the year on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Employee benefits *(Continued)*

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

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits

Termination benefits are recognised at the earlier of when Group can no longer withdraw the offer of those benefits and when it recognises retracting costs involving the payment of termination benefits.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss can be utilised.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) 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.

(t) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

(iii) Commission income

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

(iv) Compensation income

Compensation income is recognised when the right to receive payment is established.

(u) 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 ("HKD"), which is different from the Company's functional currency of United States dollar ("USD"). 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 foreign operations outside Hong Kong are translated into HKD 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 foreign operations acquired on or after 1 January 2005, are translated into HKD 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. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) 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.

(w) Related parties

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

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

(2) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 a number of new HKFRSs and amendments to HKFRSs 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:

– Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

– HKFRS 10, *Consolidated financial statements*

– HKFRS 12, *Disclosure of interests in other entities*

– HKFRS 13, *Fair value measurement*

– Revised HKAS 19, *Employee benefits*

– *Annual Improvements to HKFRSs 2009-2011 Cycle*

– Amendments to HKFRS 7: *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of new or amended HKFRSs are discussed below:

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements*, relating to the preparation of consolidated financial statements and Hong Kong (SIC) Interpretation 12, *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

Revised HKAS 19, Employee benefits

Revised HKAS 19 introduces a number of amendments to the accounting for defined benefit plans. Among them, revised HKAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. Revised HKAS 19 also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

As a result of the adoption of revised HKAS 19, the Group has changed its accounting policy with respect to defined benefit plan, for which the corridor method was previously applied. This change in accounting policy has been applied retrospectively by restating the balances at 1 January 2012 and 31 December 2012, with consequential adjustments to comparatives for the year ended 31 December 2012 as follows:

	As previously reported HK$'000	**Effect of adoption of revised HKAS 19** HK$'000	**As restated** HK$'000
Consolidated income statement for year ended 31 December 2012:			
Defined benefit retirement plan expense	1,401	(3,810)	(2,409)
Profit for the year	121,953	3,810	125,763
Earnings per share			
– Basic	HK19.22 ¢	HK0.57 ¢	HK19.79 ¢
– Diluted	HK19.22 ¢	HK0.57 ¢	HK19.79 ¢
Consolidated statement of comprehensive income for the year ended 31 December 2012:			
Remeasurement of net defined benefit liability	–	2,367	2,367
Other comprehensive income for the year	12,850	(2,726)	10,124
Total comprehensive income for the year	134,803	1,084	135,887

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

Revised HKAS 19, Employee benefits *(Continued)*

	As previously reported HK$'000	Effect of adoption of revised HKAS 19 HK$'000	As restated HK$'000
Consolidated balance sheet as at 31 December 2012:			
Net defined benefit retirement asset	3,114	(3,114)	–
Total non-current assets	240,245	(3,114)	237,131
Net defined benefit retirement obligation	-	750	750
Total non-current liabilities	2,206	750	2,956
Net assets/total equity	842,275	(3,864)	838,411
Reserves	785,322	(3,864)	781,458
Consolidated balance sheet as at 1 January 2012:			
Net defined benefit retirement asset	2,619	(2,619)	–
Total non-current assets	236,529	(2,619)	233,910
Net defined benefit retirement obligation	–	2,329	2,329
Total non-current liabilities	4,946	2,329	7,275
Net assets/total equity	707,013	(4,948)	702,065
Reserves	642,918	(4,948)	637,970

The change in accounting policy did not have a material impact on current or deferred taxation.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening balance sheet is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening balance sheet. The amendments also remove the requirement to present related notes to the opening balance sheet when such statement is presented.

Since the Group considers that the restatement resulting from the adoption of revised HKAS 19 has a material impact on the opening financial position, an additional balance sheet as at 1 January 2012 has been presented in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

Amendments to HKFRS 7, Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation*, and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

3 TURNOVER

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

The Group's customer base is diversified and includes two (2012: two) customers with whom the value of transactions have exceeded 10% of the Group's revenues. During the year ended 31 December 2013, the revenues from sales of plush stuffed toys and plastic figures to these customers, amounted to approximately HK$526,126,000 and HK$368,551,000 (2012: HK$531,667,000 and HK$348,214,000) respectively and incurred in Hong Kong, North America, Japan and Europe (2012: Hong Kong, North America, Japan and Europe) geographical regions in which the plush stuffed toys and plastic figures segments are active.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 OTHER REVENUE AND NET LOSS

(a) Other revenue

	2013 HK$'000	2012 HK$'000
Bank interest income	**3,854**	6,362
Interest income from other financial assets	**3,893**	1,256
Compensation income	**–**	6,976
Commission income from a related company and a fellow subsidiary	**–**	3,660
Sundry income	**3,826**	2,640
	11,573	20,894

(b) Other net loss

	2013 HK$'000	2012 HK$'000
Net (loss)/gain on disposal of property, plant and equipment	**(1,056)**	406
Net gain on disposal of other financial assets	**177**	–
Gain on disposal of club memberships	**–**	446
Net realised and unrealised loss on other financial assets	**(2,694)**	(662)
Impairment loss on club memberships (note 17)	**(1,583)**	(10)
Write-off of compensation receivable (note 6)	**(3,809)**	–
Impairment loss on available-for-sale equity security (note 21(iv))	**(8,705)**	–
Net foreign exchange loss	**(5,178)**	(3,327)
Others	**130**	(177)
	(22,718)	(3,324)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 PROFIT BEFORE TAXATION

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

		Note	2013 HK$'000	2012 HK$'000 (restated)
(a)	**Finance costs**			
	Interest expense on bank borrowings wholly repayable within five years		**836**	3,139
(b)	**Staff costs#**			
	Expenses recognised in respect of defined benefit retirement plan	27(a)(v)	**1,352**	(2,409)
	Contributions to defined contribution retirement plan		**5,474**	12,970
	Total retirement costs		**6,826**	10,561
	Equity settled share-based payment expenses		**499**	459
	Salaries, wages and other benefits		**361,645**	335,194
			368,970	346,214
(c)	**Other items**			
	Amortisation of land lease premium	16(a)	**624**	524
	Depreciation#	16(a)	**24,615**	22,663
	Impairment loss recognised on trade receivables	23(b)	**350**	2,966
	Reversal of impairment loss on trade receivables	23(b)	**(409)**	(417)
	Impairment loss recognised on other receivables		**238**	1,006
	Reversal of impairment loss on other receivables		**(310)**	(707)
	Reversal of provision for custom duties (note)#		**(13,426)**	–
	Reversal of provision for Corporate Income Tax ("CIT") (note)#		**(6,543)**	–
	Auditors' remuneration		**5,599**	4,869
	Operating lease charges: minimum lease payments in respect of property rentals#		**25,923**	24,235
	Cost of inventories#	22(b)	**958,980**	1,007,276

\# Cost of inventories includes HK$288,605,000 (2012: HK$305,993,000) relating to staff costs, depreciation, operating lease charges, reversal of provision for custom duties and reversal of provision for CIT which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 PROFIT BEFORE TAXATION *(Continued)*

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

Note: The Company operated a processing factory in Shenzhen, the PRC, and recorded provisions for custom duties and CIT amounted to HK$13,426,000 and HK$6,543,000 respectively. In May 2012, the Company set up a subsidiary to transform its processing factory into a wholly-owned foreign enterprise ("WOFE"). The processing factory was closed in 2013 upon the receipt of clearance documents from relevant government authorities. Accordingly, provisions mentioned above were reversed and were included in "cost of sales" in the consolidated income statement for the year ended 31 December 2013.

6 LOSSES FROM FIRE

On 29 September 2012, there was a fire at the production plant of a subsidiary of the Company in Suzhou, the PRC. Some of the Group's inventories and fixed assets were destroyed whilst most of its production lines were unaffected.

The losses incurred as a result of the fire are summarised as follows:

	2012 HK$'000
Loss on fixed assets (note 16(a)):	
– Cost	10,691
– Accumulated depreciation	(4,065)
	6,626
Loss on inventories	7,987
Total losses	14,613
Less:	
Scrap material sales	(155)
Compensation receivable (note 23)	(12,858)
Net losses from fire (recorded in "administrative expenses")	1,600

During the year ended 31 December 2013, compensation amounted to HK$9,049,000 was received, and write-off of compensation receivable amounting to HK$3,809,000 was included in "other net loss" in the consolidated income statement for the year ended 31 December 2013 (see note 4(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 CLAIM SETTLEMENT

In March 2012, a customer (the "Customer") initiated a claim in the Hong Kong High Court (the "Court") against the Company and two subsidiaries of the Company including one subsidiary in the PRC (the "PRC Subsidiary") and requested compensation in respect of products manufactured by the PRC Subsidiary and sold to the Customer mostly during the year ended 31 December 2010 (the "Claim").

