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

ANNUAL REPORT 年報 2016

Contents

This report is published in both English and Chinese.
Where the English and the Chinese texts conflict, the English text prevails.

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
Dr Chan YOO*

AUDIT COMMITTEE

Professor Cheong Heon YI *(Chairman)*
Professor Byong Hun AHN^
Mr Tae Woong KANG
Dr Chan YOO*

REMUNERATION COMMITTEE

Dr Chan YOO *(Chairman)**
Professor Byong Hun AHN^
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^
Dr Chan YOO*
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

* Appointment effective from 30 May 2016
^ Appointment ceased effective from 30 May 2016

COMPANY SECRETARY

Ms Tsz Wai NG, CPA

AUDITOR

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

AUTHORISED REPRESENTATIVES

Mr Young M. LEE
Ms Tsz Wai NG

PRINCIPAL BANKERS

Citibank, N.A.
Standard Chartered 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
2401-02, Admiralty Centre I
18 Harcourt Road, Admiralty
Hong Kong

WEBSITE ADDRESS

www.dream-i.com.hk

STOCK CODE

1126

Chairman's Statement

In 2016, the global economy continued to experience challenges. Significant developments including the slowdown of economic growth in Mainland China and policies of the new US administration affected market sentiment. Despite the volatile environment and increasing production costs, the Group nonetheless recorded satisfactory business growth and increase in profits, which were attributed to the long-standing partnerships with its customers, as well as the strategic expansion of its production base in Vietnam.

In response to the changing market environment and increasing competition, the Group timely expanded its production capacity, which enabled it to seize business opportunities. Increased production capacity also facilitated greater economies of scale and synergies, leading to overall cost reductions. Such cost reductions were even more significant for the Group since its production sites are in Vietnam where lower labor costs are enjoyed. The encouraging performance of the Group is owed greatly to its well-executed two-pronged strategy specifically for developing the plush stuffed toys and plastic figures businesses. The plush stuffed toys business remained the core business of the Group, providing sustainable revenue by leveraging our longstanding business relations with globally renowned toy companies. Meanwhile, the Group's plastic figures business continued to be the major growth driver, with sales increasing sharply by approximate 20% year-on-year. With a third plant dedicated to manufacturing plastic figures in Hanoi, Vietnam commencing operation in the first half of 2016, the Group's production capacity has been enhanced, enabling it to accept greater orders from customers who value its quality production and design capabilities. Already, the Group's sales to the US markets in particular have increased substantially. In addition, cross-selling opportunities with respect to the plastic figures segment were well captured by the Group due to its ability to capitalize on long-term business ties with existing top-tier customers, leading to continuously accelerating growth.

Looking ahead, socio-political volatility around the world and global economic instability are likely to persist; nonetheless, we expect the toy industry to remain competitive and further consolidate. Benefitting from low production cost that our Vietnam facilities enjoy, together with our reputation for product quality within the industry, we are well prepared to secure more customer orders to stand out from our peers, thus gain greater recognition from top-tier toy companies. We remain cautiously optimistic about our business development prospects in 2017.

Chairman's Statement

Despite such optimism, we will further strengthen relations with our existing customers, and enhance our competitiveness by further improving production and operational efficiency, thereby become more cost effective and price competitive. For the plastic figures segment, we have initiated construction of a fourth plant to satisfy growing orders from this burgeoning segment. Moreover, having witnessed encouraging revenue contributions from the plastic figures segment, we had begun expanding our business to the "Doll Products" category. With the Group's strong manufacturing capability and solid market experience, we expect this new category to serve as another growth driver in the future. To better equip ourselves, a production plant with a designated line for our "Doll Products" division is under construction, and is expected to commence operation in the second quarter of 2017. We will also continue to closely monitor market conditions and look for new business opportunities that might arise. Leveraging our leading position as one of the largest global plush toy manufacturers in the industry, we are currently in discussions with several new customers that are renowned industry players, which will further strengthen our customer base. At the same time, we are enhancing our design and market research capabilities, as well as starting to develop new designs for our existing customers.

Benefitting from a solid customer base and healthy financial position, Dream International has made encouraging strides in its core business, while gradually expanding to new product categories. The Group will continue to optimize production, with the aim of enhancing its overall competitiveness and better insulating itself from the adverse effects of market volatility.

APPRECIATION

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

Kyoo Yoon Choi
Chairman
27 March 2017

Management Discussion and Analysis

FINANCIAL REVIEW

During 2016, confronting various challenges, global economic growth slowed down. Factors including the uncertain stance of the US trading polices with the new president taking office, the weaker economic growth in China and potential political instability in Europe inevitably led to weaker global market sentiment. However, despite these not so favourable market situations, thanks to its strong manufacturing expertise and long-term relationship with customers, and expansion of production capability at the right time, the Group delivered remarkable results.

For the year ended 31 December 2016, the Group's revenue rose by 18.6% year-on-year to HK$2,151.3 million (2015: HK$1,814.5 million), attributable to the significant increase in sales volume of the plush stuffed toys and plastic figures segment. Thanks to the lower cost of key materials and improved production efficiency, its gross profit soared by 42.9% to HK$609.7 million (2015: HK$426.7 million), with gross profit margin up by 4.8 percentage points to 28.3% (2015: 23.5%). With strict cost control measures in place, selling and distribution expenses and administrative expenses expressed as a percentage of revenue was kept at a stable level, contributing to the notable 76.2% growth of the Group's operating profit to HK$354.3 million (2015: HK$201.1 million). As a result, its profit for the year also increased significantly, by 96.9%, to HK$294.1 million (2015: HK$149.4 million), and net profit margin was up 5.5 percentage points to 13.7% (2015: 8.2%).

As at 31 December 2016, the Group was in a sound financial position with cash and cash equivalents and time deposits of HK$424.6 million (2015: HK$276.6 million). To thank shareholders for their unwavering support, the Board of Directors (the "Board") recommended payment of a final dividend of HK3 cents per ordinary share (2015: Nil).

BUSINESS REVIEW

Product Analysis

Plush stuffed toys segment

During the year under review, the plush stuffed toys segment recorded revenue of HK$1,487.6 million (2015: HK$1,278.9 million), representing an increase of 16.3% compared with the prior same period, accounting for 69.1% of the Group's total revenue. The Original Equipment Manufacturing business continued to be the major revenue contributor, with sales up by 11.4% to HK$1,339.1 million (2015: HK$1,202.4 million), accounting for 90.0% of the revenue of the plush stuffed toys segment. Building on its leading market position, the Group was able to stand out among its peers and gain recognition from renowned toy companies. At the same time, by developing new plush toy characters to meet customers' demand, it continued to receive increasing orders from existing customers.

Revenue from the Original Design Manufacturing business grew by a sharp 94.1% to HK$148.5 million (2015: HK$76.5 million) in the review period, contributing 10.0% of the total revenue of the plush stuffed toys segment. To succeed in the keen market competition, the Group continued to refine its positioning by focusing on large and jumbo size plush stuffed toys, which enabled it to remain cost effective and price competitive. Greater economies of scale and synergies were achieved by using its own fabrics leveraging its vertically-integrated business model. In addition, to meet growing consumer demand, the Group reinforced its competitive advantages by carrying out market research to identify room for improvement and offering new designs to customers.

Plastic figures segment

The plastic figures segment, the Group's major growth driver, saw its sales up by 19.8% to HK$629.8 million (2015: HK$525.5 million), accounting for 29.3% of the Group's total revenue for the period under review. The Group continued to receive orders thanks to the strong business ties it has with long-standing customers. A unique feature plastic figures licensor, in particular, increased the volume of its order significantly and that contributed to the notable sales growth of the segment. The customer base of the segment also expanded with the Group starting business with a renowned game developer, which turned into sales contribution in the second half of 2016. Meanwhile, the Group continued to discuss with potential customers and develop new product categories to meet customer demands.

Ride-on toys segment

During the period under review, revenue generated from the ride-on toys segment more than doubled to HK$33.8 million (2015: HK$10.0 million), contributing 1.6% of the Group's total revenue. The Group started shipping the ride-on toys products from Vietnam in the second half of 2016 after the production facilities in China were relocated to Vietnam with efficiency improved. Encouraged by the positive feedbacks from customers after receiving the first batch of the new products developed for the US market, it will continue to focus mainly on developing the US market for the ride-on toys business segment.

Geographic Market Analysis

For the year ended 31 December 2016, North America remained as the largest geographic market of the Group, accounting for 56.9% of its total revenue. Contribution from Japan accounted for 30.0%, followed by Europe at 6.2%, and others at 6.9%.

Operational Analysis

As at 31 December 2016, the Group operated 16 plants in total, four of which were in China, and 12 in Vietnam, with average utilisation rate at 88%. The third plant in Hanoi dedicated to manufacturing plastic figures has commenced operation in the first half of 2016 and construction of a fourth plant has been initiated, with the aim of satisfying growing orders. Moreover, a production plant with a designated line for our "Doll Products" division is under construction, and operation is expected to commence in the second quarter of 2017.

Prospects

Looking at 2017, despite that uncertainties continue to loom over the world economy, the Group believes where there are challenges, there are opportunities. Although the market expects pressures from the increase in US interest rate, it also anticipates a steady pick up in speed of growth of the US economy, which would hopefully boost domestic consumption in the US and in turn sales orders of the Group from the market. The success of the Japanese government in promoting economic growth will also help brace sales growth of the Group in the Japan market. Nevertheless, given the more and more intense competition in the manufacturing sector and rising production costs, the Group remains cautiously optimistic about its future development.

Against such a backdrop, the Group will continue to adhere to its two-pronged approach. With its core business growing steadily, the timely expansion of manufacturing capacity and affording top quality products at competitive prices, it is confident of standing out among its peers in the market and maintaining its competitiveness. The Group will also explore markets with room for growth leveraging the close relationship it has with existing customers and also push to widen customer sources. Replicating its success in the plastic figures segment, satisfactory results have been achieved by the newly added "Doll Products" category. Therefore, the Group will keep expanding this category with obvious potential, grooming it into another growth driver in the near future.

As for cost control, it will continue to relocate its production facilities to regions where labour costs are lower and also strictly implement cost control measures already in place. It will seek to maximise utilisation of its existing production capacities and consider boosting them further to accommodate the increasing order volume, aiming for greater economies of scale to support its long-term development.

Facing a global economy still fraught with challenges, the Group will keep a close watch on market situations. Continuing its proven two-pronged business development strategy and applying its first mover advantage in the industry, it will continue to strive for long-term sustainable growth and to present lucrative rewards to shareholders.

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2016, the Group had 16,997 (2015: 15,267) 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 2016, the Group had net current assets of HK$632.8 million (2015: HK$539.7 million). The Group's total cash and cash equivalents as at 31 December 2016 amounted to HK$316.4 million (2015: HK$251.5 million). The total bank loans of the Group as at 31 December 2016 amounted to HK$23.3 million (2015: HK$3.9 million). The Group's borrowings are on a fixed 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, 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 1.8% at 31 December 2016 (2015: 0.4%).

PLEDGE ON GROUP ASSETS

Certain leasehold land and other property, plant and equipment of the Group with an aggregate carrying amount of HK$20,129,000 as at 31 December 2016 (2015: HK$19,370,000) were pledged as security for an unutilised bank facility of the Group of HK$11,626,000 (2015: HK$11,627,000).

SIGNIFICANT INVESTMENT HELD

There was no significant investment held by the Group during the year ended 31 December 2016.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiaries and associated companies by the Group during the year ended 31 December 2016.

PRINCIPAL RISKS AND UNCERTAINTIES

The global economy continued to experience challenges, fluctuations in both raw material prices and currency exchange rates, as well as rising operation costs have all combined to exert pressure on the Group's business and operations. Significant developments including the slowdown of economic growth in Mainland China and policies of the new US administration affected market sentiment.

Socio-political volatility around the world and global economic instability are likely to persist. Uncertainties in the global economy linger, triggering toy retailers to be more cost-conscious in procurement, hence toy companies are exploring how to better work with manufacturers who can produce quality products at a more competitive price. This overriding trend accelerates the consolidation of the industry and is driving many toy manufacturers to relocate their plants to either China's interior or to Southeast Asia for lower manufacturing costs.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with laws and regulations and any non-compliance with such requirements could lead to disruption to the Group's businesses. The Group has been closely monitoring the ongoing compliance with laws and regulations in various jurisdictions in which the Group has operations.

