# Annual Report 2014 年報

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

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr Kyoo Yoon CHOI *(Chairman and Chief Executive Officer)*
Mr Young M. LEE
*(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*

## COMPLIANCE ADVISER

GF Capital (Hong Kong) Limited
29/F-30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

## 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
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## FINANCIAL RELATIONS CONSULTANT

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

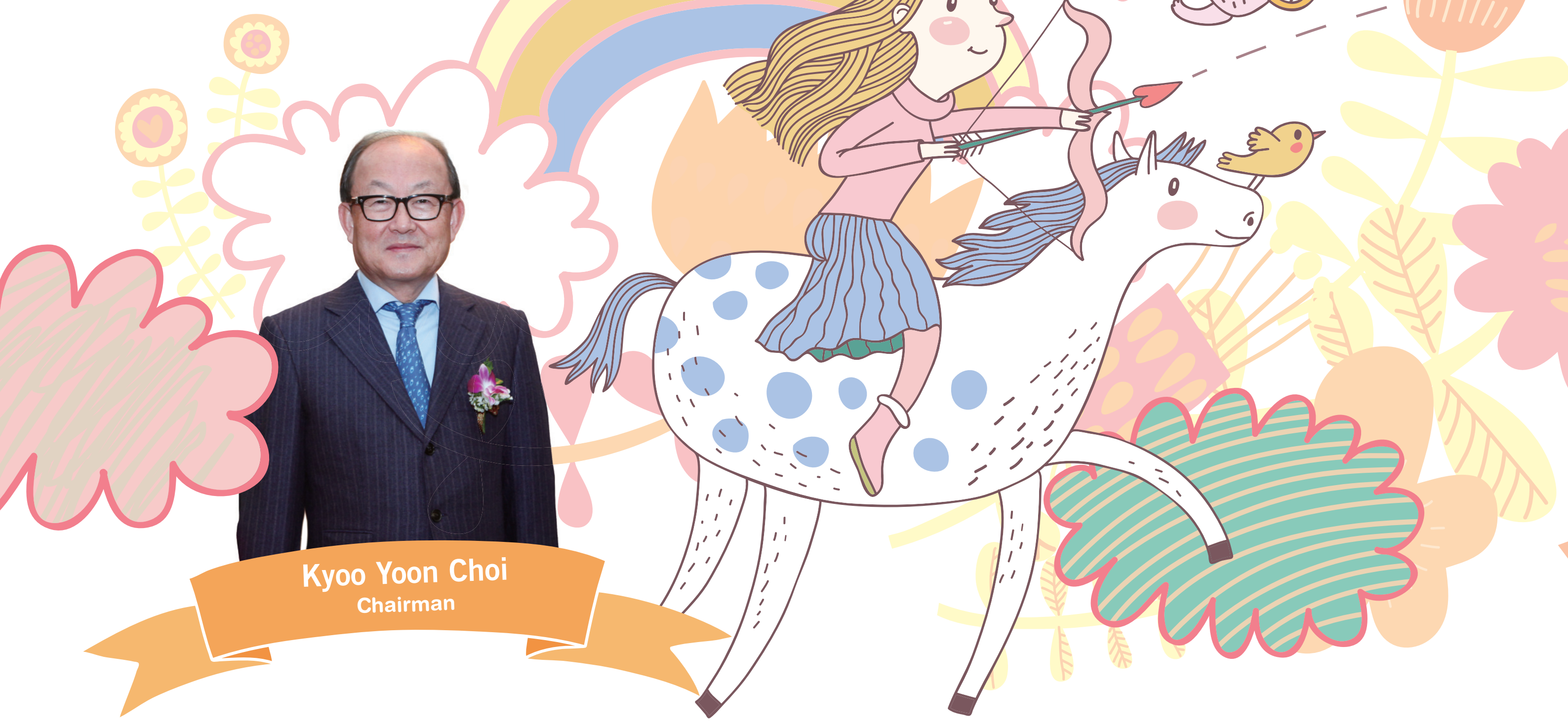
## WEBSITE ADDRESS

www.dream-i.com.hk

## STOCK CODE

1126

# Chairman's Statement

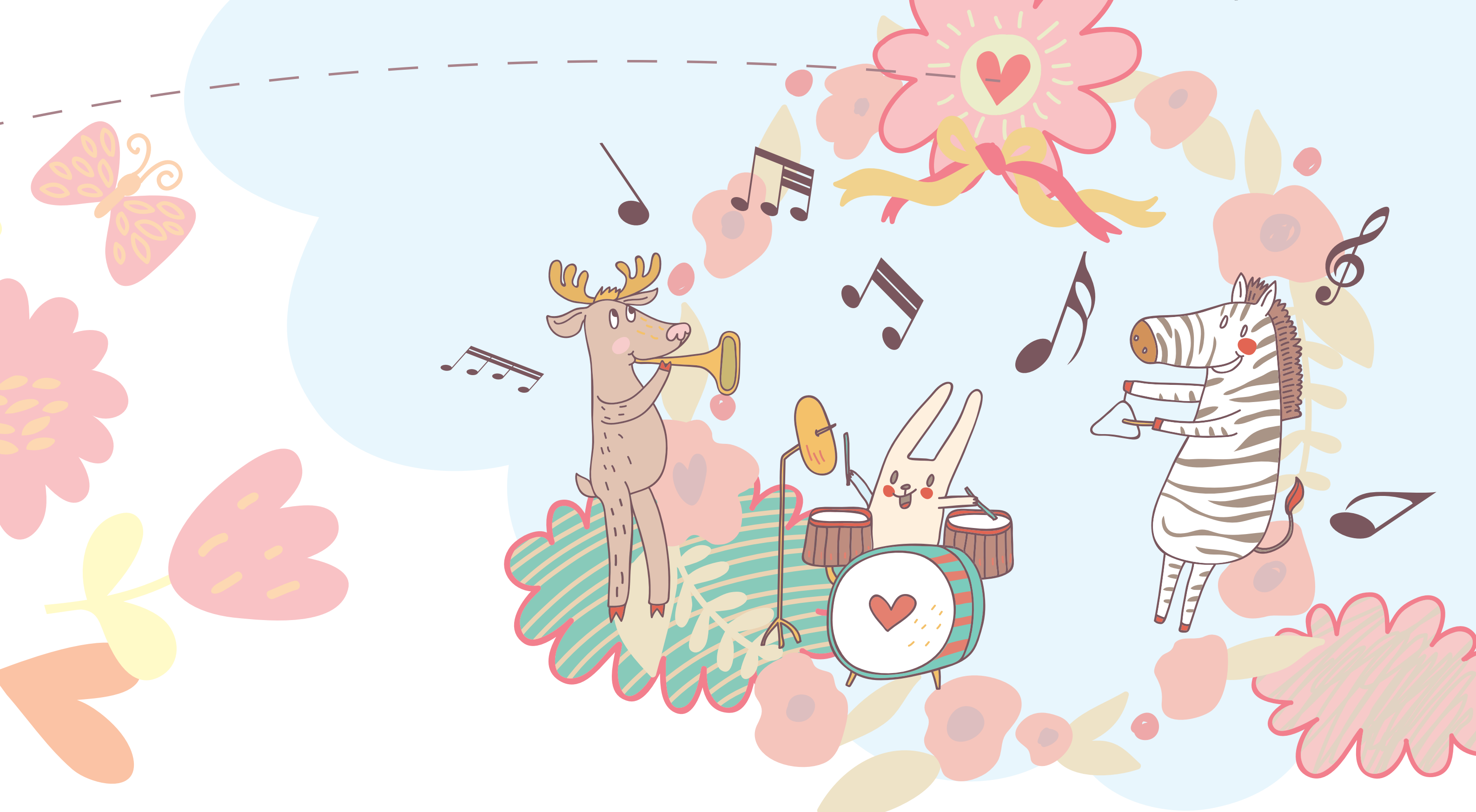



**Dear Shareholders,**

In 2014, the global economy started to show signs of recovery. Japan, the largest market of Dream International Limited (the "Company" or "Dream International") and its subsidiaries (collectively the "Group") enjoyed economic stability, while our second-largest market North America grew at a slightly faster pace with better consumer sentiment, despite that the European market just experienced a very mild revival due to a number of uncertainties during the year under review. The Group benefitted from the improved macroeconomic environment as evidenced by the increasing orders from key markets, sustaining its growing trend in the past year.

Facing the evolving macroeconomic environment, the Group employed a two-pronged strategy to facilitate business growth and further expand its market share. We leveraged our advantageous position as one of the world's largest plush toy manufacturers to strengthen our solid foundation and explore new opportunities. After the consolidation of the toy industry in the past years, many weaker players have exited leading to the reduced industry-wide production capacity. As now the major toy markets are experiencing gradual recovery, Dream International can immediately capture the growing number of orders from owners and licensors of renowned cartoon characters, and attract the interest of potential clients for cooperation. For instance, we have successfully secured four new customers with distribution networks across the US, European and Asian markets and the first round of shipments was made in 2014. In addition, we have established a self-owned brand "Dream, made to love, made to hug" and positioned the brand to target the mass market which presents greater scope for the growth of the Original Design Manufacturing ("ODM") business.

With the established plush toy business as a strong support, we are accelerating our growth in the recently set-up business of plastic figures. Since its launch in 2011, this segment has continued to outperform and achieved rapid expansion, with turnover surging more than 150% exceeding HK$200 million during the year under review. The Group is effectively utilising its close ties with the top-tier toy corporations and has secured certain existing plush toy clients as customers for this segment. Apart from the abundant cross-selling opportunities that can be further explored, during the year under review, we also attracted dynamic new clients who are expected to place repeat orders going forward. We see outstanding potential for the rapid expansion of this segment, which is expected to be a major growth driver of the Group in the near future.



Since a decade ago, we have foreseen the continuous increase in production costs facing factories in China and recognised that the country would lose its competitive edge as "the world's factory" one day. To prepare for this eventuality and to diversify risks from concentrating production base in one country, we set up our first plant in Vietnam a decade ago and have gradually been expanding our production capacity there to benefit from the lower labour and production costs. Now, the Group has struck a balance between the two production bases with four plants in China and seven plants in Vietnam, having better risk and cost controls in place to tackle the challenges on the operations front.

In 2015, it is expected that the US will continue to exhibit stronger economic growth and that the Eurozone will undergo further steps to an economic recovery that may be relieved due to the recently announced quantitative easing programme with the trends in both regions improving business and consumer confidence alike. As for Japan, the recovery may be bolstered by a virtuous cycle prompted by support measures from Abenomics and a moderate recovery in exports. In view of these encouraging trends, the Group is speeding up preparations for the growth of the plastic figures segment, with a third factory scheduled to be operational in Hanoi in the fourth quarter of 2015. We are also considering product development opportunities for large-scale upcoming events such as the 2016 Olympics. Last but not least, we will utilise a cross-selling strategy in order to introduce existing clients to other business segments in order to further strengthen the working relationship with clients as well as to grasp potential business opportunities for the Group.

Dream International has successfully maintained its position as an industry leader through its broad customer base, healthy financial position, strong manufacturing capability and worldwide reputation for quality. Thus, we are confident that Dream International will ride on these competitive edges to capture emerging opportunities and reach new heights.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to sincerely thank our shareholders, business partners and customers for their continuous unwavering support. I would also like to extend appreciation to the management team and the entire workforce for their commitment and contributions.

**Kyoo Yoon Choi**
*Chairman*
26 March 2015

# Management Discussion & Analysis

## FINANCIAL REVIEW

During 2014, the global economy as a whole was on the way to a modest recovery despite the disparate performances of individual markets. The European and North American markets have seen improvement in consumer sentiment, especially in the US, as reflected in a slight increase in order volumes. The largest market for Dream International, Japan, enjoyed relatively stable economic conditions and continued to be a key driver for the Group's sustained growth during the year under review.

For the year ended 31 December 2014, the Group's turnover rose by 21.0% year-on-year to HK$1,637.3 million (2013: HK$1,352.6 million), mainly driven by the expanding Original Equipment Manufacturing ("OEM") business under the plush stuffed toys segment as well as the fast growing plastic figures segment. Though escalating labour and material costs continue to put pressure on the entire toy industry, thanks to its established foundation and constant efforts in cost control, the Group managed to maintain the gross profit at HK$366.7 million during the year (2013: HK$393.6 million). The decline was mainly due to the absence of the one-off reversal of provisions for customs duties of HK$13.4 million recorded during 2013 and an increase in materials usage for the plastic figures segment. Gross margin amounted to 22.4% (2013: 29.1%). Nonetheless, during the year under review, the Group managed to reduce the ratios of distribution costs and administration expenses to turnover respectively. In addition, there was a one-off gain from the disposal of a parcel of land and certain buildings in Suzhou of HK$37.1 million during the year. Thus, profit from operations rose to HK$167.3 million (2013: HK$159.7 million). Accordingly, the Group's profit for the year grew to HK$121.4 million (2013: HK$116.8 million) with a net margin of 7.4% (2013: 8.6%).

The Group maintained a healthy financial position with cash and cash equivalents and bank deposits of HK$264.6 million as at 31 December 2014 (31 December 2013: HK$400.1 million).