The subsidiaries filed and served their defence and counterclaim on 30 January 2013, denying liability in respect of the Claim and counterclaiming against the Customer for US$78,000 (equivalent to HK$605,000), being the sum of various outstanding invoices and debit notes rendered to the Customer in 2010 and 2011, plus interest and costs.

On 20 February 2013, the Company applied to strike out the Claim against it (but not against the subsidiaries) on the basis that the Claim discloses no reasonable cause of action against the Company. The Customer agreed to discontinue its Claim against the Company and pay the Company's costs incurred in the action. On 9 April 2013, the Customer and the Company made a joint application to the Court for leave for the Customer to discontinue the Claim against the Company. The Court made an order in terms of both parties' application on striking out the Claim against the Company on 15 April 2013.

In late July 2013, the Customer and the subsidiaries entered into a commercial settlement, which was recorded in the form of a Tomlin Order filed with the Court on 29 July 2013. Upon performance of the Tomlin Order, the Claim was fully and finally settled. Claim settlement of US$250,000 (equivalent to HK$1,939,000) was included in "administrative expenses" in the consolidation income statement for the year ended 31 December 2013.

In accordance with the Tomlin Order, the outstanding Claim settlement is payable as follows:

	2013 HK$'000
Within 1 year (note 25)	1,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2013 HK$'000	2012 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**18,474**	3,405
Over-provision in respect of prior years	**(582)**	–
	17,892	3,405
Current tax – Outside Hong Kong		
Provision for the year	**24,721**	24,015
Under/(over)-provision in respect of prior years	**125**	(2,020)
	24,846	21,995
Deferred tax		
Origination and reversal of temporary differences (note 29(b)(i))	**(157)**	4,292
	42,581	29,692

The provision for Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 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.

Current tax outside Hong Kong includes withholding tax paid on dividend income from a subsidiary.

The CIT rate applicable to subsidiaries registered in the PRC is 25% (2012: 25%). Certain PRC subsidiaries were entitled to income tax holidays granted by the PRC tax authorities until 31 December 2012 whereby they were exempted from CIT for two years starting from the first profit making year and thereafter subjected to CIT at 50% of the prevailing tax rate for the following three years.

The Company operated a processing factory in Shenzhen, the PRC, which was assessed to use the deemed profit method to determine the amount of income tax provision. Under the deemed profit method, the processing factory was subject to income tax at 25% in 2012 on its deemed profit which was determined as 10% of its operating expenses according to the tax authority in Shenzhen. In May 2012, the Company set up a subsidiary to transform its processing factory into a WOFE. The CIT rate applicable to the WOFE is 25%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	2013 HK$'000	2012 HK$'000 (restated)
Profit before taxation	**159,363**	155,455
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**26,250**	31,877
Tax effect of non-deductible expenses	**7,407**	2,955
Tax effect of non-taxable income	**(6,653)**	(8,614)
Tax effect of utilisation of previously unrecognised tax losses	**(3,786)**	(3,316)
Tax effect of unused tax losses not recognised	**10,103**	7,378
Tax effect of recognition of previously unrecognised tax losses	**–**	(2,333)
Tax effect of write-off of previously recognised tax losses	**1,181**	3,765
Over-provision in prior years	**(457)**	(2,020)
Withholding tax paid	**8,536**	–
Actual tax expense	**42,581**	29,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 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$'000	Sub-total HK$'000	Share-based payments (note) HK$'000	2013 Total HK$'000
Chairman and executive director						
Kyoo Yoon Choi	–	6,789	–	6,789	–	6,789
Executive directors						
Young M Lee	–	2,703	–	2,703	22	2,725
James Chuan Yung Wang	–	1,910	–	1,910	22	1,932
Hyun Ho Kim	–	1,476	–	1,476	11	1,487
Independent non-executive directors						
Cheong Heon Yi	145	–	–	145	–	145
Byong Hun Ahn	139	–	–	139	–	139
Tae Woong Kang	132	–	–	132	–	132
	416	12,878	–	13,294	55	13,349

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Share-based payments (note) HK$'000	2012 Total HK$'000
Chairman and executive director						
Kyoo Yoon Choi	160	1,441	–	1,601	–	1,601
Executive directors						
Young M Lee	–	2,170	–	2,170	19	2,189
James Chuan Yung Wang	–	1,758	–	1,758	19	1,777
Hyun Ho Kim	–	1,350	–	1,350	19	1,369
Independent non-executive directors						
Cheong Heon Yi	145	–	–	145	–	145
Byong Hun Ahn	136	–	–	136	–	136
Tae Woong Kang	129	–	–	129	–	129
	570	6,719	–	7,289	57	7,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 DIRECTORS' REMUNERATION *(Continued)*

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payments transactions as set out in note 1(q)(iii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the report of the directors and note 28.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2012: two) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other three (2012: three) individuals are as follows:

	2013 **HK$'000**	2012 HK$'000
Salaries and other emoluments	**6,932**	6,238
Discretionary bonuses	**–**	–
Share-based payments	**66**	57
Retirement scheme contributions	**–**	–
	6,998	6,295

The emoluments of the three (2012: three) individuals with the highest emolument are within the following bands:

	2013 **No. of individuals**	2012 No. of individuals
HK$		
1,000,001 – 1,500,000	**–**	–
1,500,001 – 2,000,000	**–**	2
2,000,001 – 2,500,000	**2**	–
2,500,001 – 3,000,000	**1**	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$49,941,000 (2012: HK$140,460,000) which has been dealt with in the financial statements of the Company.

12 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	2013			2012		
	Before tax amount HK$'000	**Tax benefit HK$'000**	**Net-of-tax amount HK$'000**	Before tax amount HK$'000 (restated)	Tax benefit HK$'000	Net-of-tax amount HK$'000 (restated)
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**2,880**	**–**	**2,880**	12,647	–	12,647
Remeasurement of net defined benefit retirement obligation	**515**	**–**	**515**	(2,367)	–	(2,367)
Available-for-sale securities: net movement in the fair value reserve	**(222)**	**48**	**(174)**	(207)	51	(156)
Other comprehensive income	**3,173**	**48**	**3,221**	10,073	51	10,124

13 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$123,934,000 (2012 (restated): HK$133,001,000) and the weighted average of 672,165,000 ordinary shares (2012: 672,165,000 ordinary shares) in issue during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share for 2013 is based on the profit attributable to ordinary equity shareholders of the Company of HK$123,934,000 and the weighted average number of ordinary shares of 674,774,000 shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2013 **'000**
Weighted average number of ordinary shares at 31 December	**672,165**
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**2,609**
Weighted average number of ordinary shares (diluted) at 31 December	**674,774**

The diluted earnings per share was the same as the basic earnings per share for 2012 as the potential ordinary shares in respect of outstanding share options were anti-dilutive.

14 SEGMENT REPORTING

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 SEGMENT REPORTING *(Continued)*

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below.