RELATIONSHIP WITH KEY STAKEHOLDERS

The support from key stakeholders, including employees, customers, suppliers and shareholders, contributes greatly to the Group's success. The Group has an objective to devote resources to promote and maintain long term and sustainable relationships with these stakeholders.

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 and Japanese Yen. During the year ended 31 December 2016, 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.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

The Group is committed to achieving environmental sustainability and has implemented its Corporate Social Responsibility strategy across the organization by deeply embedding social responsibility into daily operations. The in-house manufacturing facilities operate in compliance with all applicable local and international environmental regulations. The Group provides constant training programs for employees in different positions to fulfill environmental, social and corporate responsibility.

The Group encourages environmental protection and promotes awareness towards environmental protection to the employees. The Group resolves to adopt and encourage practices that prevent or minimize pollution and optimize efficient use of energy and natural resources in order to provide employees with a safe and healthy working and living environment.

The Group endeavours to refine our approach to addressing our environmental, social and ethical responsibilities along with improving our corporate governance and should generate greater value for all of our stakeholders including our shareholders, customers, and employees as well as the communities where we work and live.

The Company's Environmental, Social and Governance Report is set out on pages 32 to 40 of this annual report.

CAPITAL COMMITMENTS

Details of capital commitments are included in note 27(a) to the consolidated financial statements.

CONTINGENT LIABILITIES

As of 31 December 2016, the Group did not have any significant contingent liabilities.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Kyoo Yoon Choi, aged 68, 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 61, 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 55, 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 51, 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 Seo Kyeong University in Korea, with a bachelor's degree of Economics in 1995.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Cheong Heon Yi, aged 52, 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.

Mr Tae Woong Kang, aged 56, 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 was 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 overseas. He was appointed as the Company's independent non-executive director on 20 August 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Dr Chan Yoo, aged 52, graduated from Massachusetts Institute of Technology ("MIT") in the US with a bachelor degree in Electrical Engineering and Computer Science in 1989. He was awarded a philosophy of doctorate degree in Nuclear Engineering from MIT in 1995. Dr Yoo gained over four years consulting experience from an international consultancy firm McKinsey & Company, Chicago office in the US and Seoul office in Korea. In 2000, Dr Yoo set up McQs, Incorporated in Seoul, Korea to provide business consulting services for Korean manufacturing companies to achieve world-class operational excellence. Dr Yoo was an independent non-executive director of the Company from September 2004 to September 2008. In 2008, he co-founded TheCobaltSky to build and operate two fuel cell power plants in Daegu and Busan, Korea. He was an independent non-executive director of Woojin Inc. from February 2010 to March 2016. He is currently the President of McQs, Incorporated and the Partner of TheCobaltSky. He was appointed as the Company's independent non-executive director on 30 May 2016.

SENIOR MANAGEMENT

Mrs Shin Hee Cha, aged 62, the Vice Chairman 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 65, the Vice Chairman of Dream Vina Co., Ltd. Mr Kim has been responsible for 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 56, 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.

The directors of the Company (the "Directors") have pleasure in submitting their annual report together with the audited consolidated financial statements for the year ended 31 December 2016.

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. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Cap. 622) ("Companies Ordinance"), including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Chairman's Statement and Management Discussion and Analysis set out on pages 4 to 5 and pages 6 to 10 of this annual report respectively. The discussion forms part of this Report of the Directors. The principal activities and other particulars of the subsidiaries are set out in note 16 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 11 to the consolidated financial statements.

DIVIDENDS

An interim dividend of HK1 cent per ordinary share (2015: HK3 cents per ordinary share) was paid on 15 September 2016.

The Directors recommended the payment of a final dividend of HK3 cents per ordinary share (2015: Nil) in respect of the year ended 31 December 2016.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total sales
The largest customer	25.5%
Five largest customers in aggregate	82.4%

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 number of issued shares of the Company) had any interest in these major customers and suppliers.

CONNECTED TRANSACTIONS

During the year, the Group has entered into connected transactions and continuing connected transactions with connected persons and has complied with the disclosure requirements in accordance with Chapter 14A of the Rules Governing the Listing of Securities on The 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.

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.

During the year, the Group purchased certain leasehold land and other property, plant and equipment amounting to HK$15,559,000 from C & H Enterprise Co., Ltd, a member of the C & H Group. The acquisition of assets constituted a connected transaction, which was exempt from the approval of independent shareholders of the Company but was subject to the announcement and reporting requirements under the Listing Rules.

Relevant details of this connection transaction were set out in the announcements of the Company dated 5 April 2016 and 22 April 2016 respectively published on the website of the SEHK at www.hkexnews.hk and the website of the Company at www.dream-i.com.hk.

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 April 2016, the Company entered into a supply agreement with C & H Co., Ltd, which the Company agreed to supply various types of toy products and processing services for the period of three years ending 31 March 2019.

CONNECTED TRANSACTIONS *(Continued)*

(2) On 1 August 2016, 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 2017. 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 2016, the rent and administrative expenses paid amounted to HK$3,009,000 (2015: HK$3,059,000).

Relevant details of the above connected transactions were set out in the announcements of the Company dated 1 April 2016, 1 August 2016, 29 September 2016 and 7 December 2016 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 2016, 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 28 to the consolidated financial statements on pages 120 to 121 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 31 of this annual report.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2016 amounted to HK$675,000 (2015: HK$1,380,000).

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 25(c) to the consolidated financial statements. There were no movements during the year.

DISTRIBUTABILITY OF RESERVES

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of Companies Ordinance was HK$625,637,000 (2015: HK$554,909,000). After the end of the reporting period, the Directors proposed a final dividend of HK3 cents per ordinary share (2015: Nil), amounting to HK$20,306,000 (2015: HKNil). This dividend has not been recognised as a liability at the end the reporting period.

EQUITY-LINKED AGREEMENTS

No equity-linked agreement was entered into by the Company during the year ended 31 December 2016.

Report of the Directors

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

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

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

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
Dr Chan Yoo*

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

A full list of the names of the Directors of the Group's subsidiaries can be found in the Company's website at www.dream-i.com.hk under "Investor Relations/Board Committees".

In accordance with Article 92 and Article 101 of the Articles of Association, Dr Chan Yoo shall hold office until the forthcoming Annual General Meeting, being eligible, offers himself for re-election at the forthcoming annual general meeting ("AGM"). Mr Kyoo Yoon Choi and Mr Young M. Lee shall retire by rotation, and being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' SERVICE CONTRACTS

The service contract of Professor Cheong Heon Yi, INED, was renewed on 21 November 2015 for a term of two years commencing on 22 November 2015.

The service contract of Mr Tae Woong Kang, INED, was renewed on 20 August 2016 for a term of two years commencing on 20 August 2016.

Dr Chan Yoo, INED, was appointed by the Board on 30 May 2016 for a term of 2 years commencing on 30 May 2016.

Their remuneration is determined by the remuneration committee of the Company (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.

* Appointment effective from 30 May 2016
^ Appointment ceased effective from 30 May 2016

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

The Directors who held office as at 31 December 2016 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 Part XV of the SFO or otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

Long positions in ordinary shares

	Number of ordinary shares held				
	Personal interests (Note 1)	**Family interests**	**Corporate interests**	**Total**	**Percentage of issued shares 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.

Save as disclosed above, as at 31 December 2016, 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 (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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 executives 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.

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 2016, the Company had been notified of the following shareholders' interests and short positions, being 5% or more of the Company's ordinary shares in issue:

Substantial shareholders	Capacity	Number of ordinary shares held (Long position)	Percentage of the issued shares 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 shares 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 2016, the Company is not aware of any other registered substantial shareholder who holds 5% or more of the issued shares of the Company and none of other person who had interest or short position in the shares and underlying shares of the Company which were required, pursuant to Section 336 of Part XV of the SFO, to be recorded into the register referred to therein.

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.

PERMITTED INDEMNITY PROVISIONS

During the financial year and up to the date of this annual report, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Apart from the related party transactions as disclosed in note 28 to the consolidated financial statements, no transactions, arrangements or contracts 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016 and up to the date of this annual report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2016, C & H Group is principally engaged in the business of property investment in Seoul, Korea, leather goods and accessories agency, garments, fabrics and textiles 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 28 to the consolidated financial statements.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2016 are set out in note 22 to the consolidated financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 128 of the annual report.

RETIREMENT SCHEMES

The Group operates a defined benefit retirement scheme which covers 0.1% (2015: 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") and Vietnam are members of the state–sponsored retirement schemes organised by the government of the PRC and Vietnam. The subsidiaries are required to contribute a certain percentage of payroll to the retirement schemes 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 23 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 DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. The Company has made specific enquires of Directors, and all Directors have confirmed that they had complied with the required standard as set out in the Model Code at all applicable times during the year ended 31 December 2016.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has reviewed with the management of the Company with respect to the accounting policies, principles and practices adopted by the Group and discussed risk management and internal control system, and financial reporting matters, including a review of the annual results for the year ended 31 December 2016.

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, 27 March 2017

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2016.

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 2016, 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 to the Listing Rules, save for the deviation from the code provision A.2.1, details of which are stated in the section headed "Chairman and Chief Executive Officer" in this Corporate Governance Report.

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 2016, 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, Mr Tae Woong Kang and Dr Chan Yoo (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 had complied with the required standards as set out in the Model Code at all applicable times throughout the year.

BOARD OF DIRECTORS *(Continued)*

Board meeting and general meeting

Eight Board meetings and an AGM were held during the year. The attendance of each Director at the Board meetings, committee meetings and general meeting during the year ended 31 December 2016 is set out as follows:

	Number of attendance/Meetings held				
Name of Director	Board meetings	Remuneration Committee	Audit Committee	Nomination Committee	AGM
Executive Directors					
Kyoo Yoon Choi	3/8	N/A	N/A	N/A	1/1
Young M. Lee	7/8	3/3	N/A	3/3	1/1
James Chuan Yung Wang	3/8	N/A	N/A	N/A	1/1
Hyun Ho Kim	6/8	N/A	N/A	N/A	1/1
INEDs					
Cheong Heon Yi	4/8	3/3	3/3	3/3	1/1
Byong Hun Ahn^	3/4	2/2	1/1	2/2	1/1
Tae Woong Kang	5/8	3/3	3/3	3/3	1/1
Chan Yoo*	2/4	1/1	2/2	1/1	N/A

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 receiving 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 2016 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^	B
Tae Woong Kang	A,B
Chan Yoo*	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
* Appointment effective from 30 May 2016
^ Appointment ceased effective from 30 May 2016

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 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. Dr Chan Yoo is running his own consultancy firm which has no business with the Group. 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 and CFO. The Board and management will also seek advice from the Audit Committee, Remuneration Committee and the nomination committee of the Company (the "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 Committee, Remuneration Committee and Nomination Committee 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 be 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 independent element in the composition and will play an active role to ensure a balance of power and authority.

REMUNERATION COMMITTEE

The Remuneration Committee comprises one executive Director (Mr Young M. Lee) and three INEDs (Dr Chan Yoo, Professor Cheong Heon Yi and Mr Tae Woong Kang) and is chaired by Dr Chan Yoo. The Remuneration Committee was formed in January 2005 and held meeting at least once a year. Three meetings were held during the year.

REMUNERATION COMMITTEE *(Continued)*

At the meetings held during the year, the retirement compensation and incentive bonus for the Directors were reviewed and discussed. The emolument payable to the Directors and key senior management 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' emoluments are set out in note 7 to the consolidated financial statements. Emoluments of the members of the senior management by band for the year ended 31 December 2016 is 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 requirements of the 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 2016, 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.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs (Professor Cheong Heon Yi, Mr Tae Woong Kang and Dr Chan Yoo) and is chaired by Professor Cheong Heon Yi. The Audit Committee shall meet at least twice a year. Three 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.