## BUSINESS REVIEW

### Product Analysis

#### Plush stuffed toys segment

During the year under review, the plush stuffed toys segment recorded a turnover of HK$1,377.4 million, accounting for 84.1% of the Group's total turnover. The OEM business under the plush stuffed toys segment remained the core contributor of the Group's total turnover, accounting for 93.7% of sales for the plush stuffed toys segment. The Group saw continuous improvement of this business and secured more business opportunities from well-known customers including globally-renowned cartoon character owners and licensors and recorded a satisfactory growth in orders and sales. While a plush stuffed toy character was successfully launched at an upscale retail toy store in New York City in the second half of 2014, shipments of products to two newly secured clients – a video game publisher and a distributor of infant goods – were also made to the US, European and Asian markets during the same period as scheduled, and repeat orders were received. While a specialty store is scheduled to open in Shanghai, China in May 2015, the Group started receiving orders of related products last year and the first shipment was made in the second half of 2014. It is expected that additional orders will be placed in the coming year.

The ODM business under the plush stuffed toys segment recorded a turnover of HK$87.4 million, contributing 6.3% of the total sales of plush stuffed toys. Following the successful establishment of its self-owned "Dream, made to love, made to hug" brand, the Group has fine-tuned its positioning to focus on the mass market which helps to enhance its brand awareness among the public. In terms of product mix, the Group has strategically expanded its selection of large-size plush stuffed toys so as to better utilise production capacity and enhance profitability.

# Management Discussion & Analysis

## BUSINESS REVIEW *(Continued)*

### Product Analysis *(Continued)*

#### Plastic figures segment

The successful launch of the plastic figures segment has continued to demonstrate remarkable growth, with turnover surging by more than 150% to HK$212.2 million (2013: HK$84.7 million) during the year under review, contributing 13.0% of the Group's total turnover. The Group has grasped the cross-selling opportunities riding on its long term business relationships with existing top-tier plush stuffed toys customers, and successfully increased the sales of plastic figures to owners and licensors of cartoon characters, and has received an encouraging response in the US and European markets after launch of this new segment. A unique feature plastic figures licensor has also been secured as a new customer. Product shipments were made during the second half of 2014 and a repeat order with a larger volume for 2015 has been secured, demonstrating the growth potential of this segment.

#### Ride-on toys segment

For the year ended 31 December 2014, sales generated from the ride-on toys segment were HK$47.6 million, making up 2.9% of the Group's total turnover. The Group's strategy for this segment is to offer a diversified product mix as well as to optimise capacity utilisation. While providing higher margin products to Japanese customers, it also produces bigger order volumes for customers from North America. The Group also penetrated the China market by supplying popular tricycle products. During the year under review, a new version of a popular ride-on toy featuring racer character has been successfully launched and well-received in the Japan market. Its four-wheel version was also launched there during the fourth quarter of 2014. In addition, a new tricycle series featuring a famous Japanese cartoon character was just introduced in China in early 2015.

### Market Analysis

For the year ended 31 December 2014, Japan remained as the Group's largest geographic market, accounting for 46.3% of the Group's total turnover. Contributions from North America increased to 36.6% of the total turnover, followed by Europe at 10.7% and China at 1.9%.

### Operational Analysis

As at 31 December 2014, the Group operated 11 plants in total, four of which were in China and seven in Vietnam, running at an average utilisation rate of 82%. In order to sustain business growth of the plastic figures segment, construction of the second plant in Hanoi dedicated to this segment was completed and it has started full operation in the fourth quarter of 2014.

## PROSPECTS

There are signs that the global economy is on the path of gradual recovery, and that the Group's two major markets, Japan and the US, are experiencing stable economic growth and prudently increasing their order volumes, providing a better macroeconomic environment for the Group's business expansion in the coming year. Therefore, despite facing challenges including potential international geopolitical issues and rising costs which are factors for every player in the manufacturing sector, the Group remains cautiously optimistic about its prospects.

# Management Discussion & Analysis

## PROSPECTS *(Continued)*

Looking ahead, the Group will continue its two-pronged strategy to cope with the constantly evolving global environment so as to maintain sustainable revenue growth in the long run. The plastic figures segment will become a key growth driver and is expected to grow rapidly in the coming years. Accordingly, the Group is planning to construct the third factory in Hanoi for the segment in 2015, boosting the production capacity of plastic figures further. As the operation is progressing on track, the Group is not only able to better utilise its production capacity but also enhance the production efficiency. Apart from that, the Group is continuing to leverage its competitive advantage in the plush toy market to further broaden the income stream and strengthen its leading position in the industry.

Riding on its well-established business foundation, the Group continues to actively explore new business opportunities across different geographic regions and product categories to maximise its market share. The upcoming global events, such as 2016 Olympics and 2018 World Cup, as well as the opening of a theme park in China should present potential for the Group's business growth. Seeing improving market sentiment and guided by its clear development strategies, the Group is confident of sustaining business growth and bringing long term returns to shareholders.

## NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2014, the Group had 13,426 (2013: 7,811) 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 2014, the Group had net current assets of HK$561.0 million (2013: HK$614.2 million). The Group's total cash and cash equivalents as at 31 December 2014 amounted to HK$241.6 million (2013: HK$320.6 million). The total bank loans of the Group as at 31 December 2014 amounted to HK$35.0 million (2013: HK$23.1 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 3.7% at 31 December 2014 (2013: 2.6%).

## 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$20.6 million as at 31 December 2014 (2013: HK$24.4 million).

## SIGNIFICANT INVESTMENT HELD

There was no significant investment held by the Group during the year ended 31 December 2014.

## MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiaries and associated companies during the year ended 31 December 2014.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The majority of the Group's assets and liabilities and business transactions were denominated in Hong Kong dollars, United States dollars, Renminbi Yuan, Vietnamese Dong, Japanese Yen and British Pound. During the year ended 31 December 2014, the Group had not entered into any hedging arrangements. The management will continue to monitor closely its foreign currency exposure and to consider hedging significant foreign currency exposure when necessary.

## CAPITAL COMMITMENTS

Details of capital commitments are included in note 32(a) to the consolidated financial statements.

## CONTINGENT LIABILITIES

As of 31 December 2014, the Group did not have any significant contingent liabilities.

# Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr Kyoo Yoon Choi**, aged 66, 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 59, is the 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 53, is the President 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 49, is currently the Head of accounting and administration 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 50, 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 68, 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 54, 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 60, 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 63, the President of Dream Vina Co., Ltd. Mr Kim has been working in the administration of C & H Co., Ltd and its subsidiaries ("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 54, is the President of Dream Shenzhen Co., Ltd. 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 consolidated financial statements for the year ended 31 December 2014.

## PRINCIPAL PLACE OF BUSINESS

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 18 to the consolidated financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 13 to the consolidated financial statements.

## CONSOLIDATED FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2014 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 31 to 121.

## TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$121,384,000 (2013: HK$116,782,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

## DIVIDENDS

An interim dividend of HK3 cents per share (2013: HK3 cents per share) was paid on 24 September 2014.

The Directors recommended the payment of a final dividend of HK5 cents per share (2013: HK5 cents per share) in respect of the year ended 31 December 2014.

## 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 | 38.0% |
| Five largest customers in aggregate | 77.1% |

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 close 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 (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 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 1 August 2014, 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 2015. 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 2014, the rent and administrative expenses paid amounted to HK$3,188,000 (2013: HK$3,108,000).

# 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, 25 September 2013, 1 August 2014, 4 August 2014 and 24 October 2014 respectively published on the website of the SEHK at www.hkexnews.hk and the website of the Company at www.dream-i.com.hk.

## RELATED PARTY TRANSACTIONS

During the year ended 31 December 2014, the Group conducted certain transactions with parties deemed as "related parties" under applicable accounting standard. The details of these transactions are set out in note 33 to the consolidated financial statements on pages 118 to 119 of this annual report. Save for the transactions mentioned in the above section "Connected Transactions" which are subject to announcement and disclosure requirements under Chapter 14A of the Listing Rules, certain transactions mentioned under the note also constituted connected transactions or continuing connecting transactions as defined in Chapter 14A of the Listing Rules but are exempt from the disclosure requirements under Chapter 14A of the Listing Rules.

## CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 21 to 29 of this annual report.

## CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2014 amounted to HK$1,127,000 (2013: HK$508,000).

## FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 15 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 30(c) to the consolidated financial statements. These movements include the automatic inclusion of the amounts standing to the share premium account and the capital redemption reserve in share capital as from 3 March 2014 in accordance with section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), as part of the transition to the no-par value regime. In addition, shares were issued during the year on exercise of share options.

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

During the year ended 31 December 2014, 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 Kyoo Yoon Choi, Mr Hyun Ho Kim and Professor Byong Hun Ahn 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 2014 for a term of two years commencing on 30 May 2014.

The service contract of Mr Tae Woong Kang, INED, was renewed on 20 August 2014 for a term of two years commencing on 20 August 2014.

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 2014 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 Listed Issuers (the "Model Code"):

### (i) Long positions in ordinary shares

| | 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 | 67.22% |
| – 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% |

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.

# 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 2014, none of the Directors or 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 on the date of grant, (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 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 2014 was 38,135,000 shares (2013: 42,835,000 shares) which represented 5.63% of the issued share capital of the Company at 31 December 2014. 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 2014, 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 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 2014 | Number of options: Exercised during the year | Number of options: Balance at 31 December 2014 | Weighted average closing price per share at respective dates immediately before dates of exercise of options |
|---|---|---|---|---|---|---|---|
| **Directors:** (Note 2) | | | | | | | |
| Young M. Lee | 23 December 2011 | 23 December 2013 to 22 December 2016 | HK$0.466 | 200,000 | (200,000) | – | HK$1.23 |
| James Chuan Yung Wang | 23 December 2011 | 23 December 2013 to 22 December 2016 | HK$0.466 | 200,000 | (200,000) | – | HK$1.30 |
| Hyun Ho Kim | 23 December 2011 | 23 December 2013 to 22 December 2016 | HK$0.466 | 150,000 | (150,000) | – | HK$1.30 |
| **Employees in aggregate:** | 23 December 2011 | 23 December 2013 to 22 December 2016 | HK$0.466 | 4,150,000 | (4,150,000) | – | HK$1.30 |
| | | | | 4,700,000 | (4,700,000) | – | |

Notes:

(1) Share options granted on 23 December 2011 shall be wholly exercisable from the 2nd anniversary of the date of grant.

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

(3) No share option has been granted, lapsed or cancelled during the year.

Save as disclosed above, at no time during the year was the Company, or any of its subsidiaries 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 and its associated corporations and none of the Directors or chief executive of the Company (including their spouses and children under the age of 18) held any interests in or was granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

# 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 2014, the Company has been notified of the following interests in the Company's issued shares at 31 December 2014 amounting to 5% or more of the ordinary shares in issue:

| Substantial shareholder | Capacity | Number of ordinary shares held (Long position) | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Kyoo Yoon Choi | Beneficial owner | 382,851,000 | 56.56% |
| | Corporate interest (Note 1) | 72,150,000 | 10.66% |
| Uni-Link Technology Limited (Note 2) | Beneficial owner | 72,150,000 | 10.66% |

Notes:

(1) Mr Kyoo Yoon Choi beneficially owns 100% of the issued share capital of Uni-Link Technology Limited which owned 72,150,000 shares of the Company.

(2) 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 2014, 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 consolidated 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 2014, 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 paragraphs headed "Connected transactions" and "Related party transactions" and note 33 to the consolidated financial statements.

## BANK LOANS

Particulars of bank loans of the Company and the Group as at 31 December 2014 are set out in note 26 to the consolidated 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 0.2% 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 consolidated 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 2014.

## AUDITORS

KPMG will 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, 26 March 2015

# 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 2014.

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 2014, 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.

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 2014, the Board consisted of four executive directors, namely Mr Kyoo Yoon Choi (Chairman and Chief Executive Officer ("CEO")), Mr Young M. Lee (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

Nine 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) | 2/9 | 1/1 |
| Young M. Lee | 9/9 | 1/1 |
| James Chuan Yung Wang | 3/9 | 1/1 |
| Hyun Ho Kim | 9/9 | 1/1 |
| Cheong Heon Yi | 5/9 | 1/1 |
| Byong Hun Ahn | 5/9 | 1/1 |
| Tae Woong Kang | 5/9 | 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 2014 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: receiving training courses and/or seminars relevant to corporate governance and laws and regulations update

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

## 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 constitute 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.

## 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 of the CG Code, 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 |

## 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 consolidated 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 8 to the consolidated 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 new Hong Kong Companies Ordinance (Cap. 622) ("Companies Ordinance"), all applicable individual 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 2014, 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 2014, the Audit Committee performed the following works:

(i) reviewed the annual financial report for the year ended 31 December 2013 and interim financial report for the six months ended 30 June 2014;

(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 2014 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.

## 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 2014, 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.

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 | 3,928 |
| Audit-related services | 602 |
| Non-audit services | 251 |
| | 4,781 |

## 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 2014 and the relevant review report has been submitted to the Audit Committee in March 2015 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 2014, 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 2014, 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 2014 AGM is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board and the Chairmen 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 shareholder(s) representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meeting 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 566 of the Companies Ordinance for convening an EGM.