	Plush stuffed toys		Ride-on toys		Plastic figures		Total	
	2013 HK$'000	2012 HK$'000 (restated)	**2013 HK$'000**	2012 HK$'000	**2013 HK$'000**	2012 HK$'000	**2013 HK$'000**	2012 HK$'000 (restated)
Revenue from external customers	**1,219,744**	1,278,595	**48,160**	56,365	**84,703**	18,380	**1,352,607**	1,353,340
Inter-segment revenue	**21,955**	5,033	**–**	–	**117**	–	**22,072**	5,033
Reportable segment revenue	**1,241,699**	1,283,628	**48,160**	56,365	**84,820**	18,380	**1,374,679**	1,358,373
Reportable segment profit/(loss) (adjusted EBITDA)	**215,472**	228,180	**(19,549)**	(20,054)	**8,831**	(14,941)	**204,754**	193,185
Bank interest income	**3,756**	6,107	**12**	17	**86**	238	**3,854**	6,362
Interest expense	**(836)**	(3,084)	**–**	–	**–**	(55)	**(836)**	(3,139)
Depreciation and amortisation for the year	**(15,518)**	(14,749)	**(5,846)**	(6,188)	**(3,875)**	(2,250)	**(25,239)**	(23,187)
Reportable segment assets	**594,761**	553,754	**72,656**	95,247	**128,158**	57,992	**795,575**	706,993
Additions to non-current segment assets during the year	**20,221**	15,126	**5,642**	877	**25,090**	26,647	**50,953**	42,650
Reportable segment liabilities	**140,029**	203,625	**74,499**	76,273	**103,415**	48,458	**317,943**	328,356

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 SEGMENT REPORTING *(Continued)*

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

	2013 HK$'000	2012 HK$'000
Revenue		
Reportable segment revenue	**1,374,679**	1,358,373
Elimination of inter-segment revenue	**(22,072)**	(5,033)
Consolidated turnover	**1,352,607**	1,353,340

	2013 HK$'000	2012 HK$'000 (restated)
Profit		
Reportable segment profit	**204,754**	193,185
Share of profits less losses of associates	**467**	(664)
Interest income	**7,747**	7,618
Depreciation and amortisation	**(25,239)**	(23,187)
Finance costs	**(836)**	(3,139)
Impairment loss on club memberships	**(1,583)**	(10)
Unallocated head office and corporate expenses	**(25,947)**	(18,348)
Consolidated profit before taxation	**159,363**	155,455

	2013 HK$'000	2012 HK$'000 (restated)
Assets		
Reportable segment assets	**795,575**	706,993
Elimination of inter-segment receivables	**(130,790)**	(119,600)
	664,785	587,393
Club memberships	**9,583**	9,029
Interest in associates	**502**	27
Other financial assets	**40,015**	39,599
Deferred tax assets	**7,697**	7,825
Current tax recoverable	**45**	1,016
Unallocated head office and corporate assets	**400,093**	438,285
Consolidated total assets	**1,122,720**	1,083,174

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 SEGMENT REPORTING *(Continued)*

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

	2013 HK$'000	2012 HK$'000 (restated)
Liabilities		
Reportable segment liabilities	**317,943**	328,356
Elimination of inter-segment payables	**(130,790)**	(119,600)
	187,153	208,756
Deferred tax liabilities	**–**	394
Current tax payable	**27,541**	12,991
Unallocated head office and corporate liabilities	**23,051**	22,622
Consolidated total liabilities	**237,745**	244,763

(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, other intangible assets, goodwill 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 other intangible assets and goodwill, and the location of operations, in the case of interest in associates.

	Revenue from external customers		Specified non-current assets	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Hong Kong (place of domicile)	**10,645**	7,245	**767**	1,143
North America	**483,340**	512,341	**200**	201
Japan	**634,979**	639,122	**3,637**	3,963
Europe	**124,817**	144,459	**–**	–
South America	**40,899**	10,609	**–**	–
The PRC	**32,347**	28,773	**55,938**	49,000
Vietnam	**9,061**	2,528	**162,030**	141,402
Korea	**10,821**	3,663	**6,358**	7,742
Other countries	**5,698**	4,600	**–**	–
	1,341,962	1,346,095	**228,163**	202,308
	1,352,607	1,353,340	**228,930**	203,451

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 LONG TERM RECEIVABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Proceeds from disposal of interest in a subsidiary (note 15(a))	**2,325**	930	**2,325**	930
Loans to a supplier (note 15(b))	**3,091**	–	**–**	–
Other receivables	**952**	–	**952**	–
	6,368	930	**3,277**	930

(a) On 1 January 2010, the Company disposed of a 100% ownership interest in C & H Toys (Shuyang) Co., Ltd ("CTSY") to the factory manager (the "Purchaser") at a consideration of US$1,387,000 (equivalent to HK$10,757,000). In accordance with the agreement, the balance is secured by the 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, interest-free and receivable by instalments. During the year ended 31 December 2013, a revised repayment schedule is agreed by both the Company and the Purchaser as follows:

	The Group and the Company	
	2013	2012
	HK$'000	HK$'000
Within 1 year	**–**	2,325
After 1 year but within 5 years	**2,325**	930
	2,325	3,255

Balance receivables within 1 year was included in "other receivables and prepayments" in note 23.

(b) Loans to a supplier bear interest at 7% per annum and are repayable in November 2015. One of these loans amounting to HK$1,546,000 is guaranteed by the parent company of the supplier.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 FIXED ASSETS

(a) The Group

	Note	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 2012		101,714	13,888	161,836	26,916	8,459	7,073	319,886	24,746	344,632
Exchange adjustments		266	46	1,030	356	64	(10)	1,752	27	1,779
Addition through acquisition of a subsidiary		–	–	243	9	–	–	252	–	252
Additions		5,817	1,580	8,500	817	1,954	20,762	39,430	215	39,645
Disposals		(35)	(9,108)	(16,064)	(11,203)	(1,315)	–	(37,725)	–	(37,725)
Written off due to losses from fire	6	(7,880)	–	(2,687)	(124)	–	–	(10,691)	–	(10,691)
Transfers		14,549	–	8,712	–	–	(23,261)	–	–	–
At 31 December 2012		114,431	6,406	161,570	16,771	9,162	4,564	312,904	24,988	337,892
At 1 January 2013		114,431	6,406	161,570	16,771	9,162	4,564	312,904	24,988	337,892
Exchange adjustments		704	81	1,824	108	76	1	2,794	107	2,901
Additions		6,495	799	20,021	1,577	1,266	11,544	41,702	9,251	50,953
Disposals		(8)	(372)	(4,355)	(1,436)	(1,086)	(297)	(7,554)	(200)	(7,754)
Transfers		8,343	–	3,436	60	–	(11,839)	–	–	–
At 31 December 2013		129,965	6,914	182,496	17,080	9,418	3,973	349,846	34,146	383,992
Accumulated amortisation, depreciation and impairment loss:										
At 1 January 2012		18,902	12,352	102,760	22,763	4,423	–	161,200	1,862	163,062
Exchange adjustments		104	38	732	327	31	–	1,232	6	1,238
Addition through acquisition of a subsidiary		–	–	60	5	–	–	65	–	65
Charge for the year		3,543	774	15,611	1,402	1,333	–	22,663	524	23,187
Written back on disposals		–	(9,108)	(15,790)	(11,189)	(1,150)	–	(37,237)	–	(37,237)
Written off due to losses from fire	6	(2,428)	–	(1,540)	(97)	–	–	(4,065)	–	(4,065)
At 31 December 2012		20,121	4,056	101,833	13,211	4,637	–	143,858	2,392	146,250
At 1 January 2013		20,121	4,056	101,833	13,211	4,637	–	143,858	2,392	146,250
Exchange adjustments		211	61	1,301	143	42	–	1,758	16	1,774
Charge for the year		3,635	957	17,167	1,340	1,516	–	24,615	624	25,239
Written back on disposals		(4)	(372)	(2,715)	(1,159)	(913)	–	(5,163)	(200)	(5,363)
At 31 December 2013		23,963	4,702	117,586	13,535	5,282	–	165,068	2,832	167,900
Net book value:										
At 31 December 2013		106,002	2,212	64,910	3,545	4,136	3,973	184,778	31,314	216,092
At 31 December 2012		94,310	2,350	59,737	3,560	4,525	4,564	169,046	22,596	191,642

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 FIXED ASSETS *(Continued)*

(b) The Company

	Freehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 1 January 2012	4,603	10,381	34,467	12,052	1,262	62,765
Additions	–	1,242	474	139	–	1,855
Disposals	–	(9,108)	(29,822)	(11,788)	(1,167)	(51,885)
At 31 December 2012	4,603	2,515	5,119	403	95	12,735
At 1 January 2013	4,603	2,515	5,119	403	95	12,735
Additions	–	–	–	43	–	43
Disposals	–	–	(1,610)	(162)	–	(1,772)
At 31 December 2013	4,603	2,515	3,509	284	95	11,006
Accumulated depreciation:						
At 1 January 2012	881	9,361	30,774	11,535	835	53,386
Charge for the year	116	428	1,027	178	280	2,029
Written back on disposals	–	(9,108)	(28,480)	(11,505)	(1,020)	(50,113)
At 31 December 2012	997	681	3,321	208	95	5,302
At 1 January 2013	997	681	3,321	208	95	5,302
Charge for the year	115	657	321	42	–	1,135
Written back on disposals	–	–	(636)	(75)	–	(711)
At 31 December 2013	1,112	1,338	3,006	175	95	5,726
Net book value:						
At 31 December 2013	3,491	1,177	503	109	–	5,280
At 31 December 2012	3,606	1,834	1,798	195	–	7,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 FIXED ASSETS *(Continued)*