During the year ended 31 December 2016, the Audit Committee performed the following works:

(i) reviewed the annual financial report for the year ended 31 December 2015 and interim financial report for the six months ended 30 June 2016;

(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 risk management and 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 2016 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.

AUDIT COMMITTEE *(Continued)*

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, risk management and internal control systems.

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

Under the code provision C.3.3 of the CG Code, the Audit Committee's role should include to discuss with management the systems of risk management and internal control and ensure that management has discharged its duty to have an effective risk management and internal control systems, 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 (Mr Young M. LEE) and three INEDs (Mr Tae Woong Kang, Professor Cheong Heon Yi and Dr Chan Yoo) and is chaired by Mr Tae Woong Kang. 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. Three meetings were held during the year.

NOMINATION COMMITTEE *(Continued)*

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 reviews the Board diversity policy on a regular basis to ensure its continued effectiveness.

During the year ended 31 December 2016, the Nomination Committee performed the following work:

(i) reviewed the structure, size, composition (including the skills, knowledge and experience) and diversity, and the Board diversity policy 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.

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.

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	4,271
Non-audit services	1,681
	5,952

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems, as well as, overseeing the risk management and internal control systems of the Group and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in relation to the Group's financial, operational, compliance, risk management and internal controls, and internal audit functions.

The Group has established an organizational structure with defined levels of responsibility and reporting procedures. The Risk Management Working Group and internal audit external consultant assist the Board and/or the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The Directors through the Audit Committee are kept regularly apprised of significant risks that may impact on the Group's performance.

The Group's internal control system is designed in consideration of the nature of business as well as the organization structure of the Group as a whole. The systems and internal controls are designed to manage rather than eliminate the risk of failure in operational systems and to provide reasonable, but not absolute, assurance against material misstatement or loss. Appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed.

The Group's risk management process is guided by the Three Lines of Defense system, which allows the board to consider control issues effectively. The Risk Management Working Group reports to the Audit Committee at each regularly scheduled meeting including amongst other things, significant risks of the Group and the appropriate mitigation and/or transfer of identified risks. The operating units of the Group, as risk owners, identify, evaluate, mitigate and monitor their own risks, and report such risk management activities to Risk Management Working Group on a half-yearly basis.

Management are responsible for conducting periodic assessment of risks in respective process areas, planning and implementing actions to manage risks and escalate ad-hoc risk events to the Risk Management Working Group. Moreover, Risk Management Working Group will facilitate and consolidate periodic risk assessment done by the management, monitor the implementation actions and report priority risks and any breach of risk appetite to the Audit Committee and the Board.

The Group has adopted policies and procedures for assessing and improving the effectiveness of its risk management and internal control systems, including requiring the management of the Group to regularly assess and evaluate that the risk management framework is appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Group and its business practices in the future.

The Group regulates the handling and dissemination of inside information as set out in Policies and Procedures for Handling Inside Information and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

RISK MANAGEMENT AND INTERNAL CONTROLS *(Continued)*

During 2016, the Risk Management Working Group has worked closely with the operating units, senior management, and the Directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and workshops; more closely aligning the assessment of internal controls with their potential risks; and increasing the depth and frequency of interaction with Directors on the Company's risk management system's design, operation, and findings. The Risk Management Working Group has presented update reports to the Board and the Audit Committee on the monitoring of the risk management and assisted the Directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

In 2016, the Audit Committee has engaged an external consultant to perform certain internal control review services and has discussed the scope of work with the external consultant. The Audit Committee considers the scope of work to be adequate given the size and complexity of the Group's operations and the Group's risk appetite. During 2016, the external consultant has assisted the Group to perform a review of the effectiveness of internal controls system for certain selected processes. The review results and proposed improvement opportunities were discussed and agreed with management and were reported to the Audit Committee. Based on the review results, the Board were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the Group and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

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 2016, 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 2016 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 Committee, Remuneration Committee and Nomination Committee 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.

Environmental, Social and Governance Report

1 ABOUT THIS REPORT

This Environmental, Social and Governance ("ESG") Report has been prepared in accordance with the SEHK Environmental, Social and Governance Reporting Guide ("ESG Guide") for the period from 1 January 2016 to 31 December 2016.

1.1 Report Boundary

In this report, we focus on the key eight (8) subsidiaries[1] including eleven (11) factories in Vietnam and China, majoring the manufacture of plush stuffed toys, ride-on toys and plastic figures, during the reporting period.

1.2 Our ESG Approach

The Group has been certified for many years for social compliance standards such as ICTI[2] Care Program and Disney International Labor Standards, which addresses ESG-related issues from promoting safety standards, to advancing social responsibility in the industry with programs to address environmental concerns, fair and lawful employment practices and workplace safety etc. In light of this, we have continued to maintain not only our certification compliance status, but we also strive to improve, by embedding the best practices into our daily operations. We try to engage more of our employees such that health and safety becomes a responsibility for all but not solely that of the management. Last year, we carried out a series of corporate social responsibility (CSR) training to enhance the awareness among our employees.

For the environment, though our industry does not typically pose significant environmental risks, we implement adequate environmental management control towards our operations to minimize our impact. We pay attention to reduce the resource use in our operations, particularly on energy and water, and implement efficiency measures where practicable.

In the coming year, we aim to enhance the internal communication between our workers and the management by arranging periodic labor meetings. Our intention is to implement this initiative to all of our operating factories from Vietnam to China in 2017.

1.3 Stakeholder engagement and materiality assessment

Stakeholder engagement

This is our first year to prepare for the ESG report and the first time to carry out stakeholders' engagement with our management team, who have decisive role on the Group's operations, and helped set the scene and direction on the Group's ESG approach. We intend to continuously reach out to more stakeholders for future reviews of our materiality. We will also maintain communication with the stakeholders of our latest developments and status on sustainability issues.

1 The eight subsidiaries include Dream Shenzhen Co., Ltd, C & H Toys (Chaohu) Co., Ltd., Dream Textile Co., Ltd., Dream Mekong Co., Ltd., J.Y. Vina Co., Ltd., J.Y. Hanam Co., Ltd., Dream Plastic Co., Ltd. and J.Y. Plasteel Vina Co., Ltd.

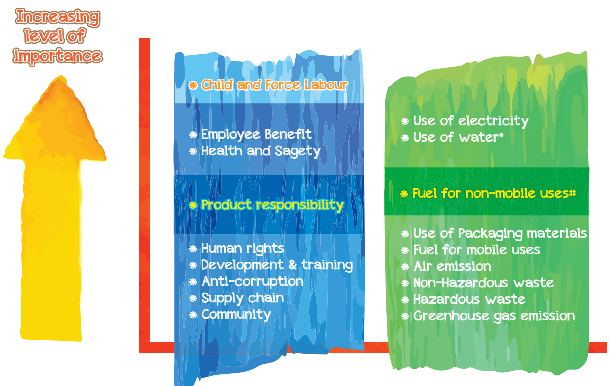
2 The International Council of Toy Industries (ICTI) is the industry association for the worldwide toy industry. ICTI is a not-for-profit membership organization incorporated in the United States of America.

Materiality Assessment

Based on our stakeholder engagement results, we have identified the following as material ESG issues to the Group. We have prioritized the material issues under each environmental and social aspect as our sustainability focus areas.

Our materiality assessment shows that social aspects of child and forced labor, health and safety and employee benefits, are of highest importance to the Group as they are essential and highly expected from our customers as well as the industry. Regarding product responsibility, it is relatively less important as our products are manufactured and labelled strictly according to our customers' requirements, which we have relatively less direct influence over.

In terms of the environmental aspects, the use of electricity and water are key as they have not only environmental impacts but also significant implications on the daily operation costs of our facilities and thus we have high expectation internally in managing these uses.



* Focus on
- waste water treatment in plant;
- use of water in plastics figures production

Focus on cooking gas and diesel for generator sets

2 ENVIRONMENTAL

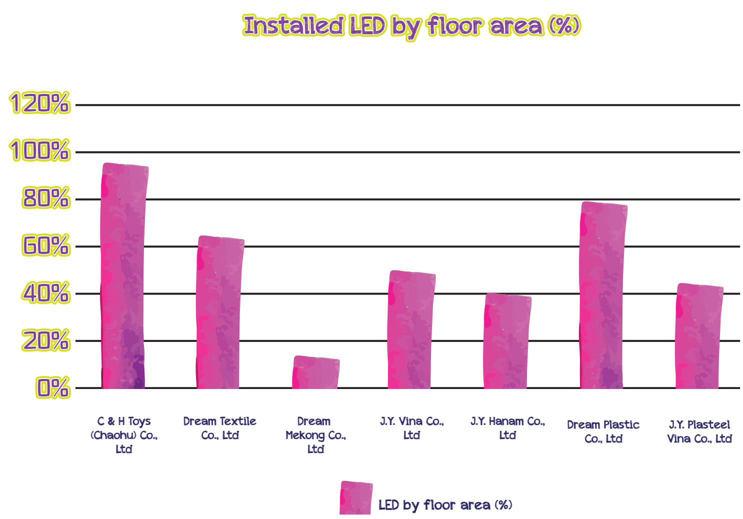
We are committed to build a better environment by adopting an environmental friendly approach in our business operation through management of our resource use in particular. We are committed to environmental management by adequately controlling the emissions from our facilities and more importantly, comply with all applicable environmental laws and regulations in conducting our business.

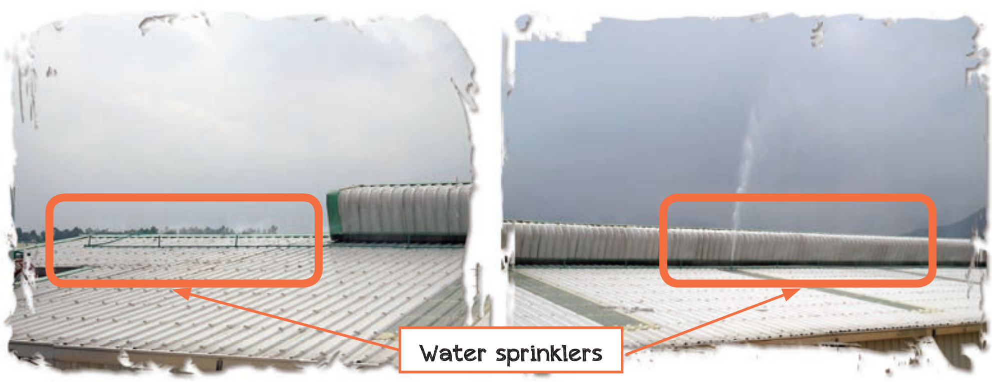
2.1 Initiatives and Compliance 2016

Use of Resources

Resource use is a key component in the environmental management of our manufacturing process, in which the most critical would be the consumption of electricity and water. In light of this, we have taken initiatives in the past years with aim to reduce our consumption in energy and freshwater use. As of 2016, we have taken several actions at our different facilities to enhance our energy efficiency and used alternatives for freshwater use, to name a few:

- Retrofitting of lighting equipment to light-emitting diode (LED)
- Use of collected rainwater (as an alternative to freshwater) for cooling of internal temperature of a finished goods warehouse
- Replacement of manufacturing equipment to more energy efficient models e.g., sewing machines and injection machines





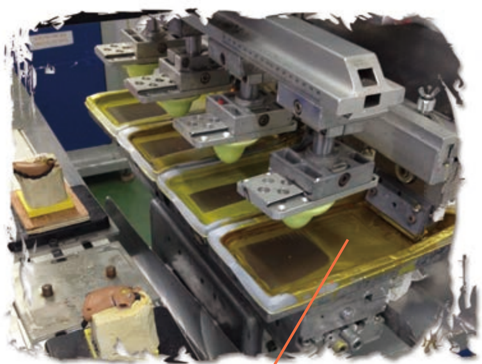
In one of our factories in Vietnam, we collect rainwater and use it as a cooling agent to spray over a finished goods warehouse to reduce the internal temperature. The setup was completed in September 2016 and has a design intent to reduce the internal temperature by upto 7 degree Celsius (℃).