Shareholder(s) representing at least 2.5% of the total voting rights of all shareholders; or not less than 50 shareholders having a relevant right to vote, 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 580 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 except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

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 name in the register of members of the Company. 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 31 to 121, which comprise the consolidated and company balance sheets as at 31 December 2014, 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 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), 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 2014 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

26 March 2015

# Consolidated income statement

*for the year ended 31 December 2014*

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Turnover** | 3 & 13 | **1,637,265** | 1,352,607 |
| Cost of sales | | **(1,270,551)** | (958,980) |
| **Gross profit** | | **366,714** | 393,627 |
| Other revenue | 4(a) | **17,082** | 11,573 |
| Other net income/(loss) | 4(b) | **29,147** | (22,718) |
| Distribution costs | | **(50,915)** | (47,352) |
| Administrative expenses | | **(194,712)** | (175,398) |
| **Profit from operations** | | **167,316** | 159,732 |
| Finance costs | 5(a) | **(899)** | (836) |
| Share of profits less losses of associates | 19 | **(243)** | 467 |
| **Profit before taxation** | 5 | **166,174** | 159,363 |
| Income tax | 7 | **(44,790)** | (42,581) |
| **Profit for the year** | | **121,384** | 116,782 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **122,787** | 123,934 |
| Non-controlling interests | | **(1,403)** | (7,152) |
| **Profit for the year** | | **121,384** | 116,782 |
| **Earnings per share** | 12 | | |
| Basic | | **18.16** | 18.44 ¢ |
| Diluted | | **18.14** | 18.37 ¢ |

The notes on pages 38 to 121 form part of these 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 2014*

| | Notes | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|---|
| **Profit for the year** | | **121,384** | 116,782 |
| **Other comprehensive income for the year (after tax and reclassification adjustments):** | 11 | | |
| Item that will not be reclassified to profit or loss: | | | |
| – Remeasurement of net defined benefit retirement obligation | | **(510)** | 515 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| – Exchange differences on translation of financial statements of subsidiaries outside Hong Kong | | **(4,960)** | 2,880 |
| – Available-for-sale security: net movement in the fair value reserve | | **(49)** | (174) |
| | | **(5,009)** | 2,706 |
| **Other comprehensive income for the year** | | **(5,519)** | 3,221 |
| **Total comprehensive income for the year** | | **115,865** | 120,003 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **117,102** | 127,106 |
| Non-controlling interests | | **(1,237)** | (7,103) |
| **Total comprehensive income for the year** | | **115,865** | 120,003 |

The notes on pages 38 to 121 form part of these financial statements.

# Consolidated balance sheet

*At 31 December 2014*

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 15(a) | | |
| – Interests in leasehold land held for own use under operating leases | | **48,310** | 31,314 |
| – Other property, plant and equipment | | **276,189** | 184,778 |
| | | **324,499** | 216,092 |
| Long term receivables and prepayments | 14 | **12,464** | 6,368 |
| Other intangible assets | 16 | **9,400** | 9,583 |
| Goodwill | 17 | **2,753** | 2,753 |
| Interest in associates | 19 | **–** | 502 |
| Deferred tax assets | 29(b) | **12,425** | 7,697 |
| Other financial assets | 21 | **25,691** | 28,980 |
| | | **387,232** | 271,975 |
| **Current assets** | | | |
| Inventories | 22 | **236,368** | 175,854 |
| Trade and other receivables | 23 | **328,591** | 263,718 |
| Current tax recoverable | 29(a) | **103** | 45 |
| Other financial assets | 21 | **10,930** | 11,035 |
| Time deposits | 24(a) | **23,037** | 79,476 |
| Cash and cash equivalents | 24(a) | **241,567** | 320,617 |
| | | **840,596** | 850,745 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | **229,325** | 186,714 |
| Bank loans | 26 | **35,001** | 22,274 |
| Current tax payable | 29(a) | **15,253** | 27,541 |
| | | **279,579** | 236,529 |
| **Net current assets** | | **561,017** | 614,216 |
| **Total assets less current liabilities** | | **948,249** | 886,191 |

# Consolidated balance sheet

*At 31 December 2014*

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank loans | 26 | – | 777 |
| Net defined benefit retirement obligation | 27(a) | **891** | 439 |
| | | **891** | 1,216 |
| **NET ASSETS** | | **947,358** | 884,975 |
| **CAPITAL AND RESERVES** | | | |
| Share capital: nominal value | 30(c) | – | 52,303 |
| Other statutory capital reserves | | – | 181,013 |
| Share capital and other statutory capital reserves | | **236,474** | 233,316 |
| Other reserves | | **712,553** | 654,112 |
| **Total equity attributable to equity shareholders of the Company** | | **949,027** | 887,428 |
| **Non-controlling interests** | | **(1,669)** | (2,453) |
| **TOTAL EQUITY** | | **947,358** | 884,975 |

Approved and authorised for issue by the board of directors on 26 March 2015.

| | |
|---|---|
| **Young M. Lee** | **Hyun Ho Kim** |
| *Director* | *Director* |

The notes on pages 38 to 121 form part of these financial statements.

# Balance sheet

*At 31 December 2014*

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 15(b) | **5,557** | 5,280 |
| Long term receivables and prepayments | 14 | **–** | 3,277 |
| Other intangible assets | 16 | **2,516** | 2,516 |
| Interest in subsidiaries | 18 | **669,617** | 551,833 |
| Interest in associates | 19 | **–** | 1,248 |
| Deferred tax assets | 29(b) | **325** | 231 |
| | | **678,015** | 564,385 |
| **Current assets** | | | |
| Inventories | 22 | **–** | 1,200 |
| Trade and other receivables | 23 | **296,000** | 230,706 |
| Time deposits | 24(a) | **932** | – |
| Cash and cash equivalents | 24(a) | **61,320** | 98,122 |
| | | **358,252** | 330,028 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | **261,940** | 149,241 |
| Bank loan | 26 | **8,532** | – |
| Current tax payable | 29(a) | **3,221** | 15,000 |
| | | **273,693** | 164,241 |
| **Net current assets** | | **84,559** | 165,787 |
| **Total assets less current liabilities** | | **762,574** | 730,172 |
| **NET ASSETS** | | **762,574** | 730,172 |
| **CAPITAL AND RESERVES** | 30(a) | | |
| Share capital: nominal value | | **–** | 52,303 |
| Other statutory capital reserves | | **–** | 181,013 |
| Share capital and other statutory capital reserves | | **236,474** | 233,316 |
| Other reserves | | **526,100** | 496,856 |
| **TOTAL EQUITY** | | **762,574** | 730,172 |

Approved and authorised for issue by the board of directors on 26 March 2015.

**Young M. Lee**
*Director*

**Hyun Ho Kim**
*Director*

The notes on pages 38 to 121 form part of these financial statements.

# Consolidated statement of changes in equity

*for the year ended 31 December 2014*

| | | Attributable to equity shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | 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 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 | 11 | – | – | – | – | – | 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 |

| | | Attributable to equity shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | 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 2014** | | 52,303 | 181,013 | 968 | 18,427 | (3,062) | 60,143 | 49 | 577,587 | 887,428 | (2,453) | 884,975 |
| **Changes in equity for 2014:** | | | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | – | – | 122,787 | 122,787 | (1,403) | 121,384 |
| Other comprehensive income | 11 | – | – | – | – | – | (5,126) | (49) | (510) | (5,685) | 166 | (5,519) |
| Total comprehensive income for the year | | – | – | – | – | – | (5,126) | (49) | 122,277 | 117,102 | (1,237) | 115,865 |
| Final dividend approved in respect of the previous year | 30(b)(ii) | – | – | – | – | – | – | – | (33,843) | (33,843) | – | (33,843) |
| Issuance of shares upon exercise of options under the predecessor Hong Kong Companies Ordinance | 30(c) | 15 | 119 | (41) | – | – | – | – | – | 93 | – | 93 |
| Transition to no-par value regime on 3 March 2014 | 30(c) | 181,132 | (181,132) | – | – | – | – | – | – | – | – | – |
| Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance | 30(c) | 3,024 | – | (927) | – | – | – | – | – | 2,097 | – | 2,097 |
| Transfer from retained profits | | – | – | – | 370 | – | – | – | (370) | – | – | – |
| Reserves released on disposal of interest in associates | 20 | – | – | – | – | – | (360) | – | – | (360) | – | (360) |
| Distribution to non-controlling interests | | – | – | – | – | (1,929) | – | – | – | (1,929) | 1,929 | – |
| Change in non-controlling interests | | – | – | – | – | (1,255) | – | – | – | (1,255) | 92 | (1,163) |
| Dividends declared in respect of the current year | 30(b)(i) | – | – | – | – | – | – | – | (20,306) | (20,306) | – | (20,306) |
| **Balance at 31 December 2014** | | 236,474 | – | – | 18,797 | (6,246) | 54,657 | – | 645,345 | 949,027 | (1,669) | 947,358 |

The notes on pages 38 to 121 form part of these financial statements.

# Consolidated cash flow statement

*for the year ended 31 December 2014*

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| **Cash generated from operations** | 24(b) | **78,850** | 118,582 |
| Tax paid | | | |
| – Hong Kong Profits Tax paid | | **(33,383)** | (2,513) |
| – Hong Kong Profits Tax refund | | **–** | 211 |
| – Tax paid outside Hong Kong | | **(28,442)** | (25,018) |
| **Net cash generated from operating activities** | | **17,025** | 91,262 |
| **Investing activities** | | | |
| Payment for purchase of property, plant and equipment | | **(174,460)** | (50,953) |
| Prepayment for the purchase of property, plant and equipment | | **(9,051)** | – |
| Net proceeds from the disposal of fixed assets of a PRC subsidiary | 15(e) | **62,122** | – |
| Proceeds from the disposal of other property, plant and equipment | | **1,434** | 1,335 |
| Payment for purchase of club memberships | | **(7)** | (2,160) |
| Payment for purchase of other financial assets | | **(14,919)** | (33,439) |
| Interest received | | **9,278** | 7,747 |
| Decrease in time deposits with maturity over three months | | **56,439** | 77,259 |
| Proceeds received upon maturity and/or sale of other financial assets | | **17,720** | 21,595 |
| Payment for purchase of shares of a subsidiary from non-controlling interests | | **(1,163)** | – |
| **Net cash (used in)/generated from investing activities** | | **(52,607)** | 21,384 |
| **Financing activities** | | | |
| Interest paid | | **(899)** | (836) |
| Proceeds from bank loans | | **82,135** | 55,934 |
| Repayment of bank loans | | **(69,868)** | (55,611) |
| Proceeds from shares issued under share option scheme | 30(c)(i) | **2,190** | – |
| Dividends paid | | **(54,149)** | (73,938) |
| **Net cash used in financing activities** | | **(40,591)** | (74,451) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(76,173)** | 38,195 |
| **Cash and cash equivalents at 1 January** | | **320,617** | 281,550 |
| **Effect of foreign exchange rate changes** | | **(2,877)** | 872 |
| **Cash and cash equivalents at 31 December** | 24(a) | **241,567** | 320,617 |

The notes on pages 38 to 121 form part of these 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") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that 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 2014 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 that financial instruments classified as available-for-sale or financial assets designated at fair value through profit or loss are stated at their fair values as explained in the accounting policies set out below in note 1(f).

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 other 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)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

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

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.

# Notes to the consolidated financial statements

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

– the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

– the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

– the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

– the separation of the embedded derivatives from the financial instrument is not prohibited.

Financial assets and financial liabilities designated at fair value through profit or loss upon initial recognition are carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is recognised in profit or loss.

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). Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

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.

# Notes to the consolidated financial statements

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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 finance leases and buildings thereon (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.
- Leasehold land classified as held under finance leases is depreciated over unexpired term of lease.
- Building situated on leasehold land 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.

# Notes to the consolidated financial statements

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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.

### (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 the 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.

# Notes to the consolidated financial statements

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Leased assets *(Continued)*

#### (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.

### (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.

# 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)*

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.

– 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.

# 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)*

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

#### (ii) Impairment of other assets

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

– 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.

# Notes to the consolidated financial statements

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Impairment of assets *(Continued)*

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

– *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).

– *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.

# Notes to the consolidated financial statements

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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.

### (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.

# Notes to the consolidated financial statements

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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.

#### (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 as "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)).

# Notes to the consolidated financial statements

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) Employee benefits *(Continued)*

(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.

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 included in the amount recognised in share capital for shares issued) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the 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 and unused tax credits.

# 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 back or 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 and credits, 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.

# Notes to the consolidated financial statements

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) Income tax *(Continued)*

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

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

### (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.

# Notes to the consolidated financial statements

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Revenue recognition *(Continued)*

(ii) Interest income

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

(iii) Compensation income

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

(iv) Dividends

Dividend income from unlisted investments is recognised when the shareholders' 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 measured.

The results of 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 an operation 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 an operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the operation outside Hong Kong.

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 the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

– Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

– Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*

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 the new or amended HKFRSs are discussed below:

### Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

### Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The disclosure about the Group's impairment of other intangible assets recognised in the current and previous period in note 16 have been conformed to the amended disclosure requirement. These amendments do not have material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

# Notes to the consolidated financial statements

## 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 (2013: two) customers with whom the value of transactions have exceeded 10% of the Group's revenues. During the year ended 31 December 2014, the revenues from sales of plush stuffed toys and plastic figures to these customers amounted to approximately HK$622,782,000 and HK$477,912,000 (2013: HK$526,126,000 and HK$368,551,000) respectively and incurred in Hong Kong, North America, Japan and Europe (2013: Hong Kong, North America, Japan and Europe) geographical regions in which the plush stuffed toys and plastic figures segments are active. Details of concentrations of credit risk arising from these customers are set out in note 31(a).

Further details regarding the Group's principal activities are disclosed in note 13 to these financial statements.