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

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Outside Hong Kong				
– medium-term leases	**133,825**	113,300	**–**	–
– freehold	**3,491**	3,606	**3,491**	3,606
	137,316	116,906	**3,491**	3,606
Representing:				
Land and buildings carried at cost	**106,002**	94,310	**3,491**	3,606
Interests in leasehold land held for own use under operating leases	**31,314**	22,596	**–**	–
	137,316	116,906	**3,491**	3,606

(d) Pledged assets

Certain fixed assets of the Group with an aggregate carrying amount of HK$24,448,000 (2012: HK$26,529,000) as at 31 December 2013 were pledged to various banks to secure bank loans granted to the Group (note 26).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 OTHER INTANGIBLE ASSETS

	The Group		
	Club memberships HK$'000	**Patent** HK$'000	**Total** HK$'000
Cost:			
At 1 January 2012	15,865	3,382	19,247
Disposals	(3,882)	–	(3,882)
Exchange adjustment	967	–	967
At 31 December 2012	12,950	3,382	16,332
At 1 January 2013	12,950	3,382	16,332
Additions	2,160	–	2,160
Exchange adjustment	22	–	22
At 31 December 2013	15,132	3,382	18,514
Accumulated amortisation and impairment losses:			
At 1 January 2012	3,674	3,382	7,056
Impairment loss	10	–	10
Exchange adjustment	237	–	237
At 31 December 2012	3,921	3,382	7,303
At 1 January 2013	3,921	3,382	7,303
Impairment loss	1,583	–	1,583
Exchange adjustment	45	–	45
At 31 December 2013	5,549	3,382	8,931
Net book value:			
At 31 December 2013	9,583	–	9,583
At 31 December 2012	9,029	–	9,029

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 OTHER INTANGIBLE ASSETS *(Continued)*

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

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

	The Company Club memberships HK$'000
Cost:	
At 1 January 2012	1,309
Exchange adjustment	(6)
At 31 December 2012	1,303
At 1 January 2013	1,303
Additions	2,160
At 31 December 2013	3,463
Accumulated impairment losses:	
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	947
Net book value:	
At 31 December 2013	2,516
At 31 December 2012	356

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 GOODWILL

	The Group HK$'000
At 1 January 2012	–
Acquisition of a subsidiary	2,753
At 31 December 2012, 1 January 2013 and 31 December 2013	2,753

During the year ended 31 December 2012, the Group acquired a 100% equity interest in JM Mekong Co., Ltd ("JM Mekong") in Vietnam, for a cash consideration of US$386,000 (equivalent to HK$3,000,000). JM Mekong is principally engaged in the manufacturing of plush stuffed toys. The goodwill represented the cash consideration over the fair value of identifiable assets and liabilities acquired of HK$247,000. The goodwill is attributable to the economies of scale expected from combining the operations of the Group and the acquired businesses.

The fair values of the assets and liabilities of JM Mekong as at the date of acquisition were based on management's estimation.

In accordance with the accounting policies set out in notes 1(e) and (k)(ii), the carrying value of goodwill was tested for impairment as at 31 December 2012 and 2013. The result of the test indicated no impairment charge was necessary.

19 INVESTMENTS IN SUBSIDIARIES

	2013 HK$'000	2012 HK$'000
Unlisted equities, at cost	**381,169**	329,560
Less: impairment loss	**(70,209)**	(14,683)
	310,960	314,877
Loans to subsidiaries	**240,873**	289,806
	551,833	604,683

In 2013, 45.45% equity interest in Dream Textile Co., Ltd, in Vietnam, was transferred from a subsidiary of the Company to the Company.

In 2013, the Company contributed additional capital of US$4,000,000 (equivalent to HK$31,023,000) to Dream Plastic Co., Ltd, in Vietnam.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 INVESTMENTS IN SUBSIDIARIES *(Continued)*

In 2013, a subsidiary of the Company set up a wholly-owned subsidiary, Dream Plastic Company Limited Ha Nam ("Dream Ha Nam"), with paid up capital of VND25,100,000,000 (equivalent to HK$9,287,000) as at 31 December 2013.

In 2012, the Company set up a wholly-owned subsidiary, Dream Shenzhen Co., Ltd, in the PRC, with capital contribution of RMB20,000,000 (equivalent to HK$24,645,000).

In 2012, equity interest in Dream Plastic Co., Ltd, in Vietnam, was transferred from a subsidiary of the Company to the Company.

An impairment of HK$55,526,000 (2012: reversal of impairment of HK$97,455,000) was recognised for the year ended 31 December 2013 in order to write down (2012: write back) investments in subsidiaries to their recoverable amount.

Loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for loans to subsidiaries of HK$97,416,000 (2012: HK$132,972,000) which are unsecured, interest-bearing at a fixed rate of 1% or 0.5% over LIBOR per annum and with maturities through November 2016 to September 2020. All of the loans to subsidiaries are not expected to be settled within one year from the balance sheet date. Accordingly, these loans have been classified as non-current assets. The interest rates charged for the year ended 31 December 2013 ranged from 0.78% to 1.00% (2012: 0.81% to 1.08%).

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

			Proportion of ownership interest			
Name of company	**Place of incorporation/ registration and operation**	**Particulars of issued/ registered and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
Dream International USA, Inc.	United States of America	Registered and paid up capital of US$1,000,000	100%	100%	–	Trading of plush stuffed toys
J.Y. International Company Limited	Hong Kong	Authorised and issued capital of US$3,500,000	100%	100%	–	Trading of plush stuffed toys and investment holding
C & H Toys (Suzhou) Co., Ltd #	The PRC	Registered and paid up capital of US$9,200,000	100%	100%	–	Trading of plush stuffed toys
Dream Inko Co., Ltd	Korea	Registered and paid up capital of KRW100,000,000	100%	–	100%	Design, development and trading of plush stuffed toys and investment holding
Dream Vina Co., Ltd	Vietnam	Registered and paid up capital US$12,764,827	100%	60.83%	39.17%	Manufacture of plush stuffed toys and investment holding
Dream Textile Co., Ltd	Vietnam	Registered and paid up capital of US$5,500,000	100%	100%	–	Manufacture of fabrics and dyeing

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration and operation	Particulars of issued/ registered and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Dream Mekong Co., Ltd	Vietnam	Registered capital of US$5,000,000 and paid up capital of US$3,000,000	100%	–	100%	Manufacture of plush stuffed toys
Dream Plastic Co., Ltd	Vietnam	Registered and paid up capital of US$8,500,000	100%	100%	–	Manufacture of plastic figures
C & H HK Corp., Ltd	Hong Kong	Authorised and issued capital of US$10,500,000	72.86%	72.86%	–	Trading of ride-on toys and investment holding
J.Y. Plasteel (Suzhou) Co., Ltd #	The PRC	Registered and paid up capital of US$10,500,000	72.86%	–	100%	Manufacture of ride-on toys
C & H Toys (Mingguang) Co., Ltd #	The PRC	Registered and paid up capital of US$1,000,000	100%	100%	–	Manufacture of plush stuffed toys
C & H Toys (Chaohu) Co., Ltd #	The PRC	Registered and paid up capital of US$2,000,000	100%	–	100%	Manufacture of plush stuffed toys
Shenzhen C & H Plastic & Hardware Co., Ltd	The PRC	Registered and paid up capital of RMB2,200,000	100%	1%	99%	Manufacture of plastic figures
Dream Shenzhen Co., Ltd #	The PRC	Registered and paid up capital of RMB20,000,000	100%	100%	–	Manufacture of plush stuffed toys and plastic figures
JM Mekong Co., Ltd	Vietnam	Registered and paid up capital of US$385,715	100%	–	100%	Manufacture of plush stuffed toys
Guangxi Ling Shan Xian De Lin Wan Ju Co., Ltd	The PRC	Registered and paid up capital of RMB1,800,000	100%	–	100%	Manufacture of plush stuffed toys
Dream Plastic Company Limited Ha Nam	Vietnam	Registered capital of VND100,000,000,000 and paid up capital of VND25,100,000,000	100%	–	100%	Manufacture of plush stuffed toys

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

The subsidiaries of the Group do not have material non-controlling interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 INTEREST IN ASSOCIATES

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted equities, at cost	**–**	–	**1,248**	1,248
Share of net assets	**502**	27	**–**	–
	502	27	**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 of ownership 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%	–	100%	Manufacture of plush stuffed toys

All of the above associates are accounted for using the equity method in the consolidated financial statements.