Emissions

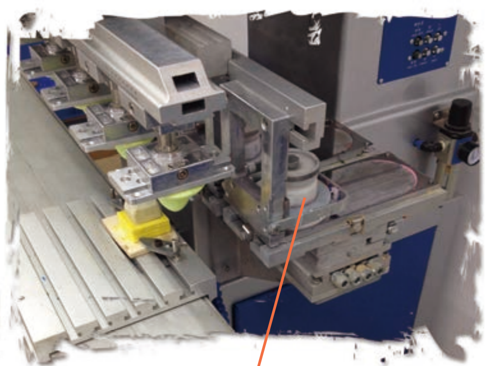
While our 2016 materiality results demonstrate the use of energy and water use are key to our Group's operation, we are also keen to ensure the emissions from our facilities are adequately controlled and managed. Listed below are some illustrations of our practices.

Air Quality

In our factories, carbon filters and cyclone systems are installed for air treatment prior to exhaust with aim to reduce air pollution. Besides the hardware, we have also adopted the use of more environmentally-friendly materials such as powder spray with less volatile organic chemicals (VOC) content in some of the dyeing processes. Since June 2016, we have adopted the use of paint capsule versus paint plate in our painting machines. Such change not only reduces the odor in the production plant, but also enable a more efficient use of paint materials.



Paint Plate



Paint Capsule

By adopting the use of paint capsule versus paint plate in our painting machines, we are able to apply thinner coating on toys, thus saving paint consumption by approximately 20%.

Waste Management

We encourage our workers to minimize their resource consumption and provide recycling equipment to reduce wastes. We try to recycle and reuse raw materials such as polypropylene (PP), polyvinyl chloride (PVC) and acrylonitrile butadiene styrene (ABS) and paints where applicable. Other recyclables include also carton boxes in our factories. In Vietnam, kitchen waste is also recycled as livestock feeds.

Besides, we have sewage treatment facilities in Vietnamese factories to properly treat the sewage prior to discharge, especially for factories like Dream Plastic where paints are used. We ensure the waste water discharges comply and do not exceed the local regulatory standards. Any sludge wastes from the plastics factories are also properly treated and disposed of as hazardous wastes by qualified contractors.

Monitoring

We have regular communications with our customers who have high expectations of ESG. We carry out routine monitoring and inspections of our environmental performance, especially for environmental aspects that have regulatory requirements so as to ensure compliance is being maintained. During the year, we are not aware of any non-compliance with the environmental regulatory requirements that may have a significant impact on the businesses of the Group.

3 PEOPLE

3.1 Employment

The Group promotes fair competition and prohibits discrimination or harassment against any employee on their gender, age, marital status, religion, race, nationality, disability or any status protected by law.

Equal opportunities are applied in all employment policies, in particular to recruitment, training, career development and promotion of employee. Remuneration and benefit packages of employees are structured on market terms with regard to individual responsibility and performance. All eligible employees are enrolled to a defined contribution on retirement or social insurance scheme. Other employment benefits are awarded at the discretion of the Group. No non-compliance regarding employment was noted for the reporting period.

We value employee’s satisfaction and encourage our staff to provide feedbacks. We have channels in place for our employees to express grievances and complaints which will be well-handled according to the predetermined procedures to ensure equality to all employees.

The Group strictly fulfil the ICTI requirements as well as the local regulatory requirements on employment of child and forced labor. We prohibit the employment of child and forced labor and have adopted such provisions in respective guidelines and handbooks of our factories.

During the reporting period, there were no reported non-compliance on child labor or forced labor, nor was there any on discrimination or harassment incidents.

We are against corruption among the Group's activities and procurements. We have Corporate Code of Conducts, Code of Ethics, and the policy on Anti-corruption/Anti-bribery/Whistle blowing in place and communicated to our staff, guiding our approach on the matter throughout our daily operations. In the reporting period, no reported instances on corruption were noted.

3.2 Healthy and Safe Working Environment

The Group is committed to providing a healthy and safe workplace to employees and fulfil relevant ICTI requirements. As part of the employee benefits, annual body checks are provided to all factory workers to ensure their health conditions are taken care of. Safety guidelines are formulated and communicated to all employees. Relevant training, such as training to new workers on proper use of sewing machines, are organized in the year to improve our employees' awareness on health and safety.

Regular inspections on the factories are carried out to ensure safety hazards are alleviated. We ensure relevant certifications and/or permits in compliance to relevant laws and regulations were obtained. During the year, we do not have any significant regulatory non-compliance on health and safety.

3.3 Development and Training

We encourage sustainable learning of our employees through coaching and further studies. In-house trainings and online learning materials are provided to employees. Sponsorships are provided as an initiative for further studies by application. In 2016, the Group has organized a number of training to employees, including CSR awareness training, communication training, safety, health and environment training and continuous improvement training. In addition, language courses are provided to management staff.

CSR Training 2016

- Factory and Project Structure
- Social Responsibility (SR) Policies Aligned with ICTI Code of Business Practices
- Roles and Responsibility
- Communication, Participation and Consultation
- SR Risk Assessment Evaluation of Compliance Continuous Improvement

4 PRODUCT RESPONSIBILITY AND SUPPLY CHAIN MANAGEMENT

Product Responsibility

We are committed to provide quality services to our customers. Six of our factories are certified of their production process with ISO 9001 Quality Management System. We apply stringent quality controls in our production lines. Our quality assurance and quality control department manages and ensures quality inspections are being conducted at all stages of our production process from incoming materials to finished goods. And quality testing is also carried out for our products prior to shipping to our warehouse.

The Group is committed in respecting the intellectual property rights of our customers, business partners, competitors, and others. No Company employee, independent contractor, or agent should steal or misuse the intellectual property rights owned or maintained by another intellectual property rights of product design.

During the year, we are not aware of any regulatory non-compliance regarding intellectual property and other relevant laws and regulations as related to product responsibility that has a significant impact on the Group.

Supply Chain Management

We engage a number of service providers from the provision of raw materials for toy production to logistics arrangements. We work closely with the service providers and suppliers to ensure that they collaborate with us to fulfil the ICTI requirements and they are familiar with the respective environmental and social requirements. Periodic meetings are held to facilitate our communication to ensure product safety at the end-user level is properly taken care of. Feedbacks from customers are conveyed to suppliers promptly. We carry out suppliers' appraisals prior to accepting them on the qualified suppliers list and we assess their performance based on their environmental and social risk biannually.

5 COMMUNITY INVESTMENT

As the Group establishes factories in Vietnam, it is in fact contributing positively towards the community as the factories provide employment locally within the communities. In addition, the Group encourages employees to be involved in CSR activities. We have donated items such as bicycles and toys to local communities. During the year, we have made cash donations totaling HK$675,000

A Hong Kong Exchange ESG Disclosure Table

Aspect	Comply or explain Provisions	Description	Section No.	Remarks
Environment	A1 Emissions	(a) Policies and (b) Compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	2.1	While we are committed to control and manage our emissions, we don't currently have any greenhouse gas emission monitoring and management as it does not have any regulatory requirements or is it required by the customers or is it an industrial practice. We handle our other emissions such as air, waste water and waste adequately to ensure compliance.
	A2 Use of Resources	Policies on the efficient use of resources, including energy, water and other raw materials.	2.1	
	A3 The Environment and Natural Resources	Policies on minimizing the issuer's significant impact on the environment and natural resources.	2.1	Our significant impacts on the environment and natural resources have already been covered in A1 and A2 in terms of emission and use of resources respectively.
Social	B1 Employment	Policies on employment and compliance with local laws and regulations that have a significant impact on the issuer on the following aspects: • Compensation and dismissal • Recruitment and promotion • Working hours and rest periods • Equal opportunity and anti-discrimination • Diversity • Other benefits and welfare	3.1	
	B2 Health and Safety	Policies on providing a safe working environment and protecting employees from occupational hazards and compliance with relevant laws and regulations.	3.2	

Aspect	Comply or explain Provisions	Description	Section No.	Remarks
	B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	3.3	
	B4 Labour Standards	Policies and Compliance with laws and regulations on preventing child and forced labor.	3.1	
	B5 Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	4	
	B6 Product Responsibility	Policies and compliance with relevant laws and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	4	
	B7. Anti-corruption	Policies and compliance with relevant laws and regulations relating to bribery, extortion, fraud and money laundering.	3.1	
	B8. Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	5	

KPMG

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

Opinion

We have audited the consolidated financial statements of Dream International Limited ("the Company") and its subsidiaries ("the Group") set out on pages 46 to 127, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessing the carrying value of inventories

Refer to note 18 to the consolidated financial statements and the accounting policies in note 1(l) on page 62.

The Key Audit Matter

At the reporting date the Group held significant quantities of inventories, which principally comprised plush stuffed toys, ride-on toys and plastic figures toys, with different products in different phases of their manufacturing life cycles. The ability of the Group to sell these inventories in the future may be adversely affected by changes in consumer preferences.

Management performs regular reviews of the carrying values of inventories with reference to the inventory ageing report, projections of expected future sales of goods and management's experience and judgement. Based on this review, write-downs or provisions for inventories will be made when the estimated net realisable value of an item of inventory falls below its carrying amount.

In addition, the allocation of labour and production overheads to be absorbed in inventories, which also requires management experience and judgement, can impact the carrying amount of work-in-progress and finished goods.

The assessment of inventory write-downs and provisions and the allocation of labour and production overheads can be inherently subjective and uncertain.

We identified assessing the carrying value of inventories as a key audit matter because of the significant judgement exercised by management in determining appropriate inventory write-downs and provisions, which involves estimating the duration of product life cycles and predicting the amounts of inventories which will be sold in the future.

How the matter was addressed in our audit

Our audit procedures to assess the carrying value of inventories included the following:

- assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with underlying documentation, including purchase invoices and goods received notes;
- assessing the Group's inventory write-down and provision policy with reference to the requirements of the prevailing accounting standards;
- assessing whether the inventory write-downs and provisions at the reporting date were calculated on a basis consistent with the Group's inventory write-down and provision policy by recalculating the inventory write-downs and provisions based on expected selling prices;
- performing a retrospective review by comparing the carrying values of inventories as at 31 December 2015 with sales prices achieved during the current year, on a sample basis, to assess the reliability of management's write-down and provisioning process;
- comparing the selling prices for a sample of inventory items after the year end with their carrying values as at 31 December 2016;
- enquiring of management in Finance and Sales departments about any expected changes in plans for disposals of inventories on hand, including delays in or cancellations of sales orders, and comparing their representations with actual sales transactions subsequent to the reporting date;
- comparing, on a sample basis, the unit cost of inventories at the reporting date with sales prices achieved subsequent to the end of the reporting period; and
- evaluating the allocation of labour and production overheads to inventories by assessing the method of calculation and the levels of overheads absorbed at each production stage and by comparing total overhead costs absorbed in inventories during the year with actual total overhead costs incurred for the year and recalculating the absorption of labour and production overheads in inventories, on sample basis, based on management's allocation methodology.

Assessing potential impairment of leasehold land and other property, plant and equipment – Ride-on toys segment

Refer to note 13 to the consolidated financial statements and the accounting policies in note 1(k) on pages 59 to 62.

The Key Audit Matter

In view of the loss, excluding a one-off gain on deregistration of a subsidiary of HK$10,818,000, sustained by the ride-on toys segment, which is considered to be a separate cash-generating unit ("CGU") for the year, management considered that indicators of potential impairment of leasehold land and other property, plant and equipment associated with this segment existed at 31 December 2016 and performed an impairment assessment thereon.

Management performed an impairment assessment of the ride-on toys segment's leasehold land and other property, plant and equipment using the value in use model and compared the aggregate carrying value of the CGU with the net present value of the discounted cash flow forecast to determine the amount of impairment which should be recognised for the year, if any.

The preparation of a discounted cash flow forecast involves the exercise of significant management judgement, in particular in assessing future revenue, future margins, future cost growth rates and the discount rate applied.