## 4 OTHER REVENUE AND NET INCOME/(LOSS)

### (a) Other revenue

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Bank interest income | **5,339** | 3,854 |
| Interest income from other financial assets | **3,939** | 3,893 |
| Sundry income | **7,804** | 3,826 |
| | **17,082** | 11,573 |

### (b) Other net income/(loss)

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Gain on disposal of interest in associates (note 20) | **111** | – |
| Net gain on disposal of fixed assets of a PRC subsidiary (note 15(e)) | **37,105** | – |
| Net loss on disposal of other property, plant and equipment | **(1,969)** | (1,056) |
| Net (loss)/gain on disposal of other financial assets | **(126)** | 177 |
| Net realised and unrealised gain/(loss) on other financial assets | **596** | (2,694) |
| Write-off of other receivables | **(943)** | – |
| Write-off of compensation receivable (note) | **–** | (3,809) |
| Impairment loss on fixed assets (note 15(a)) | **(4,049)** | – |
| Impairment loss on club memberships (note 16) | **–** | (1,583) |
| Impairment loss on available-for-sale equity security (note 21(iv)) | **–** | (8,705) |
| Net foreign exchange loss | **(1,508)** | (5,178) |
| Others | **(70)** | 130 |
| | **29,147** | (22,718) |

Note: The write-off of compensation receivable during the year ended 31 December 2013 represented write-off of compensation received by the Group regarding losses from fire at the production plant of a subsidiary of the Company in Suzhou, the PRC on 29 September 2012.

# Notes to the consolidated financial statements

## 5 PROFIT BEFORE TAXATION

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

| | | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|---|
| (a) | Finance costs | | | |
| | Interest expense on bank borrowings wholly repayable within five years | | 899 | 836 |
| (b) | Staff costs# | | | |
| | Expenses recognised in respect of defined benefit retirement plan | 27(a)(v) | 951 | 1,352 |
| | Contributions to defined contribution retirement plan | | 23,144 | 5,474 |
| | Total retirement costs | | 24,095 | 6,826 |
| | Equity settled share-based payment expenses | | – | 499 |
| | Salaries, wages and other benefits | | 484,169 | 361,645 |
| | | | 508,264 | 368,970 |
| (c) | Other items | | | |
| | Amortisation of land lease premium | 15(a) | 791 | 624 |
| | Depreciation# | 15(a) | 31,760 | 24,615 |
| | Impairment loss recognised on trade receivables | 23(b) | 427 | 350 |
| | Reversal of impairment loss on trade receivables | 23(b) | (118) | (409) |
| | Impairment loss recognised on other receivables | | 2,019 | 238 |
| | Reversal of impairment loss on other receivables | | (78) | (310) |
| | Reversal of provision for custom duties (note)# | | – | (13,426) |
| | Reversal of provision for Corporate Income Tax ("CIT") (note)# | | – | (6,543) |
| | Auditors' remuneration | | 4,101 | 5,599 |
| | Operating lease charges: minimum lease payments in respect of property rentals# | | 29,649 | 25,923 |
| | Cost of inventories# | 22(b) | 1,270,551 | 958,980 |

# Cost of inventories includes HK$443,743,000 (2013: HK$288,605,000) 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.

Note: The Company operated a processing factory in Shenzhen, the PRC. 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 for custom duties and CIT amounting to HK$13,426,000 and HK$6,543,000 respectively recorded in prior years in the Group's and the Company's financial statements were reversed and were included in "cost of sales" in the consolidated income statement for the year ended 31 December 2013.

## 6 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 approximately 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 approximately HK$1,939,000) was included in "administrative expenses" in the consolidated income statement for the year ended 31 December 2013. The final settlement of US$150,000 (equivalent to approximately HK$1,163,000) was made during the year ended 31 December 2014.

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

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| Within 1 year (note 25) | **–** | 1,163 |

# Notes to the consolidated financial statements

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| **Current tax – Hong Kong Profits Tax** | | |
| Provision for the year | **21,655** | 18,474 |
| Over-provision in respect of prior years | **(50)** | (582) |
| | **21,605** | 17,892 |
| **Current tax – Outside Hong Kong** | | |
| Provision for the year | **28,189** | 24,721 |
| (Over)/under-provision in respect of prior years | **(194)** | 125 |
| | **27,995** | 24,846 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences (note 29(b)(i)) | **(4,810)** | (157) |
| | **44,790** | 42,581 |

The provision for Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 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 for the years ended 31 December 2014 and 2013 included withholding tax paid on dividend income from a subsidiary.

The CIT rate applicable to subsidiaries registered in the PRC is 25% (2013: 25%).

# Notes to the consolidated financial statements

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

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

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Profit before taxation | **166,174** | 159,363 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned | **31,793** | 26,250 |
| Tax effect of non-deductible expenses | **10,967** | 7,407 |
| Tax effect of non-taxable income | **(6,922)** | (6,653) |
| Tax effect of utilisation of previously unrecognised tax losses | **(2,851)** | (3,786) |
| Tax effect of unused tax losses not recognised | **1,774** | 10,103 |
| Tax effect of write-off of previously recognised tax losses | **1,703** | 1,181 |
| Tax effect of recognition of previously unrecognised tax losses | **(1,666)** | – |
| Over-provision in prior years | **(244)** | (457) |
| Withholding tax paid | **10,236** | 8,536 |
| Actual tax expense | **44,790** | 42,581 |

# Notes to the consolidated financial statements

## 8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

| | Directors' fees HK$'000 | Salaries, allowances, discretionary bonuses, and benefits in kind HK$'000 | Retirement scheme contributions HK$'000 | Sub-total HK$'000 | Share-based payments (note) HK$'000 | 2014 Total HK$'000 |
|---|---|---|---|---|---|---|
| **Chairman and executive director** | | | | | | |
| Kyoo Yoon Choi | – | 7,453 | – | 7,453 | – | 7,453 |
| **Executive directors** | | | | | | |
| Young M. Lee | – | 2,562 | – | 2,562 | – | 2,562 |
| James Chuan Yung Wang | – | 1,997 | – | 1,997 | – | 1,997 |
| Hyun Ho Kim | – | 1,694 | – | 1,694 | – | 1,694 |
| **Independent non-executive directors** | | | | | | |
| Cheong Heon Yi | 164 | – | – | 164 | – | 164 |
| Byong Hun Ahn | 154 | – | – | 154 | – | 154 |
| Tae Woong Kang | 145 | – | – | 145 | – | 145 |
| | 463 | 13,706 | – | 14,169 | – | 14,169 |

| | Directors' fees HK$'000 | Salaries, allowances, discretionary bonuses, and benefits in kind HK$'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 |

# Notes to the consolidated financial statements

## 8 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.

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2013: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2013: three) individuals are as follows:

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Salaries and other emoluments | **7,266** | 6,932 |
| Discretionary bonuses | **–** | – |
| Share-based payments | **–** | 66 |
| Retirement scheme contributions | **–** | – |
| | **7,266** | 6,998 |

The emoluments of the three (2013: three) individuals with the highest emolument are within the following bands:

| | **2014 Number of individuals** | 2013 Number of individuals |
|---|---|---|
| **HK$** | | |
| 1,000,001 – 1,500,000 | **–** | – |
| 1,500,001 – 2,000,000 | **–** | – |
| 2,000,001 – 2,500,000 | **2** | 2 |
| 2,500,001 – 3,000,000 | **1** | 1 |

# Notes to the consolidated financial statements

## 10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$84,361,000 (2013: HK$49,941,000) which has been dealt with in the financial statements of the Company.

## 11 OTHER COMPREHENSIVE INCOME

### (a) Tax effects relating to each component of other comprehensive income

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Before tax amount HK$'000** | **Tax benefit HK$'000** | **Net-of-tax amount HK$'000** | Before tax amount HK$'000 | Tax benefit HK$'000 | Net-of-tax amount HK$'000 |
| Exchange differences on translation of financial statements of subsidiaries outside Hong Kong | **(4,960)** | **–** | **(4,960)** | 2,880 | – | 2,880 |
| Remeasurement of net defined benefit retirement obligation | **(510)** | **–** | **(510)** | 515 | – | 515 |
| Available-for-sale security: net movement in the fair value reserve | **(63)** | **14** | **(49)** | (222) | 48 | (174) |
| Other comprehensive income | **(5,533)** | **14** | **(5,519)** | 3,173 | 48 | 3,221 |

### (b) Components of other comprehensive income, including reclassification adjustments

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| **Available-for-sale security** | | |
| Changes in fair value recognised during the year | **–** | (174) |
| Reclassification adjustments for amounts transferred to profit or loss – disposal | **(49)** | – |
| Net movement in the fair value reserve during the year recognised in other comprehensive income | **(49)** | (174) |

## 12 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$122,787,000 (2013: HK$123,934,000) and the weighted average number of ordinary shares of 675,973,000 shares (2013: 672,165,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

| | **2014** **'000** | 2013 '000 |
|---|---|---|
| Issued ordinary shares at 1 January | **672,165** | 672,165 |
| Effect of share options exercised | **3,808** | – |
| Weighted average number of ordinary shares at 31 December | **675,973** | 672,165 |

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$122,787,000 (2013: HK$123,934,000) and the weighted average number of ordinary shares of 676,865,000 shares (2013: 674,774,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

| | **2014** **'000** | 2013 '000 |
|---|---|---|
| Weighted average number of ordinary shares at 31 December | **675,973** | 672,165 |
| Effect of deemed issue of shares under the Company's share option scheme for nil consideration | **892** | 2,609 |
| Weighted average number of ordinary shares (diluted) at 31 December | **676,865** | 674,774 |

# Notes to the consolidated financial statements

## 13 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has 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 primarily in 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 design, development, manufacture and sale of plastic figures. These products are manufactured in the Group's manufacturing facilities located primarily in the PRC and Vietnam.

### (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 the adjusted EBITDA, the Group's earnings are further adjusted for items not specially attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning the 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

## 13 SEGMENT REPORTING *(Continued)*

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below.

| | Plush stuffed toys | | Ride-on toys | | Plastic figures | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2014 HK$'000** | 2013 HK$'000 | **2014 HK$'000** | 2013 HK$'000 | **2014 HK$'000** | 2013 HK$'000 | **2014 HK$'000** | 2013 HK$'000 |
| Revenue from external customers | **1,377,432** | 1,219,744 | **47,608** | 48,160 | **212,225** | 84,703 | **1,637,265** | 1,352,607 |
| Inter-segment revenue | **41,603** | 21,955 | **671** | – | **1,582** | 117 | **43,856** | 22,072 |
| **Reportable segment revenue** | **1,419,035** | 1,241,699 | **48,279** | 48,160 | **213,807** | 84,820 | **1,681,121** | 1,374,679 |
| **Reportable segment profit/(loss) (adjusted EBITDA)** | **226,595** | 215,472 | **6,023** | (19,549) | **(12,555)** | 8,831 | **220,063** | 204,754 |
| Bank interest income | **5,257** | 3,756 | **45** | 12 | **37** | 86 | **5,339** | 3,854 |
| Interest expense | **(899)** | (836) | **–** | – | **–** | – | **(899)** | (836) |
| Depreciation and amortisation for the year | **(17,607)** | (15,518) | **(4,988)** | (5,846) | **(9,956)** | (3,875) | **(32,551)** | (25,239) |
| Impairment loss on fixed assets | **–** | – | **(4,049)** | – | **–** | – | **(4,049)** | – |
| **Reportable segment assets** | **889,603** | 594,761 | **32,417** | 72,656 | **252,073** | 128,158 | **1,174,093** | 795,575 |
| Additions to non-current segment assets during the year | **117,893** | 20,221 | **16,195** | 5,642 | **49,423** | 25,090 | **183,511** | 50,953 |
| **Reportable segment liabilities** | **211,977** | 140,029 | **62,095** | 74,499 | **225,562** | 103,415 | **499,634** | 317,943 |

# Notes to the consolidated financial statements

## 13 SEGMENT REPORTING *(Continued)*

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

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Reportable segment revenue | **1,681,121** | 1,374,679 |
| Elimination of inter-segment revenue | **(43,856)** | (22,072) |
| Consolidated turnover | **1,637,265** | 1,352,607 |
| **Profit** | | |
| Reportable segment profit | **220,063** | 204,754 |
| Gain on disposal of interest in associates | **111** | – |
| Share of profits less losses of associates | **(243)** | 467 |
| Interest income | **9,278** | 7,747 |
| Depreciation and amortisation | **(32,551)** | (25,239) |
| Finance costs | **(899)** | (836) |
| Impairment loss on fixed assets | **(4,049)** | – |
| Impairment loss on club memberships | **–** | (1,583) |
| Unallocated head office and corporate expenses | **(25,536)** | (25,947) |
| Consolidated profit before taxation | **166,174** | 159,363 |
| **Assets** | | |
| Reportable segment assets | **1,174,093** | 795,575 |
| Elimination of inter-segment receivables | **(269,418)** | (130,790) |
| | **904,675** | 664,785 |
| Club memberships | **9,400** | 9,583 |
| Interest in associates | **–** | 502 |
| Other financial assets | **36,621** | 40,015 |
| Deferred tax assets | **12,425** | 7,697 |
| Current tax recoverable | **103** | 45 |
| Unallocated head office and corporate assets | **264,604** | 400,093 |
| Consolidated total assets | **1,227,828** | 1,122,720 |

# Notes to the consolidated financial statements

## 13 SEGMENT REPORTING *(Continued)*

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

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| **Liabilities** | | |
| Reportable segment liabilities | **499,634** | 317,943 |
| Elimination of inter-segment payables | **(269,418)** | (130,790) |
| | **230,216** | 187,153 |
| Current tax payable | **15,253** | 27,541 |
| Unallocated head office and corporate liabilities | **35,001** | 23,051 |
| Consolidated total liabilities | **280,470** | 237,745 |

### (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, prepayments for fixed 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 assets 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, prepayments for fixed assets and goodwill, and the location of operations in the case of interest in associates.

| | **Revenue from external customers** | | **Specified non-current assets** | |
|---|---|---|---|---|
| | **2014 HK$'000** | 2013 HK$'000 | **2014 HK$'000** | 2013 HK$'000 |
| Hong Kong (place of domicile) | **21,027** | 10,645 | **1,682** | 767 |
| North America | **599,856** | 483,340 | **199** | 200 |
| Japan | **758,617** | 634,979 | **3,566** | 3,637 |
| Europe | **175,085** | 124,817 | **–** | – |
| South America | **18,290** | 40,899 | **–** | – |
| The PRC | **30,904** | 32,347 | **33,140** | 55,938 |
| Vietnam | **23,690** | 9,061 | **299,172** | 162,030 |
| Korea | **7,509** | 10,821 | **7,944** | 6,358 |
| Other countries | **2,287** | 5,698 | **–** | – |
| | **1,616,238** | 1,341,962 | **344,021** | 228,163 |
| | **1,637,265** | 1,352,607 | **345,703** | 228,930 |

# Notes to the consolidated financial statements

## 14 LONG TERM RECEIVABLES AND PREPAYMENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Proceeds from disposal of interest in a subsidiary (note 14(a)) | **–** | 2,325 | **–** | 2,325 |
| Loans to a supplier (note 14(b)) | **3,413** | 3,091 | **–** | – |
| Prepayments (note 14(c)) | **9,051** | – | **–** | – |
| Other receivables | **–** | 952 | **–** | 952 |
| | **12,464** | 6,368 | **–** | 3,277 |

(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 approximately 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 approximately 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 was agreed by both the Company and the Purchaser as follows:

| | The Group and the Company | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Within 1 year | **2,325** | – |
| After 1 year but within 5 years | **–** | 2,325 |
| | **2,325** | 2,325 |

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

(b) Loans to a supplier bear interest at 7% per annum and are repayable in February 2016 and May 2016. Loans amounting to HK$3,413,000 (2013: HK$1,546,000) are guaranteed by the parent company of the supplier.