Aggregate information of associates that are not individually material:

	2013	2012
	HK$'000	HK$'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**502**	27
Aggregate amounts of the Group's share of those associates'		
– Profit/(loss) from continuing operations	**467**	(664)
– Other comprehensive income	**8**	–
– Total comprehensive income	**475**	(664)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 OTHER FINANCIAL ASSETS

	2013 HK$'000	2012 HK$'000
Non-current		
Equity-linked securities (notes (i) and (vii))	**10,927**	3,469
Structured debt security (notes (ii) and (vii))	**5,770**	–
Available-for-sale debt security – unlisted (note (iii))	**6,633**	6,856
Available-for-sale equity security – unlisted (note (iv))	**5,650**	14,600
	28,980	24,925
Current		
Equity-linked securities (notes (v) and (vii))	**3,473**	14,674
Structured debt security (notes (vi) and (vii))	**7,562**	–
	11,035	14,674
	40,015	39,599

Notes:

(i) Equity-linked security represents an equity-linked bond placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date of 8 May 2015.

Equity-linked securities as at 31 December 2012 represented structured funds placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date of 10 February 2014.

(ii) Structured debt security represents a debt investment placed with an investment bank in Korea with fixed interest rate of 6.25% per annum and redeemable by the debt issuer on or after 15 April 2024.

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

(iv) Available-for-sale equity security - unlisted represents an investment in a Korean private company and is carried at cost less impairment loss. During the year ended 31 December 2013, an impairment loss of HK$8,705,000 was recognised in order to write down the available-for-sale equity security to its recoverable amount. The impairment loss for the year is included in "other net loss" in the consolidated income statement (see note 4(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 OTHER FINANCIAL ASSETS *(Continued)*

Notes: *(Continued)*

(v) Equity-linked security represents a structured fund placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200 and maturity date of 10 February 2014.

Equity-linked securities as at 31 December 2012 represented four structured funds placed with an investment bank in Korea, amounting to HK$3,682,000, HK$3,672,000, HK$3,676,000 and HK$3,644,000 with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200 and maturity date of 5 March 2013, 5 March 2013, 3 September 2013 and 3 September 2013, respectively.

(vi) Structured debt security represents a debt investment placed with an investment bank in Korea with fixed interest rate at 7.00% per annum and redeemable by the debt issuer on or after 30 July 2013.

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

(viii) None of the above other financial assets are past due or impaired, except for the available-for-sale equity security (see note (iv)).

22 INVENTORIES

(a) Inventories in the balance sheets comprise:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Raw materials	**76,303**	61,379	**–**	8,608
Work in progress	**33,054**	41,710	**–**	9,814
Finished goods	**66,497**	80,483	**1,200**	32,961
	175,854	183,572	**1,200**	51,383

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

	The Group	
	2013	2012
	HK$'000	HK$'000
Carrying amount of inventories sold	**959,688**	997,308
Write-down of inventories	**5,801**	12,497
Reversal of write-down of inventories	**(6,509)**	(2,529)
	958,980	1,007,276

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors and bills receivable	**183,028**	140,410	**173,128**	80,873
Less: allowance for doubtful debts (note 23(b))	**(1,706)**	(5,912)	**–**	(2,664)
	181,322	134,498	**173,128**	78,209
Other receivables and prepayments	**68,242**	51,941	**9,329**	13,673
Compensation receivable (note 6)	**–**	12,858	**–**	–
Amounts due from related companies	**14,154**	6,699	**–**	–
Amounts due from subsidiaries	**–**	–	**48,249**	68,637
Amount due from an associate	**–**	2,500	**–**	–
	263,718	208,496	**230,706**	160,519

The amount of the Group's other receivables and prepayments expected to be recovered or recognised as expense after more than one year is HK$2,661,000 (2012: HK$1,719,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

Amounts due from related companies, subsidiaries and an associate are trade related, unsecured, interest-free and repayable on demand.

(a) Ageing analysis

As of the balance sheet date, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 month	**134,697**	93,996	**130,137**	45,710
1 to 2 months	**22,880**	18,194	**21,143**	14,338
2 to 3 months	**12,192**	13,279	**11,094**	12,739
3 to 4 months	**7,884**	2,087	**7,625**	458
Over 4 months	**3,669**	6,942	**3,129**	4,964
	181,322	134,498	**173,128**	78,209

Trade debtors and bills receivable are due within 30 to 60 days from the date of billing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis *(Continued)*

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. 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.

(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(k)(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	
	2013 **HK$'000**	2012 HK$'000	**2013** **HK$'000**	2012 HK$'000
At 1 January	**5,912**	3,287	**2,664**	–
Impairment loss recognised	**350**	2,966	**57**	2,664
Reversal of impairment loss	**(409)**	(417)	**–**	–
Uncollectible amounts written off	**(4,181)**	–	**(2,721)**	–
Exchange differences	**34**	76	**–**	–
At 31 December	**1,706**	5,912	**–**	2,664

At 31 December 2013, the Group's and the Company's trade debtors of HK$2,017,000 (2012: HK$7,089,000) and HK$Nil (2012: HK$3,488,000) was individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, the Group and the Company recognised specific allowances for doubtful debts of HK$1,706,000 (2012: HK$5,912,000) and HK$Nil (2012: HK$2,664,000). The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

	The Group		The Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Neither past due nor impaired	**107,414**	92,130	**102,393**	40,536
Less than 1 month past due	**56,898**	30,838	**56,695**	30,108
1 to 3 months past due	**14,258**	6,967	**12,077**	5,265
More than 3 months but less than 12 months past due	**2,441**	3,237	**1,963**	1,476
More than 12 months past due	**–**	149	**–**	–
	73,597	41,191	**70,735**	36,849
	181,011	133,321	**173,128**	77,385

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 CONSOLIDATED FINANCIAL STATEMENTS

24 CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

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

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank deposits within three months to maturity when placed	**89,654**	101,669	**24,122**	16,433
Cash at bank and in hand	**230,963**	179,881	**74,000**	28,454
Cash and cash equivalents in the balance sheet and consolidated cash flow statement	**320,617**	281,550	**98,122**	44,887
Time deposits with more than three months to maturity when placed	**79,476**	156,735	**–**	76,735
	400,093	438,285	**98,122**	121,622

Included in the balance of cash and cash equivalents, and time deposits with more than three months to maturity when placed is an amount of approximately HK$31,270,000 (2012: HK$33,549,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Note	2013 HK$'000	2012 HK$'000 (restated)
Profit before taxation		**159,363**	155,455
Adjustments for:			
Bank interest income	4(a)	**(3,854)**	(6,362)
Interest income from other financial assets	4(a)	**(3,893)**	(1,256)
Net loss/(gain) on disposal of property, plant and equipment	4(b)	**1,056**	(406)
Gain on disposal of club memberships	4(b)	**–**	(446)
Net gain on disposal of other financial assets	4(b)	**(177)**	–
Losses from fire	6	**–**	1,600
Net realised and unrealised loss on other financial assets	4(b)	**2,694**	662
Equity settled share-based payment expense	5(b)	**499**	459
Finance costs	5(a)	**836**	3,139
Amortisation of land lease premium	5(c)	**624**	524
Depreciation	5(c)	**24,615**	22,663
Impairment loss on club memberships	4(b)	**1,583**	10
Impairment loss on available-for-sale equity security	4(b)	**8,705**	–
Share of profits less losses of associates		**(467)**	664
Foreign exchange loss		**1,019**	5,660
Changes in working capital:			
Decrease in inventories		**7,718**	40,006
(Increase)/decrease in trade and other receivables		**(55,222)**	43,606
(Increase)/decrease in long term receivables		**(5,438)**	1,862
Decrease in long term prepayment		**–**	1,990
Increase/(decrease) in net defined benefit retirement obligation		**213**	(3,946)
(Decrease)/increase in trade and other payables		**(21,292)**	6,533
Cash generated from operations		**118,582**	272,417

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**85,250**	57,620	**497**	280
Accrued charges and other payables	**97,272**	147,118	**6,928**	75,624
Claim settlement (note 7)	**1,163**	–	**–**	–
Amounts due to related companies	**68**	1,573	**–**	1,549
Amounts due to subsidiaries	**–**	–	**141,816**	117,665
Amount due to an associate	**2,961**	1,695	**–**	–
	186,714	208,006	**149,241**	195,118