We identified the assessment of potential impairment of leasehold land and other property, plant and equipment of the ride-on toys segment as a key audit matter because significant management judgement is involved in determining whether there are indicators of impairment and because estimating the recoverable amounts of these assets and forecasting the future cash flows involves inherent uncertainty and could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of leasehold land and other property, plant and equipment of the ride-on toys segment included the following:

- evaluating management's identification of CGUs and the amounts of leasehold land and other property, plant and equipment allocated to each CGU and assessing the impairment indicators identified by management, with reference to the requirements of the prevailing accounting standards;

- involving our internal valuation specialists to assist us in evaluating the methodology adopted by management in its impairment assessment with reference to the requirements of the prevailing accounting standards;

- critically examining the key assumptions, including forecast revenue, future growth rates, future margins, future cost growth rates and the discount rate applied, adopted by management in its preparation of the discounted cash flow forecast by referring to industry and other available third party information, the recent financial performance of the ride-on toy segment's trading and manufacturing operations and management's budgets and plans for the operations in 2017 and beyond;

- evaluating the discount rate applied by management in its discounted cash flow forecast with reference to available financial information of other companies in the same industry and considering country and company specific risk premiums;

- performing sensitivity analyses for the key variables in the discounted cash flow forecast, which included assessing the effect of reasonably possible changes in future revenue, future cost growth rates and the discount rate, to evaluate the impact on the conclusions reached by management and to assess whether there were any indicators of management bias; and

- performing a retrospective review by comparing the revenue and operating costs in the discounted cash flow forecast prepared in the prior year with the current year's performance to assess the accuracy of management's forecasts in the prior year and making inquiries of management to understand reasons for any significant variations identified.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sylvene Fong.

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

27 March 2017

Consolidated statement of profit or loss

for the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	3 & 11	**2,151,268**	1,814,469
Cost of sales		**(1,541,581)**	(1,387,778)
Gross profit		**609,687**	426,691
Other revenue	4(a)	**11,394**	13,763
Other net income/(loss)	4(b)	**15,558**	(1,412)
Distribution costs		**(57,383)**	(46,101)
Administrative expenses		**(225,003)**	(191,798)
Profit from operations		**354,253**	201,143
Finance costs	5(a)	**(385)**	(524)
Profit before taxation	5	**353,868**	200,619
Income tax	6	**(59,755)**	(51,231)
Profit for the year		**294,113**	149,388
Attributable to:			
Equity shareholders of the Company		**295,500**	150,783
Non-controlling interests		**(1,387)**	(1,395)
Profit for the year		**294,113**	149,388
Earnings per share	10		
Basic and diluted		**HK43.66 ¢**	HK22.28 ¢

The notes on pages 52 to 127 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 25(b).

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Profit for the year		**294,113**	149,388
Other comprehensive income for the year (after tax adjustments):	9		
Item that will not be reclassified to profit or loss:			
– Remeasurement of net defined benefit retirement obligation		**(758)**	(583)
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**(10,955)**	(15,325)
– Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary	16(b)	**(8,037)**	–
– Available-for-sale securities: net movement in fair value reserve		**185**	197
		(18,807)	(15,128)
Other comprehensive income for the year		**(19,565)**	(15,711)
Total comprehensive income for the year		**274,548**	133,677
Attributable to:			
Equity shareholders of the Company		**275,929**	135,030
Non-controlling interests		**(1,381)**	(1,353)
Total comprehensive income for the year		**274,548**	133,677

The notes on pages 52 to 127 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Investment property	13	**1,313**	–
Interests in leasehold land held for own use under operating leases	13	**86,042**	53,778
Other property, plant and equipment	13	**512,914**	379,369
Long term receivables and prepayments	12	**28,509**	16,105
Other intangible assets	14	**6,688**	7,618
Goodwill	15	**2,753**	2,753
Deferred tax assets	24(b)	**3,779**	7,603
Other financial assets	17	**20,852**	21,099
		662,850	488,325
Current assets			
Inventories	18	**240,300**	201,752
Trade and other receivables	19	**348,376**	334,816
Current tax recoverable	24(a)	**1,418**	28
Other financial assets	17	**–**	6,591
Time deposits	20(a)	**108,232**	25,123
Cash and cash equivalents	20(a)	**316,370**	251,476
		1,014,696	819,786
Current liabilities			
Trade and other payables	21	**330,802**	253,425
Bank loans	22	**23,252**	3,916
Current tax payable	24(a)	**27,864**	22,758
		381,918	280,099
Net current assets		**632,778**	539,687
Total assets less current liabilities		**1,295,628**	1,028,012

Consolidated statement of financial position

at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Deferred tax liabilities	24(b)	**1,147**	–
Provision for reinstatement costs		**1,154**	–
Net defined benefit retirement obligation	23(a)	**1,443**	1,126
		3,744	1,126
NET ASSETS		**1,291,884**	1,026,886
CAPITAL AND RESERVES			
Share capital	25(c)	**236,474**	236,474
Reserves		**1,062,594**	793,434
Total equity attributable to equity shareholders of the Company		**1,299,068**	1,029,908
Non-controlling interests		**(7,184)**	(3,022)
TOTAL EQUITY		**1,291,884**	1,026,886

Approved and authorised for issue by the board of directors on 27 March 2017

Young M. Lee
Director

Hyun Ho Kim
Director

The notes on pages 52 to 127 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2016

		Attributable to equity shareholders of the Company								
	Notes	Share capital 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 2015		236,474	18,797	(6,246)	54,657	–	645,345	949,027	(1,669)	947,358
Changes in equity for 2015:										
Profit for the year		–	–	–	–	–	150,783	150,783	(1,395)	149,388
Other comprehensive income	9	–	–	–	(15,367)	197	(583)	(15,753)	42	(15,711)
Total comprehensive income for the year		–	–	–	(15,367)	197	150,200	135,030	(1,353)	133,677
Final dividend approved in respect of the previous year	25(b)(ii)	–	–	–	–	–	(33,843)	(33,843)	–	(33,843)
Dividends declared in respect of the current year	25(b)(i)	–	–	–	–	–	(20,306)	(20,306)	–	(20,306)
Balance at 31 December 2015		236,474	18,797	(6,246)	39,290	197	741,396	1,029,908	(3,022)	1,026,886

		Attributable to equity shareholders of the Company								
	Notes	Share capital 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 2016		**236,474**	**18,797**	**(6,246)**	**39,290**	**197**	**741,396**	**1,029,908**	**(3,022)**	**1,026,886**
Changes in equity for 2016:										
Profit for the year		**–**	**–**	**–**	**–**	**–**	**295,500**	**295,500**	**(1,387)**	**294,113**
Other comprehensive income	9	**–**	**–**	**–**	**(18,998)**	**185**	**(758)**	**(19,571)**	**6**	**(19,565)**
Total comprehensive income for the year		**–**	**–**	**–**	**(18,998)**	**185**	**294,742**	**275,929**	**(1,381)**	**274,548**
Appropriation to general reserve fund		**–**	**2,855**	**–**	**–**	**–**	**(2,855)**	**–**	**–**	**–**
Deregistration of a subsidiary	16(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,781)**	**(2,781)**
Dividends declared in respect of the current year	25(b)(i)	**–**	**–**	**–**	**–**	**–**	**(6,769)**	**(6,769)**	**–**	**(6,769)**
Balance at 31 December 2016		**236,474**	**21,652**	**(6,246)**	**20,292**	**382**	**1,026,514**	**1,299,068**	**(7,184)**	**1,291,884**

The notes on pages 52 to 127 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Operating activities			
Cash generated from operations	20(b)	**399,646**	270,772
Tax paid			
– Hong Kong Profits Tax paid		**(23,430)**	(24,931)
– Tax paid outside Hong Kong		**(28,630)**	(13,937)
Net cash generated from operating activities		**347,586**	231,904
Investing activities			
Payment for purchase of leasehold land and other property, plant and equipment		**(195,122)**	(132,258)
Prepayment for purchase of leasehold land and other property, plant and equipment		**(21,136)**	(10,064)
Net cash outflow in respect of acquisition of a subsidiary	16(a)	**(5,744)**	–
Proceeds from the disposal of other property, plant and equipment		**1,461**	599
Proceeds from disposal of club memberships		**566**	153
Payment for purchase of other financial assets		**–**	(8,372)
Interest received		**4,998**	5,378
Increase in time deposits with maturity over three months		**(83,109)**	(2,086)
Proceeds received upon maturity and/or sale of other financial assets		**6,786**	15,452
Net cash used in investing activities		**(291,300)**	(131,198)
Financing activities			
Interest paid		**(385)**	(524)
Proceeds from bank loans		**23,286**	7,672
Repayment of bank loans		**(3,975)**	(38,277)
Dividends paid		**(6,769)**	(54,149)
Net cash generated from/(used in) financing activities		**12,157**	(85,278)
Net increase in cash and cash equivalents		**68,443**	15,428
Cash and cash equivalents at 1 January		**251,476**	241,567
Effect of foreign exchange rate changes		**(3,549)**	(5,519)
Cash and cash equivalents at 31 December	20(a)	**316,370**	251,476

The notes on pages 52 to 127 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") (the "Listing Rules"). Significant accounting policies adopted by Dream International Limited (the "Company") and its subsidiaries (together the "Group") are disclosed 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. 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 2016 comprise the Company and its subsidiaries (together referred to as the "Group").

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, financial assets designated at fair value through profit or loss and certain employee benefits are stated at their fair values as explained in the accounting policies set out below in notes 1(e), 1(f) and 1(q) respectively.

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 29.

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 statement of financial position 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 statement of profit or loss and the consolidated statement of profit or loss and other 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(e)), or when appropriate, the cost on initial recognition of an investment in an associate.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) 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.

(e) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, 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 is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) 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 statement of profit or loss 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 the end of each reporting period 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 statement of financial position 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.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(k)(ii)). Depreciation is calculated to write off the cost of investment properties, using the straight-line method over the shorter of the unexpired term of leases and their estimated useful lives.

Gains or losses arising from the retirement or disposal of an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the investment property and are recognised in profit or loss on the date of retirement or disposal. Rental income from investment properties is accounted for as described in note 1(t)(iii).

(h) Other property, plant and equipment

The following items of other 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Other property, plant and equipment *(Continued)*

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.

(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)).

Patents are carried at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)(ii)). Amortisation of patent with finite useful lives is charged to profit or loss on a straight-line basis over its 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 statement of financial position at cost less accumulated impairment losses, and are tested annually for impairment (see note 1(k)(ii)).

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets

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

(i) Classification of assets leased to the Group

Assets that are held by 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.

(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.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

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

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

– For 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period 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:

– investment property;

– other property, plant and equipment;

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

– other intangible assets;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

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

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

– *Reversals of impairment losses*

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

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

(iii) Interim financial reporting and impairment

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

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

(l) Inventories

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

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

(q) Employee benefits

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Employee benefits *(Continued)*

(ii) Defined benefit retirement plan obligations

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

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit or loss 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 reporting period to the net defined benefit liability/(asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

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

(iii) 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 restructuring costs involving the payment of termination benefits.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 amounts 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 end of the reporting period, 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.

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 or credit 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 end of reporting period. Deferred tax assets and liabilities are not discounted.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

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

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

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

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

  – the same taxable entity; or

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

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(i) Financial guarantees issued *(Continued)*

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

(t) Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(iv) Dividends

Dividend income from unlisted investments is recognised when the shareholder's 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 end of the reporting period. 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.

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. Statement of financial position 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 end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(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).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties *(Continued)*

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.

(x) Segment reporting

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

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

– *Annual Improvements to HKFRSs 2012-2014 Cycle*

– Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

– Amendments to HKAS 16, *Property, plant and equipment* and HKAS 38*, Intangible assets: Clarification of acceptable methods of depreciation and amortisation*

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE

The principal activities of the Group are the design, development, manufacture and sale of plush stuffed toys, plastic figures and ride-on toys. Revenue 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 three (2015: three) customers with whom the value of transactions have exceeded 10% of the Group's revenues. During the year ended 31 December 2016, the revenues from sales of plush stuffed toys and plastic figures to these customers, amounted to approximately HK$549,127,000, HK$531,579,000 and HK$491,667,000 (2015: HK$571,877,000, HK$555,590,000 and HK$278,355,000) respectively and arose in Hong Kong, the People's Republic of China (the "PRC"), North America, Japan and Europe (2015: Hong Kong, the PRC, 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 26(a).

Further details regarding the Group's principal activities are disclosed in note 11 to these financial statements.