(c) The prepayments relate to the purchase of fixed assets of the Company's subsidiaries.

# Notes to the consolidated financial statements

## 15 FIXED ASSETS

### (a) The Group

| | Freehold land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Office equipment, furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Sub-total HK$'000 | Interests in leasehold land held for own use under operating leases HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | |
| At 1 January 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 |
| At 1 January 2014 | 129,965 | 6,914 | 182,496 | 17,080 | 9,418 | 3,973 | 349,846 | 34,146 | 383,992 |
| Exchange adjustments | (440) | (92) | (1,484) | (264) | (136) | (55) | (2,471) | (94) | (2,565) |
| Additions | 37,896 | 2,359 | 38,805 | 1,549 | 3,495 | 68,984 | 153,088 | 21,372 | 174,460 |
| Disposal of fixed assets of a PRC subsidiary (note 15(e)) | (30,274) | – | (5,826) | (295) | – | – | (36,395) | (4,211) | (40,606) |
| Disposals of other fixed assets | (215) | – | (24,224) | (5,388) | (2,022) | – | (31,849) | – | (31,849) |
| Transfers | 22,820 | – | 10,766 | – | 283 | (33,869) | – | – | – |
| At 31 December 2014 | 159,752 | 9,181 | 200,533 | 12,682 | 11,038 | 39,033 | 432,219 | 51,213 | 483,432 |
| **Accumulated amortisation, depreciation and impairment loss:** | | | | | | | | | |
| 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 |
| At 1 January 2014 | 23,963 | 4,702 | 117,586 | 13,535 | 5,282 | – | 165,068 | 2,832 | 167,900 |
| Exchange adjustments | (141) | (63) | (1,073) | (198) | (45) | – | (1,520) | (12) | (1,532) |
| Charge for the year | 3,798 | 1,568 | 23,430 | 1,304 | 1,660 | – | 31,760 | 791 | 32,551 |
| Impairment loss | – | – | 4,031 | 18 | – | – | 4,049 | – | 4,049 |
| Written back on disposal of fixed assets of a PRC subsidiary (note 15(e)) | (10,080) | – | (4,513) | (288) | – | – | (14,881) | (708) | (15,589) |
| Written back on disposals of other fixed assets | (65) | – | (22,160) | (4,620) | (1,601) | – | (28,446) | – | (28,446) |
| At 31 December 2014 | 17,475 | 6,207 | 117,301 | 9,751 | 5,296 | – | 156,030 | 2,903 | 158,933 |
| **Net book value:** | | | | | | | | | |
| At 31 December 2014 | 142,277 | 2,974 | 83,232 | 2,931 | 5,742 | 39,033 | 276,189 | 48,310 | 324,499 |
| At 31 December 2013 | 106,002 | 2,212 | 64,910 | 3,545 | 4,136 | 3,973 | 184,778 | 31,314 | 216,092 |

During the year ended 31 December 2014, the Group assessed the recoverable amounts of the fixed assets of a Vietnam subsidiary and as a result the carrying amount of the fixed assets was written down to their recoverable amount of HK$Nil. An impairment loss of HK$4,049,000 was included in "other net income/(loss)" in the consolidated income statement. The estimates of recoverable amount were based on the fixed assets' value in use of HK$Nil.

As at 31 December 2014, leasehold land amounting to HK$7,779,000 was in the process of applying for certificate of land use right in Vietnam.

# Notes to the consolidated financial statements

## 15 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 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 |
| At 1 January 2014 | 4,603 | 2,515 | 3,509 | 284 | 95 | 11,006 |
| Additions | – | 1,306 | – | 415 | – | 1,721 |
| Disposals | – | – | (147) | – | – | (147) |
| At 31 December 2014 | 4,603 | 3,821 | 3,362 | 699 | 95 | 12,580 |
| **Accumulated depreciation:** | | | | | | |
| 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 |
| At 1 January 2014 | 1,112 | 1,338 | 3,006 | 175 | 95 | 5,726 |
| Charge for the year | 115 | 986 | 232 | 102 | – | 1,435 |
| Written back on disposals | – | – | (138) | – | – | (138) |
| At 31 December 2014 | 1,227 | 2,324 | 3,100 | 277 | 95 | 7,023 |
| **Net book value:** | | | | | | |
| At 31 December 2014 | 3,376 | 1,497 | 262 | 422 | – | 5,557 |
| At 31 December 2013 | 3,491 | 1,177 | 503 | 109 | – | 5,280 |

# Notes to the consolidated financial statements

## 15 FIXED ASSETS *(Continued)*

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Outside Hong Kong | | | | |
| – medium-term leases | **187,211** | 133,825 | **–** | – |
| – freehold | **3,376** | 3,491 | **3,376** | 3,491 |
| | **190,587** | 137,316 | **3,376** | 3,491 |
| **Representing:** | | | | |
| Land and buildings carried at cost | **142,277** | 106,002 | **3,376** | 3,491 |
| Interests in leasehold land held for own use under operating leases | **48,310** | 31,314 | **–** | – |
| | **190,587** | 137,316 | **3,376** | 3,491 |

### (d) Pledged assets

Certain fixed assets of the Group with an aggregate carrying amount of HK$20,574,000 (2013: HK$24,448,000) as at 31 December 2014 were pledged to various banks to secure bank loans granted to the Group (note 26).

### (e) Disposal of fixed assets of a PRC subsidiary

On 9 July 2014, a non-wholly owned PRC subsidiary of the Company entered into an asset transfer agreement with a third party to dispose of fixed assets, situated in Taicang City, Jiangsu Province, the PRC for a total consideration of RMB58,000,000 (equivalent to approximately of HK$73,080,000).

# Notes to the consolidated financial statements

## 15 FIXED ASSETS *(Continued)*

### (e) Disposal of fixed assets of a PRC subsidiary *(Continued)*

The disposal was completed on 23 July 2014 and details are summarised as follows:

| | **2014** |
|---|---|
| | HK$'000 |
| Fixed assets | |
| – Cost (note 15(a)) | 40,606 |
| – Accumulated depreciation (note 15(a)) | (15,589) |
| | 25,017 |
| Net gain on disposal (note 4(b)) | 37,105 |
| Cost of disposal | 10,958 |
| Consideration | 73,080 |
| **Satisfied by:** | |
| Cash | 73,080 |

# Notes to the consolidated financial statements

## 16 OTHER INTANGIBLE ASSETS

| | The Group | | |
|---|---|---|---|
| | **Club memberships** HK$'000 | **Patent** HK$'000 | **Total** HK$'000 |
| **Cost:** | | | |
| 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 |
| At 1 January 2014 | 15,132 | 3,382 | 18,514 |
| Additions | 7 | – | 7 |
| Exchange adjustment | (304) | – | (304) |
| At 31 December 2014 | 14,835 | 3,382 | 18,217 |
| **Accumulated amortisation and impairment losses:** | | | |
| 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 |
| At 1 January 2014 | 5,549 | 3,382 | 8,931 |
| Exchange adjustment | (114) | – | (114) |
| At 31 December 2014 | 5,435 | 3,382 | 8,817 |
| **Net book value:** | | | |
| At 31 December 2014 | 9,400 | – | 9,400 |
| At 31 December 2013 | 9,583 | – | 9,583 |

# Notes to the consolidated financial statements

## 16 OTHER INTANGIBLE ASSETS *(Continued)*

| | **The Company Club memberships** HK$'000 |
|---|---|
| **Cost:** | |
| At 1 January 2013 | 1,303 |
| Additions | 2,160 |
| At 31 December 2013, 1 January 2014 and 31 December 2014 | 3,463 |
| **Accumulated impairment losses:** | |
| At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014 | 947 |
| **Net book value:** | |
| At 31 December 2014 | 2,516 |
| At 31 December 2013 | 2,516 |

Club memberships of the Group and the Company are assessed to have indefinite useful lives during the year ended 31 December 2014 and 2013 and, accordingly, no amortisation is charged.

The Group and the Company assessed the recoverable amounts of club memberships during the year ended 31 December 2014 and 2013. During the year ended 31 December 2013, the fair value of a number of club memberships of the Group decreased. As a result the carrying amount of the club memberships was written down to their recoverable amount of HK$6,146,000. An impairment loss of HK$1,583,000 was included in "other net income/(loss)" in the consolidated income statement for the year ended 31 December 2013. No impairment loss was recognised during the year ended in 31 December 2014. The estimates of recoverable amount were based on the club memberships' fair values less costs of disposal, using market comparison approach by reference to recent sales price of similar assets. The fair value on which the recoverable amount is based on is categorised as a level 1 measurement.

# Notes to the consolidated financial statements

## 17 GOODWILL

| | The Group HK$'000 |
|---|---|
| At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014 | 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 approximately 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 2013 and 2014. The result of the test indicated no impairment charge was necessary.

## 18 INTEREST IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2014 HK$'000** | 2013 HK$'000 |
| Unlisted equities, at cost | **421,094** | 381,169 |
| Loans to subsidiaries (note (ix)) | **327,462** | 240,873 |
| | **748,556** | 622,042 |
| Less: impairment loss (note (x)) | **(78,939)** | (70,209) |
| | **669,617** | 551,833 |

# Notes to the consolidated financial statements

## 18 INTEREST IN SUBSIDIARIES *(Continued)*

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

| Name of company | Place of incorporation/ registration and operation | Particulars of issued/ registered and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by subsidiaries | 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 | 3,500,000 shares | 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 (note (viii)) | Vietnam | Registered and paid up capital of US$5,500,000 | 100% | 100% | – | Manufacture of fabrics and dyeing |
| Dream Mekong Co., Ltd | Vietnam | Registered capital of US$5,000,000 and paid up capital of US$3,000,000 | 100% | – | 100% | Manufacture of plush stuffed toys |
| Dream Plastic Co., Ltd (note (iii)) | Vietnam | Registered and paid up capital of US$13,500,000 | 100% | 100% | – | Manufacture of plastic figures |
| C & H HK Corp., Ltd (note (ii)) | Hong Kong | 10,500,002 shares | 74.29% | 74.29% | – | Trading of ride-on toys and investment holding |
| J.Y. Plasteel (Suzhou) Co., Ltd# (note (v)) | The PRC | Registered and paid up capital of US$7,500,000 | 74.29% | – | 100% | Manufacture of ride-on toys |

# Notes to the consolidated financial statements

## 18 INTEREST 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 subsidiaries | Principal activities |
|---|---|---|---|---|---|---|
| C & H Toys (Mingguang) Co., Ltd# | The PRC | Registered and paid up capital of US$1,000,000 | 100% | 100% | – | Manufacture of plush stuffed toys |
| C & H Toys (Chaohu) Co., Ltd# (note (vi)) | The PRC | Registered and paid up capital of US$8,000,000 | 100% | – | 100% | Manufacture of plush stuffed toys |
| Shenzhen C & H Plastic & Hardware Co., Ltd (note (i)) | The PRC | Registered and paid up capital of RMB2,200,000 | 100% | – | 100% | 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 |
| J.Y. Hanam Co., Ltd (formerly known as Dream Plastic Company Limited Ha Nam) (note (vii)) | Vietnam | Registered and paid up capital of VND100,000,000,000 | 100% | – | 100% | Manufacture of plush stuffed toys |
| J.Y. Vina Co., Ltd (note (iv)) | Vietnam | Registered and paid up capital of VND105,850,000,000 | 100% | – | 100% | Manufacture of plush stuffed toys |
| J.Y. Plasteel Vina Co., Ltd (note (iv)) | Vietnam | Registered capital of US$3,500,000 and paid up capital of US$3,000,000 | 74.29% | – | 100% | Manufacture of ride-on 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

## 18 INTEREST IN SUBSIDIARIES *(Continued)*

Notes:

(i) In 2014, 1% equity interest, with investment amount of RMB22,000 (equivalent to approximately HK$27,000), in Shenzhen C & H Plastic & Hardware Co., Ltd, in the PRC, was transferred from the Company to a subsidiary of the Company. After the transfer, Shenzhen C&H Plastic & Hardware Co., Ltd became the wholly-owned subsidiary of Dream Shenzhen Co., Ltd.