Amounts due to related companies, subsidiaries and an associate are 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 ageing analysis as of the balance sheet date:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due within 1 month or on demand	**79,079**	44,970	**497**	280
Due after 1 month but within 3 months	**5,053**	11,841	**–**	–
Due after 3 months but within 6 months	**271**	10	**–**	–
Due after 6 months but within 1 year	**847**	799	**–**	–
	85,250	57,620	**497**	280

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 BANK LOANS

At 31 December 2013, the bank loans were as follows:

	The Group	
	2013	2012
	HK$'000	HK$'000
Current		
– Secured bank loan	**6,566**	8,619
– Guaranteed bank loans	**15,708**	12,191
	22,274	20,810
Non-current		
– Secured bank loan		
– after 1 year but within 2 years	**777**	1,035
– after 2 years but within 5 years	**–**	777
	777	1,812
	23,051	22,622

Bank loans of the Group are secured as follows:

(i) Buildings, plant and machinery and land use rights with a carrying value as at 31 December 2013 of HK$24,448,000 (2012: HK$26,529,000) were pledged to a bank in respect of a loan amounting to HK$7,343,000 (2012: HK$10,431,000).

Bank loans of the Group are guaranteed as follows:

(i) A bank loan totalling HK$8,078,000 (2012: HK$4,496,000) was guaranteed by the Group's related company, C & H Co., Ltd, and a director of the Company.

(ii) A bank loan amounting to HK$7,630,000 (2012: HK$7,695,000) was guaranteed by standby letter of credit issued by a bank on behalf of a subsidiary of the Company.

As at 31 December 2013, the Group's banking facilities were not subject to the fulfilment of financial covenants (2012: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 EMPLOYEES RETIREMENT SCHEMES

(a) Defined benefit retirement plan

The Group makes contributions to a defined benefit retirement plan which covers 0.4% 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 trustees are required by the Trust Deed to act in the best interest of the plan participants and are responsible for setting investment policies of the plans.

Under the plans, a retired employee is entitled to an annual pension payment equal to 1 year of final salary for each year of service that the employee provided.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on annual actuarial valuations. The latest independent actuarial valuation of the plan was at 31 December 2013 and was prepared by qualified actuaries of Towers Watson Hong Kong Limited, who are members 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 these defined benefit retirement plans are 92.6% (2012: 89.6%) covered by the plan assets held by the trustees.

The plan exposes the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk.

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

	2013	2012
	HK$'000	HK$'000
		(restated)
Present value of wholly or partly funded obligations	**5,940**	7,217
Fair value of plan assets	**(5,501)**	(6,467)
	439	750

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, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay HK$1,139,000 in contributions to defined benefit retirement plan in 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

(ii) Plan assets consist of the following:

	2013 **HK$'000**	2012 HK$'000
Deposit with banks	**5,501**	6,467

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

	2013 **HK$'000**	2012 HK$'000
At 1 January	**7,217**	8,097
Remeasurements:		
– Actuarial (gain)/loss arising from changes in demographic assumptions	**(34)**	285
– Actuarial (gain)/loss arising from changes in financial assumptions	**(137)**	225
– Actuarial (gain)/loss arising from changes in experience	**(417)**	1,835
	(588)	2,345
Benefits paid by the plans	**(2,229)**	(288)
Current service cost	**1,324**	1,634
Interest cost	**251**	349
Transfer in	**–**	584
Settlement	**–**	(6,140)
Exchange difference	**(35)**	636
At 31 December	**5,940**	7,217

The weighted average duration of the defined benefit obligation is 7.9 years (2012: 8.0 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

(iv) Movements in plan assets

	2013	2012
	HK$'000	HK$'000
At 1 January	**6,467**	5,768
Group's contributions paid to the plans	**1,111**	1,696
Benefits paid by the plans	**(2,201)**	(186)
Interest income	**223**	236
Return on plan assets, excluding interest income	**(73)**	(22)
Asset transfer in	**–**	433
Settlements	**–**	(1,984)
Exchange difference	**(26)**	526
At 31 December	**5,501**	6,467

(v) Amounts recognised in the consolidated statement of comprehensive income are as follows:

	2013	2012
	HK$'000	HK$'000
		(restated)
Current service cost	**1,324**	1,634
Settlement gain	**–**	(4,156)
Net interest on net defined benefit liability	**28**	113
Total amounts recognised in profit or loss	**1,352**	(2,409)
Actuarial (gains)/losses	**(588)**	2,345
Return on plan assets, excluding interest income	**73**	22
Total amounts recognised in other comprehensive income	**(515)**	2,367
Total defined benefit costs	**837**	(42)

The current service cost and the net interest on net defined benefit liability are recognised in "administrative expenses" in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

(vi) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2013	2012
Discount rate	**4.10%**	3.80%
Future salary increases	**5.00%**	5.00%

The below analysis shows how the defined benefit obligation as at 31 December 2013 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	Increase in 0.25% HK$'000	Decrease in 0.25% HK$'000
Discount rate	**(113)**	117
Future salary increases	**118**	(115)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(b) Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

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

	Number of instruments 2013 '000	Vesting conditions	Contractual life of options
Options granted to directors:			
23 December 2011	550	2 years from the date of grant	5 years
Options granted to employees:			
23 December 2011	4,250	2 years from the date of grant	5 years
	4,800		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	2013		2012	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
Outstanding at the beginning of the period	**0.466**	**4,800**	0.466	4,900
Lapsed during the period	**0.466**	**(100)**	0.466	(100)
Outstanding at the end of the period	**0.466**	**4,700**	0.466	4,800
Exercisable at the end of the period	**0.466**	**4,700**	–	–

The options outstanding at 31 December 2013 had an exercise price of HK$0.466 (2012: HK$0.466) and a weighted average remaining contractual life of 3 years (2012: 4 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 INCOME TAX IN THE BALANCE SHEETS

(a) Current taxation in the balance sheets represents:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Provision for Hong Kong Profits Tax for the year	**18,474**	3,405	**18,474**	3,405
Provisional Profits Tax paid	**(3,474)**	–	**(3,474)**	–
	15,000	3,405	**15,000**	3,405
Profits Tax recoverable relating to prior years	**–**	(3,995)	**–**	(4,413)
Overseas tax payable	**12,496**	12,565	**–**	–
	27,496	11,975	**15,000**	(1,008)
Representing:				
Tax recoverable	**(45)**	(1,016)	**–**	(1,008)
Tax payable	**27,541**	12,991	**15,000**	–
	27,496	11,975	**15,000**	(1,008)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Deferred tax assets and liabilities recognised:

(i) The Group

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

	Depreciation allowances in excess of/ (less than) the related depreciation HK$'000	Future benefit of tax losses HK$'000	Defined benefit retirement plan liability HK$'000	Provisions HK$'000	Revaluation of available-for-sale securities HK$'000	Total HK$'000
At 1 January 2012	40	(10,149)	1,178	(2,781)	109	(11,603)
Charged/(credited) to the consolidated income statement (note 8(a))	374	4,184	(83)	(183)	–	4,292
Credited to reserves (note 12)	–	–	–	–	(51)	(51)
Exchange adjustments	2	(29)	102	(144)	–	(69)
At 31 December 2012	416	(5,994)	1,197	(3,108)	58	(7,431)
At 1 January 2013	416	(5,994)	1,197	(3,108)	58	(7,431)
(Credited)/charged to the consolidated income statement (note 8(a))	(603)	3,546	(218)	(540)	(2,342)	(157)
Credited to reserves (note 12)	–	–	–	–	(48)	(48)
Exchange adjustments	–	(28)	(6)	(10)	(17)	(61)
At 31 December 2013	(187)	(2,476)	973	(3,658)	(2,349)	(7,697)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

(ii) The Company

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

	Depreciation allowances in excess of/ (less than) the related depreciation HK$'000
At 1 January 2012	22
Charged to the income statement	372
At 31 December 2012	394
At 1 January 2013	394
Credited to the income statement	(625)
At 31 December 2013	(231)

(iii) Reconciliation to the balance sheets:

	The Group		**The Company**	
	2013 **HK$'000**	2012 HK$'000	**2013** **HK$'000**	2012 HK$'000
Net deferred tax asset recognised in the balance sheets	**(7,697)**	(7,825)	**(231)**	–
Net deferred tax liability recognised in the balance sheets	**–**	394	**–**	394
	(7,697)	(7,431)	**(231)**	394