4 OTHER REVENUE AND NET INCOME/(LOSS)

(a) Other revenue

	2016 **HK$'000**	2015 HK$'000
Bank interest income	**3,804**	4,273
Interest income from other financial assets	**1,194**	1,105
Sundry income	**6,396**	8,385
	11,394	13,763

(b) Other net income/(loss)

	2016 **HK$'000**	2015 HK$'000
Bargain purchase gain arising from acquisition of a subsidiary (note 16(a))	**3,240**	–
Gain on deregistration of a subsidiary (note 16(b))	**10,818**	–
Net (loss)/gain on disposal of other property, plant and equipment	**(1,520)**	200
Net gain/(loss) on disposal of other financial assets	**95**	(553)
Net realised and unrealised gain on other financial assets	**154**	730
Net loss on disposal of club memberships	**–**	(733)
Impairment loss on club memberships (note 14)	**(210)**	(496)
Net foreign exchange gain/(loss)	**3,240**	(321)
Others	**(259)**	(239)
	15,558	(1,412)

5 PROFIT BEFORE TAXATION

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

	Notes	2016 HK$'000	2015 HK$'000
(a) Finance costs			
Interest expense on bank borrowings wholly repayable within five years		**385**	524
(b) Staff costs #			
Expenses recognised in respect of defined benefit retirement plan	23(a)(v)	**1,037**	842
Contributions to defined contribution retirement plan		**41,816**	44,096
Total retirement costs		**42,853**	44,938
Salaries, wages and other benefits		**613,986**	515,464
		656,839	560,402
(c) Other items			
Amortisation of land lease premium	13(a)	**1,726**	1,010
Depreciation #	13(a)	**46,900**	35,886
Impairment loss recognised on trade receivables	19(b)	**–**	425
Reversal of impairment loss on trade receivables	19(b)	**(1)**	(37)
Impairment loss recognised on other receivables		**–**	329
Reversal of impairment loss on other receivables		**(611)**	(639)
Auditors' remuneration			
– audit services		**4,429**	4,453
– other services		**1,681**	1,368
Operating lease charges: minimum lease payments in respect of property rentals #		**27,725**	30,701
Cost of inventories #	18(b)	**1,541,581**	1,387,778

\# Cost of inventories includes HK$581,118,000 (2015: HK$498,506,000) relating to staff costs, depreciation and operating lease charges, 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.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2016 HK$'000	2015 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**21,224**	22,850
(Over)/under-provision in respect of prior years	**(299)**	18
	20,925	22,868
Current tax – Outside Hong Kong		
Provision for the year	**34,628**	22,749
Under-provision in respect of prior years	**537**	1,072
	35,165	23,821
Deferred tax		
Origination and reversal of temporary differences	**3,665**	4,353
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**–**	189
	3,665	4,542
	59,755	51,231

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2015-16 subject to a maximum reduction of HK$20,000 (2015: a maximum reduction of HK$20,000 was granted for the year of assessment 2014-15 and was taken into account in calculating the provision for 2015). Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

Current tax outside Hong Kong for the year ended 31 December 2016 includes withholding tax of HK$1,580,000 paid on dividend income from a subsidiary.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(Continued)

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

	2016 **HK$'000**	2015 HK$'000
Profit before taxation	**353,868**	200,619
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**66,396**	36,081
Tax effect of non-deductible expenses	**10,324**	9,878
Tax effect of non-taxable income	**(6,147)**	(1,534)
Tax effect of utilisation of previously unrecognised tax losses	**(2,662)**	(1,629)
Tax effect of unused tax losses not recognised	**4,381**	5,036
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**–**	189
Statutory tax concession	**(14,297)**	(2,565)
Under-provision in prior years	**238**	1,090
Withholding tax paid	**1,580**	–
Others	**(58)**	4,685
Actual tax expense	**59,755**	51,231

7 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees HK$'000	Salaries, allowances, discretionary bonuses, and benefits in kind HK$'000	Retirement scheme contributions HK$'000	2016 Total HK$'000
Chairman and executive director				
Kyoo Yoon Choi	**–**	**8,586**	**–**	**8,586**
Executive directors				
Young M. Lee	**–**	**2,760**	**–**	**2,760**
James Chuan Yung Wang	**–**	**2,347**	**–**	**2,347**
Hyun Ho Kim	**–**	**2,001**	**–**	**2,001**
Independent non-executive directors				
Cheong Heon Yi	**157**	**–**	**–**	**157**
Byong Hun Ahn (appointment ceased effective from 30 May 2016)	**73**	**–**	**–**	**73**
Tae Woong Kang	**140**	**–**	**–**	**140**
Chan Yoo (appointment effective from 30 May 2016)	**66**	**–**	**–**	**66**
	436	**15,694**	**–**	**16,130**

	Directors' fees HK$'000	Salaries, allowances, discretionary bonuses, and benefits in kind HK$'000	Retirement scheme contributions HK$'000	2015 Total HK$'000
Chairman and executive director				
Kyoo Yoon Choi	–	6,536	–	6,536
Executive directors				
Young M. Lee	–	2,330	–	2,330
James Chuan Yung Wang	–	2,134	–	2,134
Hyun Ho Kim	–	1,930	–	1,930
Independent non-executive directors				
Cheong Heon Yi	151	–	–	151
Byong Hun Ahn	145	–	–	145
Tae Woong Kang	138	–	–	138
	434	12,930	–	13,364

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2015: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2015: three) individuals are as follows:

	2016	2015
	HK$'000	HK$'000
Salaries and other emoluments	**8,933**	7,956
Discretionary bonuses	**–**	–
Retirement scheme contributions	**–**	–
	8,933	7,956

The emoluments of the three (2015: three) individuals with the highest emoluments are within the following bands:

	2016	2015
	No. of individuals	No. of individuals
HK$		
2,000,001 – 2,500,000	**1**	2
2,500,001 – 3,000,000	**1**	–
3,000,001 – 3,500,000	**–**	1
3,500,001 – 4,000,000	**1**	–

9 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	2016			2015		
	Before tax amount HK$'000	**Tax expense HK$'000**	**Net-of-tax amount HK$'000**	Before tax amount HK$'000	Tax expense HK$'000	Net-of-tax amount HK$'000
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**(10,955)**	**–**	**(10,955)**	(15,325)	–	(15,325)
Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary (note 16(b))	**(8,037)**	**–**	**(8,037)**	–	–	–
Remeasurement of net defined benefit retirement obligation (note 23(a))	**(758)**	**–**	**(758)**	(583)	–	(583)
Available-for-sale securities: net movement in fair value reserve	**242**	**(57)**	**185**	255	(58)	197
Other comprehensive income	**(19,508)**	**(57)**	**(19,565)**	(15,653)	(58)	(15,711)

10 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$295,500,000 (2015: HK$150,783,000) and the weighted average number of ordinary shares of 676,865,000 shares (2015: 676,865,000 shares) in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as there were no dilutive potential ordinary shares in existence during the years ended 31 December 2016 and 2015.

11 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.

– 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.

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

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources among 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, other intangible assets, goodwill and current assets with the exception of club memberships, 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 directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

11 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 2016 and 2015 is set out below.

	Plush stuffed toys		Plastic figures		Ride-on toys		Total	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Revenue from external customers	**1,487,615**	1,278,942	**629,837**	525,534	**33,816**	9,993	**2,151,268**	1,814,469
Inter-segment revenue	**31,773**	41,149	**2,851**	3,501	**–**	2,107	**34,624**	46,757
Reportable segment revenue	**1,519,388**	1,320,091	**632,688**	529,035	**33,816**	12,100	**2,185,892**	1,861,226
Reportable segment profit/(loss) (adjusted EBITDA)	**320,841**	178,250	**100,333**	84,301	**8,330**	(2,008)	**429,504**	260,543
Bank interest income	**3,770**	4,143	**11**	23	**23**	107	**3,804**	4,273
Interest expense	**(385)**	(524)	**–**	–	**–**	–	**(385)**	(524)
Depreciation and amortisation for the year	**(34,158)**	(21,008)	**(12,048)**	(12,902)	**(2,420)**	(2,986)	**(48,626)**	(36,896)
Impairment loss on club memberships	**(210)**	(496)	**–**	–	**–**	–	**(210)**	(496)
Reportable segment assets	**1,013,740**	862,234	**444,686**	323,300	**75,685**	39,517	**1,534,111**	1,225,051
Additions to non-current segment assets during the year	**134,081**	101,244	**80,561**	34,766	**19,913**	15,100	**234,555**	151,110
Reportable segment liabilities	**308,175**	248,281	**248,166**	197,369	**90,962**	45,379	**647,303**	491,029

11 SEGMENT REPORTING *(Continued)*

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

	2016 HK$'000	2015 HK$'000
Revenue		
Reportable segment revenue	**2,185,892**	1,861,226
Elimination of inter-segment revenue	**(34,624)**	(46,757)
Consolidated revenue	**2,151,268**	1,814,469
Profit		
Reportable segment profit	**429,504**	260,543
Interest income	**4,998**	5,378
Depreciation and amortisation	**(48,626)**	(36,896)
Finance costs	**(385)**	(524)
Impairment loss on club memberships	**(210)**	(496)
Unallocated head office and corporate expenses	**(31,413)**	(27,386)
Consolidated profit before taxation	**353,868**	200,619
Assets		
Reportable segment assets	**1,534,111**	1,225,051
Elimination of inter-segment receivables	**(313,904)**	(236,478)
	1,220,207	988,573
Club memberships	**6,688**	7,618
Other financial assets	**20,852**	27,690
Deferred tax assets	**3,779**	7,603
Current tax recoverable	**1,418**	28
Unallocated head office and corporate assets	**424,602**	276,599
Consolidated total assets	**1,677,546**	1,308,111

11 SEGMENT REPORTING *(Continued)*

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

	2016 HK$'000	2015 HK$'000
Liabilities		
Reportable segment liabilities	**647,303**	491,029
Elimination of inter-segment payables	**(313,904)**	(236,478)
	333,399	254,551
Deferred tax liabilities	**1,147**	–
Current tax payable	**27,864**	22,758
Unallocated head office and corporate liabilities	**23,252**	3,916
Consolidated total liabilities	**385,662**	281,225

(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 investment property, interests in leasehold land held for own use under operating leases, other property, plant and equipment, other intangible assets, prepayments for leasehold land and other property, plant and equipment and goodwill ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of investment property, leasehold land and other property, plant and equipment, and the location of the operation to which they are allocated in the case of other intangible assets, prepayments for leasehold land and other property, plant and equipment and goodwill.

	Revenue from external customers		Specified non-current assets	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Hong Kong (place of domicile)	**23,035**	39,071	**268**	784
North America	**1,223,359**	910,855	**199**	199
Japan	**645,455**	646,597	**3,325**	3,440
Europe	**134,293**	169,782	**–**	–
The PRC	**34,039**	13,679	**62,525**	57,278
Vietnam	**39,609**	14,149	**562,987**	384,597
Korea	**49,176**	10,675	**5,843**	7,284
Other countries	**2,302**	9,661	**–**	–
	2,128,233	1,775,398	**634,879**	452,798
	2,151,268	1,814,469	**635,147**	453,582

12 LONG TERM RECEIVABLES AND PREPAYMENTS

	2016 HK$'000	2015 HK$'000
Loans to a supplier (note 12(a))	**3,071**	1,449
Prepayments (note 12(b))	**25,013**	13,876
Other receivables	**425**	780
	28,509	16,105

(a) Loans to a supplier bear interest at 6.5% per annum (2015: 6.5% per annum) and are repayable in February and May 2018 by instalments. Loans amounting to HK$3,071,000 (2015: HK$1,449,000) are guaranteed by the parent company of the supplier.

(b) The prepayments relate to the purchase of leasehold land and other property, plant and equipment and prepaid rental costs of staff quarters.