(ii) In 2014, 1.43% equity interest in C & H HK Corp., Ltd, in Hong Kong, was transferred from a minority shareholder to the Company, at a consideration of US$150,000 (equivalent to approximately HK$1,163,000). After the transfer, the equity interest of the Company in C&H HK Corp., Ltd is 74.29% (2013: 72.86%).

(iii) In 2014, the Company contributed additional capital of US$5,000,000 (equivalent to approximately HK$38,789,000) to Dream Plastic Co., Ltd, in Vietnam.

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

(iv) In 2014, J.Y. International Company Limited and C & H HK Corp., Ltd set up two wholly-owned subsidiaries, namely J.Y. Vina Co., Ltd and J.Y. Plasteel Vina Co., Ltd, with paid up capital of VND105,850,000,000 (equivalent to approximately HK$38,775,000) and US$3,000,000 (equivalent to approximately HK$23,260,000), respectively, as at 31 December 2014.

(v) In 2014, J.Y. Plasteel (Suzhou) Co., Ltd reduced registered and paid up capital of US$3,000,000 (equivalent to approximately HK$23,052,000) from C&H HK Corp., Ltd after obtaining approval from local authority.

(vi) In 2014, C&H Toys (Suzhou) Co., Ltd contributed additional capital of US$6,000,000 to C&H Toys (Chaohu) Co., Ltd.

(vii) In 2013, Dream Plastic Co., Ltd set up a wholly-owned subsidiary, J.Y. Hanam Co., Ltd, (formerly known as Dream Plastic Company Limited Ha Nam), with paid up capital of VND25,100,000,000 (equivalent to approximately HK$9,287,000) as at 31 December 2013. In 2014, the Company further injected capital of VND74,900,000,000 (equivalent to approximately HK$27,713,000).

(viii) In 2013, 45.45% equity interest in Dream Textile Co., Ltd, in Vietnam, was transferred from Dream Vina Co., Ltd to the Company.

(ix) Loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for loans to subsidiaries of HK$158,610,000 (2013: HK$97,416,000) which are unsecured, interest-bearing at a fixed rate of 1.00% or 0.50% over 3-month LIBOR (2013: at a fixed rate of 1.00% or 0.50% over 3-month LIBOR) per annum and with maturities through November 2016 to March 2021. 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 2014 ranged from 0.73% to 1.00% (2013: 0.78% to 1.00%).

(x) An impairment of HK$8,730,000 (2013: HK$55,526,000) was recognised for the year ended 31 December 2014 in order to write down the interest in subsidiaries to the recoverable amount.

# Notes to the consolidated financial statements

## 19 INTEREST IN ASSOCIATES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Unlisted equities, at cost | **–** | – | **–** | 1,248 |
| Share of net assets | **–** | 502 | **–** | – |
| | **–** | 502 | **–** | 1,248 |

On 7 July 2014, the Group disposed of its 20% equity interest in associates (note 20).

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:

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| Name of associate | Place of incorporation/ registration and operation | Particulars of issued share capital/ registered capital | 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:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Aggregate carrying amount of individually immaterial associates in the consolidated financial statements | **–** | 502 |
| Aggregate amounts of the Group's share of those associates' | | |
| – (Loss)/profit from continuing operations | **(243)** | 467 |
| – Other comprehensive income | **(10)** | 8 |
| – Total comprehensive income | **(253)** | 475 |

# Notes to the consolidated financial statements

## 20 DISPOSAL OF INTEREST IN ASSOCIATES

On 7 July 2014, the Group disposed of all its interest in associates, Kedington Enterprises Inc. ("Kedington"), together with its wholly-owned subsidiary, Yuan Lin Toys (Suzhou) Co., Ltd at nil consideration to the majority shareholder of Kedington, realising a gain on disposal of HK$111,000. The principal activities of the above associates were investment holding and manufacture of plush stuffed toys, respectively.

The details of the disposal are summarised as follows:

| | **2014** |
|---|---|
| | HK$'000 |
| Carrying amount at the date of disposal | (249) |
| Reclassification adjustments for exchange reserve transferred to profit or loss | 360 |
| Gain on disposal (note 4(b)) | 111 |

## 21 OTHER FINANCIAL ASSETS

| | **The Group** | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| **Non-current** | | |
| Equity-linked securities (notes (i) and (vii)) | **6,951** | 10,927 |
| Structured debt securities (notes (ii) and (vii)) | **13,244** | 5,770 |
| Available-for-sale debt security – unlisted (note (iii)) | **–** | 6,633 |
| Available-for-sale equity security – unlisted (note (iv)) | **5,496** | 5,650 |
| | **25,691** | 28,980 |
| **Current** | | |
| Equity-linked securities (notes (v) and (vii)) | **10,930** | 3,473 |
| Structured debt security (notes (vi) and (vii)) | **–** | 7,562 |
| | **10,930** | 11,035 |
| | **36,621** | 40,015 |

# Notes to the consolidated financial statements

## 21 OTHER FINANCIAL ASSETS *(Continued)*

Notes:

(i) Equity-linked security as at 31 December 2014 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 6 October 2016.

Equity-linked security as at 31 December 2013 represented 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. The security is classified under "current assets" as at 31 December 2014 (see note (v)).

(ii) Structured debt securities represent: (a) a debt investment placed with an investment bank in Korea, amounting to HK$5,539,000 with fixed interest rate at 6.25% per annum and redeemable by the debt issuer on or after 15 April 2024; and (b) a debt investment placed with an investment bank in Korea, amounting to HK$7,705,000 with fixed interest rate at 4.63% per annum and redeemable by the debt issuer on or after 30 January 2018.

Structured debt security as at 31 December 2013 represented the debt investment mentioned in (a) above.

(iii) Available-for-sale debt security – unlisted as at 31 December 2013 represented an investment in bonds issued by an investment bank in Korea with a maturity date of 30 March 2039. The security was disposed of during the year ended 31 December 2014. No gain or loss on disposal was recognised in the consolidated income statement.

(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 was included in "other net income/(loss)" in the consolidated income statement for the year ended 31 December 2013 (see note 4(b)).

(v) Equity-linked security as at 31 December 2014 represents the security mentioned in note (i).

Equity-linked security as at 31 December 2013 represented 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, with a maturity date of 10 February 2014.

(vi) Structured debt security as at 31 December 2013 represented 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. The structured debt security was disposed of during the year ended 31 December 2014.

(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 consolidated 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)). No impairment loss was recognised during the year ended 31 December 2014 (2013: HK$8,705,000).

# Notes to the consolidated financial statements

## 22 INVENTORIES

### (a) Inventories in the balance sheets comprise:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Raw materials | **88,075** | 76,303 | **–** | – |
| Work in progress | **54,159** | 33,054 | **–** | – |
| Finished goods | **94,134** | 66,497 | **–** | 1,200 |
| | **236,368** | 175,854 | **–** | 1,200 |

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

| | The Group | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Carrying amount of inventories sold | **1,283,141** | 959,688 |
| Write-down of inventories | **710** | 5,801 |
| Reversal of write-down of inventories | **(13,300)** | (6,509) |
| | **1,270,551** | 958,980 |

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 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade debtors and bills receivable | **233,421** | 183,028 | **216,918** | 173,128 |
| Less: allowance for doubtful debts (note 23(b)) | **(1,881)** | (1,706) | **–** | – |
| | **231,540** | 181,322 | **216,918** | 173,128 |
| Other receivables and prepayments | **90,120** | 68,242 | **8,204** | 9,329 |
| Amounts due from related companies | **6,931** | 14,154 | **–** | – |
| Amounts due from subsidiaries | **–** | – | **70,878** | 48,249 |
| | **328,591** | 263,718 | **296,000** | 230,706 |

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$3,371,000 (2013: HK$2,661,000). 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 and subsidiaries are trade related, unsecured, interest-free and repayable on demand.

### (a) Ageing analysis

As at 31 December 2014, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date or date of revenue recognition, if earlier and net of allowance for doubtful debts, is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within 1 month | **135,446** | 134,697 | **124,933** | 130,137 |
| 1 to 2 months | **54,523** | 22,880 | **50,629** | 21,143 |
| 2 to 3 months | **27,890** | 12,192 | **27,769** | 11,094 |
| 3 to 4 months | **9,440** | 7,884 | **9,440** | 7,625 |
| Over 4 months | **4,241** | 3,669 | **4,147** | 3,129 |
| | **231,540** | 181,322 | **216,918** | 173,128 |

Trade debtors and bills receivable are due within 30 to 60 days from the date of billing. Further details on the Group's credit policy are set out in note 31(a).

# Notes to the consolidated financial statements

## 23 TRADE AND OTHER RECEIVABLES *(Continued)*

### (b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(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 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At 1 January | **1,706** | 5,912 | **–** | 2,664 |
| Impairment loss recognised | **427** | 350 | **96** | 57 |
| Reversal of impairment loss | **(118)** | (409) | **–** | – |
| Uncollectible amounts written off | **(95)** | (4,181) | **(96)** | (2,721) |
| Exchange differences | **(39)** | 34 | **–** | – |
| At 31 December | **1,881** | 1,706 | **–** | – |

At 31 December 2014, the Group's and the Company's trade debtors of HK$1,881,000 (2013: HK$2,017,000) and HK$Nil (2013: HK$Nil) was individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that none (2013: only a portion) of these receivables are expected to be recovered. Consequently, the Group and the Company recognised specific allowances for doubtful debts of HK$1,881,000 (2013: HK$1,706,000) and HK$Nil (2013: HK$Nil). The Group does not hold any collateral over these balances.

## 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 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **151,722** | 107,414 | **139,850** | 102,393 |
| Less than 1 month past due | **68,181** | 56,898 | **65,525** | 56,695 |
| 1 to 3 months past due | **7,734** | 14,258 | **7,734** | 12,077 |
| More than 3 months but less than 12 months past due | **3,903** | 2,441 | **3,809** | 1,963 |
| | **79,818** | 73,597 | **77,068** | 70,735 |
| | **231,540** | 181,011 | **216,918** | 173,128 |

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 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bank deposits within three months to maturity when placed | **56,498** | 89,654 | **–** | 24,122 |
| Cash at bank and in hand | **185,069** | 230,963 | **61,320** | 74,000 |
| Cash and cash equivalents in the balance sheet and consolidated cash flow statement | **241,567** | 320,617 | **61,320** | 98,122 |
| Time deposits with more than three months to maturity when placed | **23,037** | 79,476 | **932** | – |
| | **264,604** | 400,093 | **62,252** | 98,122 |

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$30,048,000 (2013: HK$31,270,000) 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 | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| Profit before taxation | | **166,174** | 159,363 |
| Adjustments for: | | | |
| Bank interest income | 4(a) | **(5,339)** | (3,854) |
| Interest income from other financial assets | 4(a) | **(3,939)** | (3,893) |
| Gain on disposal of interest in associates | 4(b) | **(111)** | – |
| Net gain on disposal of fixed assets of a PRC subsidiary | 4(b) | **(37,105)** | – |
| Net loss on disposal of other property, plant and equipment | 4(b) | **1,969** | 1,056 |
| Net loss/(gain) on disposal of other financial assets | 4(b) | **126** | (177) |
| Net realised and unrealised (gain)/loss on other financial assets | 4(b) | **(596)** | 2,694 |
| Equity settled share-based payment expense | 5(b) | **–** | 499 |
| Finance costs | 5(a) | **899** | 836 |
| Amortisation of land lease premium | 5(c) | **791** | 624 |
| Depreciation | 5(c) | **31,760** | 24,615 |
| Impairment loss on fixed assets | 4(b) | **4,049** | – |
| Impairment loss on club memberships | 4(b) | **–** | 1,583 |
| Impairment loss on available-for-sale equity security | 4(b) | **–** | 8,705 |
| Share of profits less losses of associates | | **243** | (467) |
| Foreign exchange (gain)/loss | | **(224)** | 1,019 |
| Changes in working capital: | | | |
| (Increase)/decrease in inventories | | **(60,514)** | 7,718 |
| Increase in trade and other receivables | | **(64,873)** | (55,222) |
| Decrease/(increase) in long term receivables | | **2,955** | (5,438) |
| (Decrease)/increase in net defined benefit retirement obligation | | **(26)** | 213 |
| Increase/(decrease) in trade and other payables | | **42,611** | (21,292) |
| Cash generated from operations | | **78,850** | 118,582 |

# Notes to the consolidated financial statements

## 25 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade payables | **103,908** | 85,250 | **–** | 497 |
| Accrued charges and other payables | **125,415** | 97,272 | **12,629** | 6,928 |
| Claim settlement (note 6) | **–** | 1,163 | **–** | – |
| Amounts due to related companies | **2** | 68 | **–** | – |
| Amounts due to subsidiaries | **–** | – | **249,311** | 141,816 |
| Amount due to an associate | **–** | 2,961 | **–** | – |
| | **229,325** | 186,714 | **261,940** | 149,241 |

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 payables with the following ageing analysis as at 31 December 2014:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Due within 1 month or on demand | **80,702** | 79,079 | **–** | 497 |
| Due after 1 month but within 3 months | **12,999** | 5,053 | **–** | – |
| Due after 3 months but within 6 months | **10,202** | 271 | **–** | – |
| Due after 6 months but within 1 year | **5** | 847 | **–** | – |
| | **103,908** | 85,250 | **–** | 497 |

# Notes to the consolidated financial statements

## 26 BANK LOANS

As at 31 December 2014, the bank loans were repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Current | | | | |
| – Unsecured bank loan | **8,532** | – | **8,532** | – |
| – Secured bank loan | **8,531** | 6,566 | **–** | – |
| – Guaranteed bank loans | **17,938** | 15,708 | **–** | – |
| | **35,001** | 22,274 | **8,532** | – |
| Non-current | | | | |
| – Secured bank loan | | | | |
| – after 1 year but within 2 years | **–** | 777 | **–** | – |
| | **35,001** | 23,051 | **8,532** | – |

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 2014 of HK$20,574,000 (2013: HK$24,448,000) were pledged to a bank in respect of a loan amounting to HK$8,531,000 (2013: HK$7,343,000).