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

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$92,951,000 (2012: HK$112,004,000) 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$9,071,000 (2012: HK$9,754,000) do not expire under current tax legislation, while the remaining tax losses amounting to HK$83,880,000 (2012: HK$102,250,000) expire at various dates up to and including 2018 (2012: 2017) as follows:

	2013 **HK$'000**	2012 HK$'000
2013	**–**	24,431
2014	**1,763**	7,863
2015	**3,763**	11,332
2016	**15,421**	17,712
2017	**22,560**	40,912
2018	**40,373**	–
	83,880	102,250
No expiry date	**9,071**	9,754
	92,951	112,004

(d) Deferred tax liabilities not recognised

At 31 December 2013, temporary differences relating to the undistributed profits of subsidiaries based in the PRC and Korea amounted to HK$31,244,000 (2012: HK$43,141,000) and HK$209,496,000 (2012: HK$175,646,000) respectively. Deferred tax liabilities of HK$1,562,000 (2012: HK$2,157,000) and HK$41,899,000 (2012: HK$35,129,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

The Company

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2012	52,303	181,013	10	379,425	612,751
Changes in equity for 2012:					
Equity settled share-based transactions	–	–	459	–	459
Total comprehensive income for the year	–	–	–	140,460	140,460
At 31 December 2012	52,303	181,013	469	519,885	753,670
At 1 January 2013	52,303	181,013	469	519,885	753,670
Changes in equity for 2013:					
Final dividend approved in respect of the previous year	–	–	–	(53,773)	(53,773)
Equity settled share-based transactions	–	–	499	–	499
Dividends declared in respect of the current year	–	–	–	(20,165)	(20,165)
Total comprehensive income for the year	–	–	–	49,941	49,941
At 31 December 2013	52,303	181,013	968	495,888	730,172

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

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

	2013 **HK$'000**	2012 HK$'000
Interim dividend declared and paid of HK3 cents per ordinary share (2012: HKNil cents per ordinary share)	**20,165**	–
Final dividend proposed after the balance sheet date of HK5 cents per ordinary share (2012: HK8 cents per ordinary share)	**33,843**	53,773
	54,008	53,773

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

	2013 **HK$'000**	2012 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK8 cents per ordinary share (2012: HKNil cents per ordinary share)	**53,773**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital

	2013		2012	
	Number of shares '000	**Amount HK$'000**	Number of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of US$0.01 each				
At 31 December	**5,000,000**	**390,000**	5,000,000	390,000
Ordinary shares, issued and fully paid:				
At 31 December	**672,165**	**52,303**	672,165	52,303

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

(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(q)(iii).

(iii) General reserve fund

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

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

(iv) Other reserve

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

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(u).

(vi) Fair value reserve

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

(e) Distributability of reserves

At 31 December 2013, 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$495,888,000 (2012: HK$519,885,000). After the balance sheet date the directors proposed a final dividend of HK5 cents per ordinary share (2012: HK8 cents per ordinary share), amounting to HK$33,843,000 (2012: HK$53,773,000). This dividend has not been recognised as a liability at the balance sheet date.

(f) Capital management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(f) 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 2013 and 2012 was as follows:

		The Group		**The Company**	
	Note	**2013 HK$'000**	2012 HK$'000 (restated)	**2013 HK$'000**	2012 HK$'000
Current liabilities					
Trade and other payables	25	**186,714**	208,006	**149,241**	195,118
Bank loans	26	**22,274**	20,810	**–**	–
		208,988	228,816	**149,241**	195,118
Less: Cash and cash equivalents	24(a)	**(320,617)**	(281,550)	**(98,122)**	(44,887)
Time deposits with more than three months to maturity when placed	24(a)	**(79,476)**	(156,735)	**–**	(76,735)
Non-current liabilities					
Bank loans	26	**777**	1,812	**–**	–
Total (cash)/debt		**(190,328)**	(207,657)	**51,119**	73,496
Add: Proposed dividends	30(b)	**33,843**	53,773	**33,843**	53,773
Net (cash)/debt		**(156,485)**	(153,884)	**84,962**	127,269
Total equity		**884,975**	838,411	**730,172**	753,670
Net debt-to-capital ratio		**N/A**	N/A	**12%**	17%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, financial assets and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, the Group has a certain concentration of credit risk as 23% (2012: 27%) and 64% (2012: 67%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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

Investments are normally only entered into for long term strategic purposes.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to the approval by the parent company's board in respect of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, if any, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

The Group

	2013 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**
Bank loans	**22,422**	**803**	**–**	**23,225**	**23,051**
Trade and other payables (excluding advances from customers)	**184,726**	**–**	**–**	**184,726**	**184,726**
	207,148	**803**	**–**	**207,951**	**207,777**

	2012 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
Bank loans	21,029	1,132	838	22,999	22,622
Trade and other payables (excluding advances from customers)	170,860	–	–	170,860	170,860
	191,889	1,132	838	193,859	193,482

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Liquidity risk *(Continued)*

The Company

	2013 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 (excluding advances from customers)	**149,161**	**–**	**–**	**149,161**	**149,161**

	2012 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 (excluding advances from customers)	158,818	–	–	158,818	158,818

As shown in the above analysis, bank loans of the Group amounting to HK$22,422,000 (2012: HK$21,029,000) were due to be repaid during 2014. The short-term liquidity risk inherent in this contractual maturity has been addressed at the time the loans were drawn and are accounted for in the Group's cash flow forecasts.

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group monitors the level of its fixed rate and variable rate borrowings and manages the contractual terms of the interest-bearing financial assets and liabilities. For this purpose the Group defines "net borrowings" as being interest-bearing financial liabilities less interest-bearing investments (excluding cash held for short-term working capital purposes). The Group's interest rate profile as monitored by management is set out in (i) below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(c) Interest rate risk *(Continued)*

(i) Interest rate profile

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

The Group

	2013		2012	
	Effective interest rate %	**Amount HK$'000**	Effective interest rate %	Amount HK$'000
Fixed rate borrowings:				
Bank loans	**2.25**	**8,078**	2.52	4,496
Variable rate borrowings:				
Bank loans	**4.12**	**14,973**	4.46	18,126
Total borrowings		**23,051**		22,622
Fixed rate borrowings as a percentage of total net borrowings		**35.04%**		19.87%

(ii) Sensitivity analysis

At 31 December 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately HK$120,000 (2012: HK$162,000). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

The sensitivity analysis above indicates the annualised impact on the Group's interest expense that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to floating rate borrowings which expose the Group to cash flow interest rate risk at the date. The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate borrowings as the Group does not hold any fixed rate borrowings which are measured at fair value in the financial statements. The analysis is performed on the same basis for 2012.

(d) Currency risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(d) Currency risk *(Continued)*

(i) Exposure to currency risk

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

The Group

	Exposure to foreign currencies (expressed in HKD)									
	2013					2012				
	United States Dollars $'000	Renminbi Yuan $'000	Vietnamese Dong $'000	Japanese Yen $'000	British Pound $'000	United States Dollars $'000	Renminbi Yuan $'000	Vietnamese Dong $'000	Japanese Yen $'000	British Pound $'000
Trade and other receivables	83,764	13,002	72,997	8,949	357	206,368	10,614	68,526	10,834	84
Cash and cash equivalents	77,094	211	76,650	3,280	256	65,604	1,516	34,049	4,241	238
Trade and other payables	(62,215)	(2,573)	(97,579)	(4,828)	–	(164,080)	(4,950)	(30,794)	(4,529)	(71)
Bank loans	(8,131)	–	–	–	–	(4,457)	–	–	–	–
Net exposure arising from recognised assets and liabilities	90,512	10,640	52,068	7,401	613	103,435	7,180	71,781	10,546	251

The Company

	Exposure to foreign currencies (expressed in HKD)					
	2013			2012		
	Renminbi Yuan $'000	Japanese Yen $'000	British Pound $'000	Renminbi Yuan $'000	Japanese Yen $'000	British Pound $'000
Trade and other receivables	1,822	4,511	357	10,614	3,895	–
Cash and cash equivalents	–	1,535	256	1,414	2,852	–
Trade and other payables	(2)	(4,414)	–	(4,445)	(3,577)	–
Net exposure arising from recognised assets and liabilities	1,820	1,632	613	7,583	3,170	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