13 INVESTMENT PROPERTY, LEASEHOLD LAND AND OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	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$'000	Investment property HK$'000	Interests in leasehold land held for own use under operating leases HK$'000	Total HK$'000
Cost:										
At 1 January 2015	159,752	9,181	200,533	12,682	11,038	39,033	432,219	–	51,213	483,432
Exchange adjustments	(2,199)	(256)	(2,594)	(480)	(275)	(223)	(6,027)	–	(518)	(6,545)
Additions	4,802	29	35,910	1,870	2,272	98,230	143,113	–	6,984	150,097
Disposals	–	–	(2,846)	(368)	(680)	–	(3,894)	–	–	(3,894)
Transfers	83,985	–	16,763	5,516	–	(106,264)	–	–	–	–
At 31 December 2015	246,340	8,954	247,766	19,220	12,355	30,776	565,411	–	57,679	623,090
At 1 January 2016	246,340	8,954	247,766	19,220	12,355	30,776	565,411	–	57,679	623,090
Exchange adjustments	(2,756)	(298)	(2,189)	(381)	(170)	(698)	(6,492)	(78)	(540)	(7,110)
Additions	27,862	4,038	41,084	6,721	2,267	99,861	181,833	–	30,604	212,437
Acquisition of a subsidiary (note 16(a))	6,971	–	160	4	–	–	7,135	–	3,911	11,046
Disposals	–	(3,320)	(8,277)	(404)	(871)	–	(12,872)	–	–	(12,872)
Transfers	59,494	–	15,704	–	–	(76,712)	(1,514)	1,514	–	–
At 31 December 2016	337,911	9,374	294,248	25,160	13,581	53,227	733,501	1,436	91,654	826,591
Accumulated amortisation, depreciation and impairment loss:										
At 1 January 2015	17,475	6,207	117,301	9,751	5,296	–	156,030	–	2,903	158,933
Exchange adjustments	(12)	(196)	(1,658)	(402)	(111)	–	(2,379)	–	(12)	(2,391)
Charge for the year	5,384	1,526	25,190	1,933	1,853	–	35,886	–	1,010	36,896
Written back on disposals	–	–	(2,588)	(366)	(541)	–	(3,495)	–	–	(3,495)
At 31 December 2015	22,847	7,537	138,245	10,916	6,497	–	186,042	–	3,901	189,943
At 1 January 2016	22,847	7,537	138,245	10,916	6,497	–	186,042	–	3,901	189,943
Exchange adjustments	(120)	(143)	(1,637)	(310)	(125)	–	(2,335)	(6)	(15)	(2,356)
Charge for the year	10,282	1,885	30,031	2,676	1,897	–	46,771	129	1,726	48,626
Written back on disposals	–	(3,318)	(5,407)	(352)	(814)	–	(9,891)	–	–	(9,891)
At 31 December 2016	33,009	5,961	161,232	12,930	7,455	–	220,587	123	5,612	226,322
Net book value:										
At 31 December 2016	304,902	3,413	133,016	12,230	6,126	53,227	512,914	1,313	86,042	600,269
At 31 December 2015	223,493	1,417	109,521	8,304	5,858	30,776	379,369	–	53,778	433,147

13 INVESTMENT PROPERTY, LEASEHOLD LAND AND OTHER PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Reconciliation of carrying amount *(Continued)*

As at 31 December 2015, leasehold land amounting to HK$13,324,000 was in the process of applying for certificate of land use right in Vietnam.

(b) The carrying amount and fair value of the Group's investment property and the level of fair value hierarchy (as defined in note 26(e)) at 31 December 2016 are disclosed below:

	Carrying amount at 31 December 2016	Fair value at 31 December 2016	Fair value measurement as at 31 December 2016 categorised into		
			Level 1	Level 2	Level 3
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Recurring fair value measurement					
Investment property	1,313	1,567	–	–	1,567

The Group had no investment property at 31 December 2015.

The Group has engaged an independent firm of surveyors, Roma Appraisals Limited, who have among their staff fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, to value its investment property. The Group's management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at the end of the reporting period.

Information about Level 3 fair value measurements

	Valuation technique	Unobservable input	Amount
Investment property	Depreciated replacement cost approach	Adjusted replacement cost per sq. m.	RMB520

The fair value of the investment property is determined using depreciated replacement cost approach by considering the cost to reproduce or replace in new condition the investment property appraised in accordance with current construction costs for similar properties in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence percent, whether arising from physical, functional or economic causes.

13 INVESTMENT PROPERTY, LEASEHOLD LAND AND OTHER PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	2016 HK$'000	2015 HK$'000
Outside Hong Kong		
– medium-term leases	**387,714**	273,031
– freehold	**4,543**	4,240
	392,257	277,271
Representing:		
Land and buildings carried at cost	**304,902**	223,493
Investment property	**1,313**	–
Interests in leasehold land held for own use under operating leases	**86,042**	53,778
	392,257	277,271

(d) Pledged assets

Certain leasehold land, property, plant and equipment of the Group with an aggregate carrying amount of HK$20,129,000 (2015: HK$19,370,000) as at 31 December 2016 were pledged as security for an unutilised bank facility of the Group of HK$11,626,000 (2015: HK$11,627,000).

(e) Assets leased out under operating leases

The Group leases out investment property under operating leases. The leases typically run for an initial period of two years, with an option to renew the lease after the date at which time all terms are renegotiated. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property. Total future minimum lease payments under non-cancellable operating leases had been received in advance.

14 OTHER INTANGIBLE ASSETS

	Club memberships HK$'000	Patent HK$'000	Total HK$'000
Cost:			
At 1 January 2015	14,835	3,382	18,217
Disposals	(886)	–	(886)
Exchange adjustment	(722)	–	(722)
At 31 December 2015	13,227	3,382	16,609
At 1 January 2016	13,227	3,382	16,609
Disposals	(1,196)	–	(1,196)
Exchange adjustment	(283)	–	(283)
At 31 December 2016	11,748	3,382	15,130
Accumulated amortisation and impairment losses:			
At 1 January 2015	5,435	3,382	8,817
Impairment loss	496	–	496
Exchange adjustment	(322)	–	(322)
At 31 December 2015	5,609	3,382	8,991
At 1 January 2016	5,609	3,382	8,991
Impairment loss	210	–	210
Written back on disposals	(630)	–	(630)
Exchange adjustment	(129)	–	(129)
At 31 December 2016	5,060	3,382	8,442
Net book value:			
At 31 December 2016	6,688	–	6,688
At 31 December 2015	7,618	–	7,618

14 OTHER INTANGIBLE ASSETS *(Continued)*

Club memberships of the Group were assessed to have indefinite useful lives during the years ended 31 December 2016 and 2015 and, accordingly, no amortisation was charged.

The Group assessed the recoverable amounts of club memberships as at 31 December 2016 and 2015. An impairment loss of HK$210,000 (2015: HK$496,000) was recognised and included in "other net income/(loss)" in the consolidated statement of profit or loss during the year ended 31 December 2016. 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 values on which the recoverable amounts are based on are categorised as a level 2 measurement. The fair values of club memberships in Level 2 are mainly determined by prices for identical or similar assets in over the counter market.

15 GOODWILL

	HK$'000
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	2,753

During the year ended 31 December 2012, the Group acquired 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(d) and (k)(ii), the carrying value of goodwill was tested for impairment and no impairment was considered necessary as at 31 December 2016 and 2015.

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INTEREST IN SUBSIDIARIES

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

			Proportion of ownership interest			
Name of company	Place of incorporation/ registration and operation	Particulars of issued/ registered and paid up capital	Group's effective interest	Held by the Company	Held by 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 Trading (Suzhou) Co., Ltd#	The PRC	Registered and paid up capital of US$9,200,000	100%	100%	–	Trading of plush stuffed toys and investment holding
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
Dream Textile Co., Ltd	Vietnam	Registered and paid up capital of US$5,500,000	100%	100%	–	Manufacture of fabrics and dyeing
Dream Mekong Co., Ltd	Vietnam	Registered and paid up capital of US$5,000,000	100%	–	100%	Manufacture of plush stuffed toys and investment holding
Dream Plastic Co., Ltd	Vietnam	Registered and paid up capital of US$13,500,000	100%	100%	–	Manufacture of plastic figures and investment holding
C & H HK Corp., Ltd	Hong Kong	10,500,002 shares	74.29%	74.29%	–	Trading of ride-on toys and investment holding
C & H Toys (Mingguang) Co., Ltd#	The PRC	Registered and paid up capital of US$1,000,000	100%	100%	–	Manufacture of plush stuffed toys
C & H Toys (Chaohu) Co., Ltd	The PRC	Registered and paid up capital of US$8,000,000	100%	–	100%	Manufacture of plush stuffed toys
Shenzhen C & H Plastic & Hardware Co., Ltd	The PRC	Registered and paid up capital of RMB2,200,000	100%	–	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 and investment holding
JM Mekong Co., Ltd	Vietnam	Registered and paid up capital of US$675,437	100%	–	100%	Manufacture of plush stuffed toys

(Expressed in Hong Kong dollars unless otherwise indicated)

16 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
Dream Linghsan Co., Ltd (formerly known as 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	Vietnam	Registered and paid up capital of VND107,000,000,000	100%	–	100%	Manufacture of plush stuffed toys
J.Y. Vina Co., Ltd	Vietnam	Registered and paid up capital of VND105,850,000,000	100%	–	100%	Manufacture of plush stuffed toys
J.Y. Plasteel Vina Co., Ltd	Vietnam	Registered and paid up capital of US$3,500,000	74.29%	–	100%	Manufacture of ride-on toys
J.Y. Plastic Co., Ltd	Vietnam	Registered and paid up capital of US$4,000,000	100%	–	100%	Manufacture of plastic figures
C & H Toys (Shuyang) Co., Ltd	The PRC	Registered and paid up capital of RMB5,000,000	100%	–	100%	Manufacture of plush stuffed toys
Dream Printing & Package Co., Ltd	Vietnam	Registered capital of US$3,000,000 and paid up capital of US$1,000,000	100%	–	100%	Manufacture of business color box and printing products
Dream Plastic Nam Dinh Co., Ltd	Vietnam	Registered capital of US$9,000,000 and paid up capital of US$3,000,000	100%	–	100%	Manufacture of plastic figures

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

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

16 INTEREST IN SUBSIDIARIES *(Continued)*

(a) Acquisition of a subsidiary

On 28 February 2016, the Group acquired 100% equity interest in C & H Toys (Shuyang) Co., Ltd ("CTSY") from an independent third party at a consideration of RMB5,000,000 (equivalent to HK$5,950,000). The principal activity of CTSY is the manufacture of plush stuffed toys. Assets acquired and liabilities assumed at the date of acquisition are as follows:

	HK$'000
Interest in leasehold land	3,911
Other property, plant and equipment	7,135
Other receivables	167
Cash and cash equivalents	206
Other payables	(915)
Deferred tax liabilities	(1,314)
Fair value of identifiable assets acquired and liabilities assumed	9,190
Total consideration	(5,950)
Bargain purchase gain arising from acquisition (note)	3,240
Consideration paid, satisfied by cash	5,950
Cash and cash equivalents acquired	(206)
Net cash outflow	5,744

Note: Bargain purchase gain is resulted because the Group has strong bargaining power in respect of its ability to complete the acquisition within a short period of time. Bargain purchase gain is recognised in the line item "other net income/(loss)" in the consolidated statement of profit or loss.

Included in the Group's profit for the year ended 31 December 2016, a loss of HK$93,000 is attributable to CTSY. No revenue of the Group for the year ended 31 December 2016 is contributed by CTSY. Had the acquisition taken place on 1 January 2016, the consolidated revenue and profit for the year of the Group would have been HK$2,151,268,000 and HK$293,830,000 respectively.

16 INTEREST IN SUBSIDIARIES *(Continued)*

(b) Deregistration of a subsidiary

On 12 April 2016, the Group deregistered a 74.29% owned subsidiary, J.Y. Plasteel (Suzhou) Co., Ltd ("JYP"). JYP had been inactive for the period from 1 January 2016 to its date of deregistration. Net assets of JYP at its date of deregistration are as follows:

	HK$'000
Net assets	–
Reclassification of accumulated exchange differences of JYP attributable to the Group	8,037
Derecognition of accumulated exchange differences of JYP attributable to the non-controlling interests	2,781
Gain on deregistration	10,818
Net cash outflow	–

17 OTHER FINANCIAL ASSETS

	2016 **HK$'000**	2015 HK$'000
Non-current		
Structured debt security (notes (i) and (v))	**7,644**	7,731
Available-for-sale debt securities – unlisted (note (ii))	**8,255**	8,260
Available-for-sale equity security – unlisted (note (iii))	**4,953**	5,108
	20,852	21,099
Current		
Equity-linked security (notes (iv) and (v))	**–**	6,591
	20,852	27,690

Notes:

(i) Structured debt security represents a debt investment placed with an investment bank in Korea with fixed interest rate at 4.63% per annum and redeemable by the debt issuer on or after 30 January 2018.