Bank loans of the Group are guaranteed as follows:

(i) A bank loan totalling HK$10,263,000 (2013: HK$8,078,000) 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$7,675,000 (2013: HK$7,630,000) was guaranteed by standby letter of credit issued by a bank on behalf of a subsidiary of the Company.

As at 31 December 2014, the Group's banking facilities were not subject to the fulfilment of financial covenants (2013: 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 0.2% 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 plan.

Under the plan, 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 2014 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 the defined benefit retirement plan are 85.9% (2013: 92.6%) 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:

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| Present value of wholly or partly funded obligations | **6,324** | 5,940 |
| Fair value of plan assets | **(5,433)** | (5,501) |
| | **891** | 439 |

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$888,000 in contributions to defined benefit retirement plan in 2015.

# Notes to the consolidated financial statements

## 27 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

(ii) Plan assets consist of the following:

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Deposit with banks | **5,433** | 5,501 |

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

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| At 1 January | **5,940** | 7,217 |
| Remeasurements: | | |
| – Actuarial gain arising from changes in demographic assumptions | **–** | (34) |
| – Actuarial loss/(gain) arising from changes in financial assumptions | **381** | (137) |
| – Actuarial loss/(gain) arising from changes in experience | **24** | (417) |
| | **405** | (588) |
| Benefits paid | **(997)** | (2,229) |
| Current service cost | **933** | 1,324 |
| Interest cost | **229** | 251 |
| Exchange difference | **(186)** | (35) |
| At 31 December | **6,324** | 5,940 |

The weighted average duration of the defined benefit obligation is 8.3 years (2013: 7.9 years).

# Notes to the consolidated financial statements

## 27 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

(iv) Movements in plan assets

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| At 1 January | **5,501** | 6,467 |
| Group's contributions paid to the plans | **926** | 1,111 |
| Benefits paid | **(946)** | (2,201) |
| Interest income | **211** | 223 |
| Return on plan assets less than discount rate, excluding interest income | **(105)** | (73) |
| Exchange difference | **(154)** | (26) |
| At 31 December | **5,433** | 5,501 |

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

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| Current service cost | **933** | 1,324 |
| Net interest on net defined benefit liability | **18** | 28 |
| Total amounts recognised in profit or loss | **951** | 1,352 |
| Actuarial losses/(gains) | **405** | (588) |
| Return on plan assets less than discount rate, excluding interest income | **105** | 73 |
| Total amounts recognised in other comprehensive income | **510** | (515) |
| Total defined benefit costs | **1,461** | 837 |

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

# 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:

| | **2014** | 2013 |
|---|---|---|
| Discount rate | **3.40%** | 4.10% |
| Future salary increases | **5.00%** | 5.00% |

The below analysis shows how the defined benefit obligation as at 31 December 2014 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 | (134) | 139 |
| Future salary increases | 140 | (136) |

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 Schemes 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$30,000 (HK$25,000 prior to June 2014). 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 on the date of grant, (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 2014 '000** | 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 | – | 4,150 | 2 years from the date of grant | 5 years |
| | – | 4,700 | | |

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

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$** | **Number of options '000** | Weighted average exercise price HK$ | Number of options '000 |
| Outstanding at the beginning of the year | **0.466** | **4,700** | 0.466 | 4,800 |
| Exercised during the year | **0.466** | **(4,700)** | – | – |
| Lapsed during the year | **–** | **–** | 0.466 | (100) |
| Outstanding at the end of the year | **–** | **–** | 0.466 | 4,700 |
| Exercisable at the end of the year | **–** | **–** | 0.466 | 4,700 |

The weighted average share price at the date of exercise for shares options exercised during the year ended 31 December 2014 was HK$1.26 (2013: not applicable).

The options outstanding at 31 December 2013 had an exercise price of HK$0.466 and a weighted average remaining contractual life of 3 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 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Provision for Hong Kong Profits Tax for the year | **21,655** | 18,474 | **21,655** | 18,474 |
| Provisional Profits Tax paid | **(18,434)** | (3,474) | **(18,434)** | (3,474) |
| | **3,221** | 15,000 | **3,221** | 15,000 |
| Overseas tax payable | **11,929** | 12,496 | **–** | – |
| | **15,150** | 27,496 | **3,221** | 15,000 |
| **Representing:** | | | | |
| Current tax recoverable | **(103)** | (45) | **–** | – |
| Current tax payable | **15,253** | 27,541 | **3,221** | 15,000 |
| | **15,150** | 27,496 | **3,221** | 15,000 |

# Notes to the consolidated financial statements

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

### (b) Deferred tax assets 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 2013 | 416 | (5,994) | 1,197 | (3,108) | 58 | (7,431) |
| (Credited)/charged to the consolidated income statement (note 7(a)) | (603) | 3,546 | (218) | (540) | (2,342) | (157) |
| Credited to reserves (note 11(a)) | – | – | – | – | (48) | (48) |
| Exchange adjustments | – | (28) | (6) | (10) | (17) | (61) |
| At 31 December 2013 | (187) | (2,476) | 973 | (3,658) | (2,349) | (7,697) |
| At 1 January 2014 | (187) | (2,476) | 973 | (3,658) | (2,349) | (7,697) |
| (Credited)/charged to the consolidated income statement (note 7(a)) | (5,131) | (63) | 42 | 97 | 245 | (4,810) |
| Credited to reserves (note 11(a)) | – | – | – | – | (14) | (14) |
| Exchange adjustments | (4) | 10 | (28) | 57 | 61 | 96 |
| At 31 December 2014 | (5,322) | (2,529) | 987 | (3,504) | (2,057) | (12,425) |

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

### (b) Deferred tax assets 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 2013 | 394 |
| Credited to the income statement | (625) |
| At 31 December 2013 | (231) |
| At 1 January 2014 | (231) |
| Credited to the income statement | (94) |
| At 31 December 2014 | (325) |

(iii) Reconciliation to the balance sheets:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2014** **HK$'000** | 2013 HK$'000 | **2014** **HK$'000** | 2013 HK$'000 |
| Net deferred tax asset recognised in the balance sheets | **(12,425)** | (7,697) | **(325)** | (231) |

# Notes to the consolidated financial statements

## 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$81,309,000 (2013: HK$92,951,000) 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$9,815,000 (2013: HK$9,071,000) do not expire under current tax legislation, while the remaining tax losses amounting to HK$71,494,000 (2013: HK$83,880,000) expire at various dates up to and including 2019 (2013: 2018) as follows:

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| 2014 | **–** | 1,763 |
| 2015 | **3,675** | 3,763 |
| 2016 | **15,028** | 15,421 |
| 2017 | **21,677** | 22,560 |
| 2018 | **23,160** | 40,373 |
| 2019 | **7,954** | – |
| | **71,494** | 83,880 |
| No expiry date | **9,815** | 9,071 |
| | **81,309** | 92,951 |

### (d) Deferred tax liabilities not recognised

At 31 December 2014, temporary differences relating to the undistributed profits of subsidiaries based in the PRC and Korea amounted to HK$37,062,000 (2013: HK$31,244,000) and HK$104,422,000 (2013: HK$141,565,000) respectively. Deferred tax liabilities of HK$1,853,000 (2013: HK$1,562,000) and HK$20,884,000 (2013: HK$28,313,000) 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.

# 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 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 |
| **At 1 January 2014** | 52,303 | 181,013 | 968 | 495,888 | 730,172 |
| **Changes in equity for 2014:** | | | | | |
| Issuance of shares upon exercise of options under the predecessor Hong Kong Companies Ordinance | 15 | 119 | (41) | – | 93 |
| Transition to no-par value regime on 3 March 2014 | 181,132 | (181,132) | – | – | – |
| Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance | 3,024 | – | (927) | – | 2,097 |
| Final dividend approved in respect of the previous year | – | – | – | (33,843) | (33,843) |
| Dividends declared in respect of the current year | – | – | – | (20,306) | (20,306) |
| Total comprehensive income for the year | – | – | – | 84,361 | 84,361 |
| At 31 December 2014 | 236,474 | – | – | 526,100 | 762,574 |

# 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

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Interim dividend declared and paid of HK3 cents per ordinary share (2013: HK3 cents per ordinary share) | **20,306** | 20,165 |
| Final dividend proposed after the balance sheet date of HK5 cents per ordinary share (2013: HK5 cents per ordinary share) | **33,843** | 33,843 |
| | **54,149** | 54,008 |

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

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK5 cents per ordinary share (2013: HK8 cents per ordinary share) | **33,843** | 53,773 |

## 30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

### (c) Share capital

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Number of shares '000** | **Amount HK$'000** | Number of shares '000 | Amount HK$'000 |
| **Authorised: (note 1)** | | | | |
| Ordinary shares of US$0.01 each (note 2) | | | | |
| At 31 December | **–** | **–** | 5,000,000 | 390,000 |
| **Ordinary shares, issued and fully paid:** | | | | |
| At 1 January | **672,165** | **52,303** | 672,165 | 52,303 |
| Issuance of shares upon exercise of options under the predecessor Hong Kong Companies Ordinance | **200** | **15** | – | – |
| Transition to no-par value regime on 3 March 2014 (note 3) | **–** | **181,132** | – | – |
| Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance | **4,500** | **3,024** | – | – |
| At 31 December | **676,865** | **236,474** | 672,165 | 52,303 |

Notes:

(1) Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

(2) In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

(3) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622) on 3 March 2014 any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company's share capital.

# Notes to the consolidated financial statements

## 30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

### (c) Share capital *(Continued)*

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.

(i) Shares issued under share option scheme

During the year ended 31 December 2014, 4,700,000 share options were exercised to subscribe for 4,700,000 ordinary shares in the Company at a consideration of HK$2,190,000 of which HK$2,112,000 was credited to share capital and the balance of HK$78,000 was credited to the share premium account in accordance with section 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). HK$41,000 and HK$927,000 have been transferred from the capital reserve to the share premium account and share capital respectively in accordance with policy set out in note 1(q)(iii).

(ii) Terms of unexpired and unexercised share options at the balance sheet date

| Exercise period | *Exercise price per share* | **2014 Number of options** | 2013 Number of options |
|---|---|---|---|
| 23 December 2013 to 23 December 2016 | HK$0.466 | – | 4,700,000 |

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 28 to the financial statements.

### (d) Nature and purpose of reserves

(i) Share premium

Prior to 3 March 2014, the application of the share premium account was governed by sections 48B and 49H respectively of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Company's share capital (see note 30(c)). The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

# Notes to the consolidated financial statements

## 30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

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

(ii) Capital reserve

The capital reserve comprises the grant date 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).

During the year ended 31 December 2014, all outstanding share options which are available for exercise after vesting date on 23 December 2013 were exercised. The capital reserve was transferred to share capital in full when the share options were exercised.

(iii) General reserve fund

The general reserve fund comprises of PRC subsidiaries' general reserve fund and Korea subsidiary's 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.

According to the Korean Commercial Code, the Korea subsidiary is required to set aside as a legal reserve an amount equal to 10% of the cash portion of the annual dividend or accumulate a legal reserve of not less than 50% of Korea subsidiary share capital before any payout of its dividend. This fund can be transferred to retained profits or used to reduce an accumulated loss.

(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).

The movement during the year ended 31 December 2014 refers to the portion of the capital contribution shared by non-controlling interests over the loans waived between fellow subsidiaries.

# Notes to the consolidated financial statements

## 30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

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

(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 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the new Hong Kong Companies Ordinance (Cap. 622), was HK$526,100,000 (2013: HK$495,888,000). After the balance sheet date the directors proposed a final dividend of HK5 cents per ordinary share (2013: HK5 cents per ordinary share), amounting to HK$33,843,000 (2013: HK$33,843,000). 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.

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.

# Notes to the consolidated financial statements

## 30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

### (f) Capital management *(Continued)*

The net debt-to-capital ratio at 31 December 2014 and 2013 was as follows:

| | Notes | The Group 2014 HK$'000 | The Group 2013 HK$'000 | The Company 2014 HK$'000 | The Company 2013 HK$'000 |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Trade and other payables | 25 | **229,325** | 186,714 | **261,940** | 149,241 |
| Bank loans | 26 | **35,001** | 22,274 | **8,532** | – |
| | | **264,326** | 208,988 | **270,472** | 149,241 |
| Less: Cash and cash equivalents | 24(a) | **(241,567)** | (320,617) | **(61,320)** | (98,122) |
| Time deposits with more than three months to maturity when placed | 24(a) | **(23,037)** | (79,476) | **(932)** | – |
| **Non-current liabilities** | | | | | |
| Bank loans | 26 | **–** | 777 | **–** | – |
| Total (cash)/debt | | **(278)** | (190,328) | **208,220** | 51,119 |
| Add: Proposed dividends | 30(b) | **33,843** | 33,843 | **33,843** | 33,843 |
| **Net (cash)/debt** | | **33,565** | (156,485) | **242,063** | 84,962 |
| **Total equity** | | **947,358** | 884,975 | **762,574** | 730,172 |
| **Net debt-to-capital ratio** | | **4%** | N/A | **32%** | 12% |

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 30 to 60 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 16% (2013: 23%) and 75% (2013: 64%) 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.