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

The Group

	2013		2012	
	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	**3%**	**321**	5%	300
	(3)%	**(321)**	(5)%	(300)
Vietnamese Dong	**3%**	**1,283**	10%	5,298
	(3)%	**(1,283)**	(10)%	(5,298)
Japanese Yen	**20%**	**1,150**	15%	1,238
	(20)%	**(1,150)**	(15)%	(1,238)
British Pound	**12%**	**61**	10%	19
	(12)%	**(61)**	(10)%	(19)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

The Company

	2013		2012	
	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	**3%**	**46**	5%	317
	(3)%	**(46)**	(5)%	(317)
Japanese Yen	**20%**	**273**	15%	398
	(20)%	**(273)**	(15)%	(398)
British Pound	**12%**	**61**	–	–
	(12)%	**(61)**	–	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated to the HKD at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(e) Fair values

(i) Financial assets and liabilities measured at fair value

(1) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at each balance sheet date on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2013	**Fair value measurements as at 31 December 2013 categorised into**			Fair value at 31 December 2012	Fair value measurements as at 31 December 2012 categorised into		
		Level 1	**Level 2**	**Level 3**		Level 1	Level 2	Level 3
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Group								
Recurring fair value measurements								
Financial assets:								
Available-for-sale debt security								
– Unlisted	**6,633**	**–**	**6,633**	**–**	6,856	6,856	–	–
Equity-linked securities	**14,400**	**–**	**14,400**	**–**	18,143	–	18,143	–
Structured debt securities	**13,332**	**–**	**13,332**	**–**	–	–	–	–
	34,365	**–**	**34,365**	**–**	24,999	6,856	18,143	–

During the year ended 31 December 2013, available-for-sale debt security – unlisted with a carrying amount of HK$6,633,000 was transferred from Level 1 to Level 2 because quoted price in the market for such debt security became no longer regularly available. There were no transfers from Level 2 to Level 1 (2012: no transfers in either direction). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the balance sheet date in which they occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(e) Fair values *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

(2) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of available-for-sale debt security, equity-linked securities and structured debt securities in Level 2 is determined using quoted prices from financial institutions.

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2013.

32 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	2013	2012
	HK$'000	HK$'000
Contracted for	**49,090**	1,660
Authorised but not contracted for	**25,022**	4,688
	74,112	6,348

The capital commitments outstanding as at 31 December 2013 amounting to HK$71,593,000 represent additional investments in buildings, plant and machineries and land use rights for the plastic figures segment in Vietnam.

(b) At 31 December 2013, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:

	2013	2012
	HK$'000	HK$'000
Within 1 year	**14,432**	12,183
After 1 year but within 5 years	**4,616**	5,385
After 5 years	**8,198**	2,033
	27,246	19,601

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 CONSOLIDATED FINANCIAL STATEMENTS

33 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 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2013	2012
	HK$'000	HK$'000
Short-term employee benefits	**20,226**	13,527
Share-based payments	**121**	114
	20,347	13,641

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

(b) Sales of goods to

	2013	2012
Related companies (notes (i) and (ii))	**8,112**	1,048
A fellow subsidiary (notes (i) and (ii))	**–**	139
	8,112	1,187

(c) Purchase of goods from

	2013	2012
A fellow subsidiary (notes (i) and (iii))	**–**	15
An associate	**–**	13,126
A related company (notes (i) and (iii))	**43**	–
	43	13,141

(d) Purchase of materials from

	2013	2012
A related company (notes (i) and (iii))	**21**	20
A fellow subsidiary (notes (i) and (iii))	**–**	6
An associate	**10,973**	81
	10,994	107

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

	2013 HK$'000	2012 HK$'000
(e) Commission received/receivable from		
A related company (notes (i) and (ii))	–	873
A fellow subsidiary (notes (i) and (ii))	–	2,787
	–	3,660
(f) Sharing of administrative services from		
A related company (notes (i) and (iii))	–	7,042
Ultimate holding company (notes (i) and (iii))	–	2,967
	–	10,009
(g) Rental paid/payable to		
A related company (notes (i) and (ii))	**3,108**	1,538
Ultimate holding company (notes (i) and (ii))	–	1,460
	3,108	2,998
(h) Processing fees paid/payable to		
An associate	**2,556**	2,047

Note:

(i) These are transactions with C & H Co., Ltd and its subsidiaries ("C & H Group"). A director of the Company is the controlling shareholder of both the C & H Group and the Group. C & H Co., Ltd ceased to be the ultimate holding company on 27 July 2012.

(ii) These related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph "Connected transactions" on the report of the directors.

(iii) These related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, however, they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

(iv) The above transactions were conducted in accordance with the terms of the respective contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 27, 28 and 31 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations, fair value of share options granted and financial instruments respectively. Other key areas of estimation uncertainty are as follows:

(a) Impairment of fixed assets

If circumstances indicate that the carrying value of fixed assets may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, *Impairment of assets*. The carrying amounts of fixed assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount may not be recoverable. The recoverable amount of fixed assets is the greater of the fair value less cost to sell and the value in use. It is difficult to precisely estimate fair value because quoted market prices for the Group's assets are not available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling price and amount of operating costs.

(b) Impairment of intangible assets

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

(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 estimated net realisable value of inventories decline below their carrying amounts. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(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.

35 COMPARATIVE FIGURES

As a result of the application of revised HKAS 19, *Employee benefits*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2013. Further details of these developments are disclosed in note 2.

36 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2013, the directors consider the Group is controlled by Mr Kyoo Yoon Choi, with his principal place of business at Unit 501 & 6/F, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to HKAS 36, *Impairment of assets – Recoverable amount disclosures for non-financial assets*	1 January 2014
HKFRS 9, *Financial instruments*	Not yet established by HKICPA

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FIVE YEAR FINANCIAL SUMMARY

	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000 (restated)	**2013 HK$'000**
Results					
Turnover	994,052	1,544,857	1,083,152	1,353,340	**1,352,607**
Profit from operations	89,111	214,986	87,856	159,258	**159,732**
Finance costs	(2,690)	(873)	(1,179)	(3,139)	**(836)**
Share of profits less losses of associates	(318)	(196)	143	(664)	**467**
Profit before taxation	86,103	213,917	86,820	155,455	**159,363**
Income tax expense	(7,865)	(10,958)	(15,999)	(29,692)	**(42,581)**
Profit for the year	78,238	202,959	70,821	125,763	**116,782**
Attributable to:					
– Equity shareholders of the Company	74,619	199,597	74,723	133,001	**123,934**
– Non-controlling interests	3,619	3,362	(3,902)	(7,238)	**(7,152)**
Profit for the year	78,238	202,959	70,821	125,763	**116,782**
Earnings per share					
Basic	HK11.16¢	HK29.83¢	HK11.12¢	HK19.79¢	**HK18.44 ¢**
Diluted	HK11.16¢	HK29.83¢	HK11.12¢	HK19.79¢	**HK18.37 ¢**

	2009 HK$'000	2010 HK$'000	2011 HK$'000 (restated)	2012 HK$'000 (restated)	**2013 HK$'000**
Assets and liabilities					
Fixed assets	148,339	183,860	181,570	191,642	**216,092**
Long term receivables	–	7,231	2,796	930	**6,368**
Prepayment	9,184	1,992	1,990	–	**–**
Goodwill	–	–	–	2,753	**2,753**
Other intangible assets	14,028	16,690	12,191	9,029	**9,583**
Interest in associates	638	522	690	27	**502**
Deferred tax assets	2,299	13,625	11,625	7,825	**7,697**
Other financial assets	6,142	10,162	23,048	24,925	**28,980**
Net current assets	296,407	431,529	475,430	604,236	**614,216**
Total assets less current liabilities	477,037	665,611	709,340	841,367	**886,191**
Deferred tax liabilities	–	–	(22)	(394)	**–**
Other non-current liabilities	(1,046)	(6,369)	(7,253)	(2,562)	**(1,216)**
NET ASSETS	475,991	659,242	702,065	838,411	**884,975**

Note to five year financial summary:

In order to comply with the revised HKAS 19, *Employee benefits*, in 2013, the Group changed its accounting policy for its defined benefit retirement plan. This change has been applied retrospectively for the year ended 31 December 2012 but not for the preceding years as the directors consider that the effect is not material to those years.

DREAM INTERNATIONAL LIMITED
德林國際有限公司