## 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 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

| | **2014** | | | | |
|---|---|---|---|---|---|
| | **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 | **35,118** | **–** | **–** | **35,118** | **35,001** |
| Trade and other payables (excluding advances from customers) | **220,574** | **–** | **–** | **220,574** | **220,574** |
| | **255,692** | **–** | **–** | **255,692** | **255,575** |

| | 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 |

# Notes to the consolidated financial statements

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

### (b) Liquidity risk *(Continued)*

The Company

| | 2014 | | | | |
|---|---|---|---|---|---|
| | 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 | 8,536 | – | – | 8,536 | 8,532 |
| Trade and other payables (excluding advances from customers) | 253,538 | – | – | 253,538 | 253,538 |
| | 262,074 | – | – | 262,074 | 262,070 |

| | 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 |

As shown in the above analysis, bank loans of the Group amounting to HK$35,118,000 (2013: HK$22,422,000) were due to be repaid during 2015. The short-term liquidity risk inherent in this contractual maturity date 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 | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | | 2013 | | **2014** | | 2013 | |
| | **Effective interest rate %** | **Amount HK$'000** | Effective interest rate % | Amount HK$'000 | **Effective interest rate %** | **Amount HK$'000** | Effective interest rate % | Amount HK$'000 |
| **Fixed rate borrowings:** | | | | | | | | |
| Bank loans | **2.33** | **10,263** | 2.25 | 8,078 | **–** | **–** | – | – |
| **Variable rate borrowings:** | | | | | | | | |
| Bank loans | **2.76** | **24,738** | 4.12 | 14,973 | **1.16** | **8,532** | – | – |
| Total borrowings | | **35,001** | | 23,051 | | **8,532** | | – |
| Fixed rate borrowings as a percentage of total net borrowings | | **29.32%** | | 35.04% | | **N/A** | | N/A |

#### (ii) Sensitivity analysis

At 31 December 2014, 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$204,000 (2013: HK$120,000). 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 risk at that 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 2013.

### (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.

## 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 operations outside Hong Kong into the Group's presentation currency are excluded.

*The Group*

| | Exposure to foreign currencies (expressed in HKD) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | | | 2013 | | | | | |
| | United States Dollars $'000 | Hong Kong Dollars $'000 | Renminbi Yuan $'000 | Vietnamese Dong $'000 | Japanese Yen $'000 | British Pound $'000 | United States Dollars $'000 | Hong Kong Dollars $'000 | Renminbi Yuan $'000 | Vietnamese Dong $'000 | Japanese Yen $'000 | British Pound $'000 |
| Trade and other receivables | **138,508** | **5,468** | **12,735** | **128,018** | **6,304** | **228** | 83,764 | 6,889 | 13,002 | 72,997 | 8,949 | 357 |
| Cash and cash equivalents | **27,727** | **2,097** | **109** | **54,073** | **4,045** | **1,368** | 77,094 | 2,674 | 211 | 76,650 | 3,280 | 256 |
| Trade and other payables | **(108,537)** | **(3,595)** | **(40,866)** | **(153,667)** | **(3,093)** | **–** | (62,215) | (5,459) | (2,573) | (97,579) | (4,828) | – |
| Bank loans | **(10,199)** | **–** | **–** | **–** | **–** | **–** | (8,131) | – | – | – | – | – |
| Net exposure arising from recognised assets and liabilities | **47,499** | **3,970** | **(28,022)** | **28,424** | **7,256** | **1,596** | 90,512 | 4,104 | 10,640 | 52,068 | 7,401 | 613 |

*The Company*

| | Exposure to foreign currencies (expressed in HKD) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | 2013 | | | |
| | Hong Kong Dollars $'000 | Renminbi Yuan $'000 | Japanese Yen $'000 | British Pound $'000 | Hong Kong Dollars $'000 | Renminbi Yuan $'000 | Japanese Yen $'000 | British Pound $'000 |
| Trade and other receivables | **5,468** | **1,815** | **3,361** | **228** | 457 | 1,822 | 4,511 | 357 |
| Cash and cash equivalents | **2,037** | **–** | **2,734** | **1,368** | 170 | – | 1,535 | 256 |
| Trade and other payables | **(2,741)** | **(13)** | **(2,913)** | **–** | (229) | (2) | (4,414) | – |
| Net exposure arising from recognised assets and liabilities | **4,764** | **1,802** | **3,182** | **1,596** | 398 | 1,820 | 1,632 | 613 |

# 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*

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **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 |
| United States Dollars | **1%** | **293** | 1% | 535 |
| | **(1)%** | **(293)** | (1)% | (535) |
| Renminbi Yuan | **3%** | **(834)** | 3% | 321 |
| | **(3)%** | **834** | (3)% | (321) |
| Vietnamese Dong | **3%** | **463** | 3% | 1,283 |
| | **(3)%** | **(463)** | (3)% | (1,283) |
| Japanese Yen | **20%** | **1,164** | 20% | 1,150 |
| | **(20)%** | **(1,164)** | (20)% | (1,150) |
| British Pound | **12%** | **160** | 12% | 61 |
| | **(12)%** | **(160)** | (12)% | (61) |

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

### (d) Currency risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

*The Company*

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **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%** | **45** | 3% | 46 |
| | **(3)%** | **(45)** | (3)% | (46) |
| Japanese Yen | **20%** | **531** | 20% | 273 |
| | **(20)%** | **(531)** | (20)% | (273) |
| British Pound | **12%** | **160** | 12% | 61 |
| | **(12)%** | **(160)** | (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 2013.

# Notes to the consolidated financial statements

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

### (e) Fair values

#### (i) Financial assets 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 2014** | **Fair value measurements as at 31 December 2014 categorised into** | | | Fair value at 31 December 2013 | Fair value measurements as at 31 December 2013 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 | – |
| Equity-linked securities | 17,881 | – | 17,881 | – | 14,400 | – | 14,400 | – |
| Structured debt securities | 13,244 | – | 13,244 | – | 13,332 | – | 13,332 | – |
| | 31,125 | – | 31,125 | – | 34,365 | – | 34,365 | – |

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 between Level 1 and Level 2, or transfers into or out of Level 3 during the year ended 31 December 2014. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the balance sheet date in which they occur.

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

### (e) Fair values *(Continued)*

(i) Financial assets 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 2013 and 2014.

## 32 COMMITMENTS

### (a) Capital commitments outstanding at 31 December 2014 not provided for in the financial statements were as follows:

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---:|---:|
| Contracted for | **43,224** | 49,090 |
| Authorised but not contracted for | **71,549** | 25,022 |
| | **114,773** | 74,112 |

The capital commitments outstanding as at 31 December 2014 amounting to HK$96,040,000 (2013: HK$71,593,000) represent additional investments in buildings, plant and machineries and land use rights in Vietnam. The remaining capital commitments represent additional investment in a building (2013: plant and machinery) in the PRC.

### (b) At 31 December 2014, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---:|---:|
| Within 1 year | **15,102** | 14,432 |
| After 1 year but within 5 years | **2,676** | 4,616 |
| After 5 years | **3,294** | 8,198 |
| | **21,072** | 27,246 |

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

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Short-term employee benefits | **21,435** | 20,226 |
| Share-based payments | **–** | 121 |
| | **21,435** | 20,347 |

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

### (b) Sales of goods to

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Related companies (notes (i) and (ii)) | **6,169** | 8,112 |

### (c) Purchase of goods from

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| A related company (notes (i) and (iii)) | **62** | 43 |

### (d) Purchase of materials from

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| A related company (notes (i) and (iii)) | **149** | 21 |
| An associate | **4,055** | 10,973 |
| | **4,204** | 10,994 |

### (e) Rental paid/payable to

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| A related company (notes (i) and (ii)) | **3,188** | 3,108 |

### (f) Processing fees paid/payable to

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| An associate | **1,944** | 2,556 |

## 33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

### (a) Key management personnel remuneration *(Continued)*

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.

(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.

## 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 costs of disposal 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.

## 34 ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### (b) Impairment of intangible assets

The Group performs an annual review at each balance sheet date to identify indications that there has been an impairment of intangible assets. If any such indications are identified, the recoverable amount is the greater of the fair value less costs of disposal and the value in use. The fair value less costs of disposal is determined by the market comparison approach by reference to recent sales price of similar assets. Value in use 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 value in use 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.

### (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 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2014, 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.

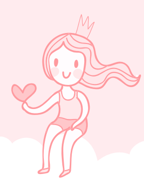
## 36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 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 19, *Defined benefit plans: Employee contributions* | 1 July 2014 |
| *Annual improvements to HKFRSs 2010-2012 cycle* | 1 July 2014 |
| *Annual improvements to HKFRSs 2011-2013 cycle* | 1 July 2014 |
| Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation* | 1 January 2016 |
| HKFRS 15, *Revenue from contracts with customers* | 1 January 2017 |
| HKFRS 9, *Financial instruments* | 1 January 2018 |

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.

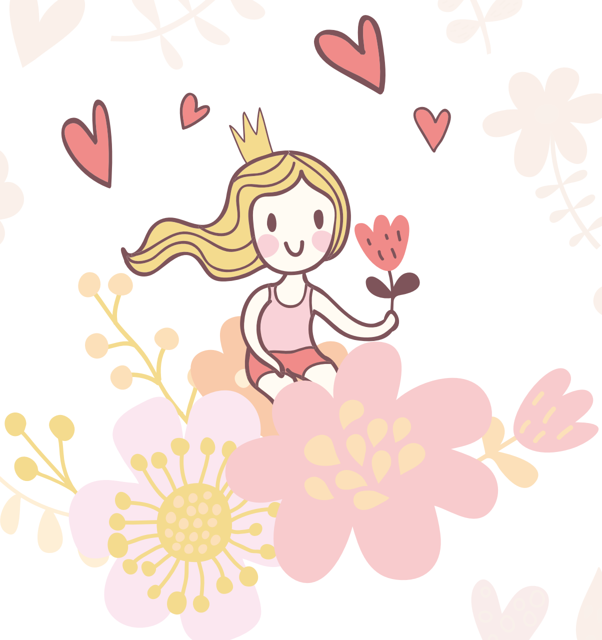
In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.



# Five year financial summary

| | 2010 HK$'000 | 2011 HK$'000 | 2012 HK$'000 | 2013 HK$'000 | **2014 HK$'000** |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Turnover | 1,544,857 | 1,083,152 | 1,353,340 | 1,352,607 | **1,637,265** |
| **Profit from operations** | 214,986 | 87,856 | 159,258 | 159,732 | **167,316** |
| Finance costs | (873) | (1,179) | (3,139) | (836) | **(899)** |
| Share of profits less losses of associates | (196) | 143 | (664) | 467 | **(243)** |
| **Profit before taxation** | 213,917 | 86,820 | 155,455 | 159,363 | **166,174** |
| Income tax | (10,958) | (15,999) | (29,692) | (42,581) | **(44,790)** |
| **Profit for the year** | 202,959 | 70,821 | 125,763 | 116,782 | **121,384** |
| **Attributable to:** | | | | | |
| – Equity shareholders of the Company | 199,597 | 74,723 | 133,001 | 123,934 | **122,787** |
| – Non-controlling interests | 3,362 | (3,902) | (7,238) | (7,152) | **(1,403)** |
| Profit for the year | 202,959 | 70,821 | 125,763 | 116,782 | **121,384** |
| **Earnings per share** | | | | | |
| Basic | HK29.83 ¢ | HK11.12 ¢ | HK19.79 ¢ | HK18.44 ¢ | **HK18.16 ¢** |
| Diluted | HK29.83 ¢ | HK11.12 ¢ | HK19.79 ¢ | HK18.37 ¢ | **HK18.14 ¢** |

| | 2010 HK$'000 | 2011 HK$'000 | 2012 HK$'000 | 2013 HK$'000 | **2014 HK$'000** |
|---|---|---|---|---|---|
| **Assets and liabilities** | | | | | |
| Fixed assets | 183,860 | 181,570 | 191,642 | 216,092 | **324,499** |
| Long term receivables and prepayments | 9,313 | 4,786 | 930 | 6,368 | **12,464** |
| Goodwill | – | – | 2,753 | 2,753 | **2,753** |
| Other intangible assets | 16,690 | 12,191 | 9,029 | 9,583 | **9,400** |
| Interest in associates | 522 | 690 | 27 | 502 | **–** |
| Deferred tax assets | 13,625 | 11,625 | 7,825 | 7,697 | **12,425** |
| Other financial assets | 10,162 | 23,048 | 24,925 | 28,980 | **25,691** |
| Net current assets | 431,529 | 475,430 | 604,236 | 614,216 | **561,017** |
| **Total assets less current liabilities** | 665,611 | 709,340 | 841,367 | 886,191 | **948,249** |
| Deferred tax liabilities | – | (22) | (394) | – | **–** |
| Other non-current liabilities | (6,369) | (7,253) | (2,562) | (1,216) | **(891)** |
| **NET ASSETS** | 659,242 | 702,065 | 838,411 | 884,975 | **947,358** |



DREAM INTERNATIONAL LIMITED
德林國際有限公司