(ii) Available-for-sale debt securities – unlisted represent: (a) an investment in bond amounting to HK$1,515,000 (2015: HK$1,524,000) with fixed interest rate at 3.95% per annum and a maturity date on 11 January 2023, which management has no intention to hold to maturity; and (b) an investment in perpetual bond amounting to HK$6,740,000 (2015: HK$6,736,000) with fixed interest rate at 5.88% per annum.

(iii) Available-for-sale equity security – unlisted represents an investment in a Korean private company and is carried at cost less impairment loss. In prior years, 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. No further impairment loss was recognised during the years ended 31 December 2016 and 2015.

(iv) Equity-linked security as at 31 December 2015 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 on 6 October 2016.

(v) Structured debt security and equity-linked security 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 statement of profit or loss.

18 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2016 HK$'000	2015 HK$'000
Raw materials	**75,265**	76,799
Work in progress	**57,771**	49,402
Finished goods	**107,264**	75,551
	240,300	201,752

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

	2016 HK$'000	2015 HK$'000
Carrying amount of inventories sold	**1,542,697**	1,382,529
Write-down of inventories	**2,427**	5,810
Reversal of write-down of inventories	**(3,543)**	(561)
	1,541,581	1,387,778

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

19 TRADE AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade debtors and bills receivable	**208,421**	233,396
Less: allowance for doubtful debts (note 19(b))	**(1,050)**	(1,084)
	207,371	232,312
Other receivables and prepayments	**119,093**	90,924
Amounts due from related companies	**21,912**	11,580
	348,376	334,816

The amount of the Group's other receivables and prepayments expected to be recovered or recognised as expense after more than one year is HK$2,867,000 (2015: HK$3,081,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

Included in amounts due from related companies, HK$5,620,000 (2015: HK$5,796,000) is non-trade related and HK$16,292,000 (2015: HK$5,784,000) is trade related. All of the amounts due from related companies are unsecured, interest-free and recoverable within one year.

19 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

As at 31 December 2016, 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:

	2016 **HK$'000**	2015 HK$'000
Within 1 month	**130,329**	145,400
1 to 2 months	**45,723**	61,394
2 to 3 months	**18,452**	22,072
3 to 4 months	**12,850**	2,661
Over 4 months	**17**	785
	207,371	232,312

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 26(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(k)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016 **HK$'000**	2015 HK$'000
At 1 January	**1,084**	1,881
Impairment loss recognised (note 5(c))	**–**	425
Reversal of impairment loss (note 5(c))	**(1)**	(37)
Uncollectible amounts written off	**–**	(1,139)
Exchange differences	**(33)**	(46)
At 31 December	**1,050**	1,084

At 31 December 2016, the Group's trade debtors of HK$1,050,000 (2015: HK$1,084,000) was individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that none (2015: none) of these receivables are expected to be recovered. Consequently, the Group recognised specific allowances for doubtful debts of HK$1,050,000 (2015: HK$1,084,000). The Group does not hold any collateral over these balances.

19 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:

	2016 HK$'000	2015 HK$'000
Neither past due nor impaired	159,810	184,366
Less than 1 month past due	30,730	42,847
1 to 3 months past due	16,814	5,099
More than 3 months but less than 12 months past due	17	–
	47,561	47,946
	207,371	232,312

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.

20 CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

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

	2016 **HK$'000**	2015 HK$'000
Bank deposits within three months to maturity when placed	**22,541**	41,402
Cash at bank and in hand	**293,829**	210,074
Cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow statement	**316,370**	251,476
Time deposits with more than three months to maturity when placed	**108,232**	25,123
	424,602	276,599

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$54,178,000 (2015: HK$53,586,000) representing 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.

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

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

	Notes	2016 HK$'000	2015 HK$'000
Profit before taxation		**353,868**	200,619
Adjustments for:			
Bank interest income	4(a)	**(3,804)**	(4,273)
Interest income from other financial assets	4(a)	**(1,194)**	(1,105)
Bargain purchase gain arising from acquisition of a subsidiary	4(b)	**(3,240)**	–
Gain on deregistration of a subsidiary	4(b)	**(10,818)**	–
Net loss/(gain) on disposal of other property, plant and equipment	4(b)	**1,520**	(200)
Net loss on disposal of club memberships	4(b)	**–**	733
Net (gain)/loss on disposal of other financial assets	4(b)	**(95)**	553
Net realised and unrealised gain on other financial assets	4(b)	**(154)**	(730)
Impairment loss on club memberships	4(b)	**210**	496
Finance costs	5(a)	**385**	524
Amortisation of land lease premium	5(c)	**1,726**	1,010
Depreciation	5(c)	**46,900**	35,886
Foreign exchange gain		**(2,299)**	(3,543)
Changes in working capital:			
(Increase)/decrease in inventories		**(43,266)**	34,616
Increase in trade and other receivables		**(15,714)**	(6,225)
Increase in long term receivables and prepayments		**(1,332)**	(2,628)
Decrease in net defined benefit retirement obligation		**(389)**	(273)
Increase in trade and other payables		**77,342**	15,312
Cash generated from operations		**399,646**	270,772

21 TRADE AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables	**144,269**	104,344
Receipt in advance	**34,666**	14,905
Salary and welfare payables	**117,284**	105,040
Value-added tax payable	**4,642**	4,094
Payable for acquisition of other property, plant and equipment	**14,885**	8,788
Other payables and accrual	**15,056**	16,141
Amount due to a related company	**–**	113
	330,802	253,425

Amount due to a related company was 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.

As at 31 December 2016, the ageing analysis of trade payables (which are included in trade and other payables), based on the due dates is as follows:

	2016 HK$'000	2015 HK$'000
Due within 1 month or on demand	**107,947**	102,572
Due after 1 month but within 3 months	**35,808**	1,672
Due after 3 months but within 6 months	**15**	100
Due after 6 months but within 1 year	**499**	–
	144,269	104,344

22 BANK LOANS

As at 31 December 2016, the bank loans are repayable within 1 year or on demand as follows:

	2016	2015
	HK$'000	HK$'000
Unsecured bank loan	**23,252**	–
Guaranteed bank loans	**–**	3,916
	23,252	3,916

As at 31 December 2016 and 2015, the Group's banking facilities were not subject to the fulfilment of financial covenants.

As at 31 December 2016, several unused bank facilities totalling HK$19,680,000 (2015:HK$22,649,000) were guaranteed by the Group's related company, C&H Co., Ltd, and a director of the Company.

As at 31 December 2015, bank loans totalling HK$3,916,000 were guaranteed by the Group's related company, C & H Co., Ltd, and a director of the Company.

23 EMPLOYEES RETIREMENT SCHEMES

(a) Defined benefit retirement plan

The Group makes contributions to a defined benefit retirement plan which covers 0.1% (2015: 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 a pension payment equal to 1 month 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 2016 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 81.8% (2015: 82.9%) 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.

23 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2016	2015
	HK$'000	HK$'000
Present value of wholly or partly funded obligations	**7,930**	6,566
Fair value of plan assets	**(6,487)**	(5,440)
	1,443	1,126

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay HK$1,350,000 in contributions to defined benefit retirement plan in 2017.

(ii) Plan assets consist of the following:

	2016	2015
	HK$'000	HK$'000
Deposit with banks	**6,487**	5,440

23 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

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

	2016 HK$'000	2015 HK$'000
At 1 January	**6,566**	6,324
Remeasurements:		
– Actuarial loss arising from changes in demographic assumptions	**–**	18
– Actuarial loss arising from changes in financial assumptions	**–**	237
– Actuarial loss arising from changes in experience	**546**	243
	546	498
Benefits paid by the plan	**(104)**	(791)
Current service cost	**839**	813
Past service cost	**164**	–
Interest cost	**192**	200
Exchange differences	**(273)**	(478)
At 31 December	**7,930**	6,566

The weighted average duration of the defined benefit obligation is 8.3 years (2015: 8.8 years).

(iv) Movements in plan assets

	2016 HK$'000	2015 HK$'000
At 1 January	**5,440**	5,433
Group's contributions paid to the plans	**1,415**	1,060
Benefits paid by the plan	**(93)**	(736)
Interest income	**158**	171
Return on plan assets less than discount rate, excluding interest income	**(212)**	(85)
Exchange differences	**(221)**	(403)
At 31 December	**6,487**	5,440

23 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2016 **HK$'000**	2015 HK$'000
Current service cost	**839**	813
Past service cost	**164**	–
Net interest on net defined benefit liability	**34**	29
Total amounts recognised in profit or loss	**1,037**	842
Actuarial losses	**546**	498
Return on plan assets less than discount rate, excluding interest income	**212**	85
Total amounts recognised in other comprehensive income	**758**	583
Total defined benefit costs	**1,795**	1,425

The current service cost, past service cost and the net interest on net defined benefit liability are recognised in "administrative expenses" in the consolidated statement of profit or loss.

23 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

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

	2016	2015
Discount rate	**3.00%**	3.00%
Future salary increases	**5.00%**	5.00%

The below analysis shows how the defined benefit obligation as at 31 December 2016 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	**(184)**	191
Future salary increases	**191**	(185)

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. Contributions to the scheme vest immediately.

Subsidiaries in the PRC and Vietnam participate in the defined contribution retirement schemes operated by the local authorities for employees in the PRC and Vietnam. Contributions to these schemes are charged to the consolidated statement of profit or loss when incurred.

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2016 HK$'000	2015 HK$'000
Provision for Hong Kong Profits Tax for the year	**21,224**	22,850
Provisional Profits Tax paid	**(22,571)**	(21,692)
	(1,347)	1,158
Overseas tax recoverable	**(71)**	(28)
Overseas tax payable	**27,864**	21,600
	26,446	22,730
Representing:		
Current tax recoverable	**(1,418)**	(28)
Current tax payable	**27,864**	22,758
	26,446	22,730

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowances (less than)/ in excess of 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 2015	(5,322)	(2,529)	987	(3,504)	(2,057)	(12,425)
Charged/(credited) to profit or loss (note 6(a))	3,162	2,140	102	(1,456)	594	4,542
Charged to reserves (note 9)	–	–	–	–	58	58
Exchange adjustments	(9)	17	(74)	155	133	222
At 31 December 2015	(2,169)	(372)	1,015	(4,805)	(1,272)	(7,603)
At 1 January 2016	(2,169)	(372)	1,015	(4,805)	(1,272)	(7,603)
Charged to profit or loss (note 6(a))	1,786	84	282	1,477	36	3,665
Charged to reserves (note 9)	–	–	–	–	57	57
Acquisition of a subsidiary (note 16(a))	1,314	–	–	–	–	1,314
Exchange adjustments	(7)	–	(43)	(56)	41	(65)
At 31 December 2016	924	(288)	1,254	(3,384)	(1,138)	(2,632)

(ii) Reconciliation to the consolidated statement of financial position:

	2016 **HK$'000**	2015 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**(3,779)**	(7,603)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**1,147**	–
	(2,632)	(7,603)

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(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$58,743,000 (2015: HK$89,242,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Tax losses amounting to HK$9,228,000 (2015: HK$9,514,000) do not expire under current tax legislation, while the remaining tax losses amounting to HK$49,515,000 (2015: HK$79,728,000) expire at various dates up to and including 2021 (2015: 2020) as follows:

	2016	2015
	HK$'000	HK$'000
2016	**–**	10,411
2017	**311**	20,519
2018	**5,736**	25,128
2019	**231**	759
2020	**20,293**	22,911
2021	**22,944**	–
	49,515	79,728
No expiry date	**9,228**	9,514
	58,743	89,242

(d) Deferred tax liabilities not recognised

At 31 December 2016, temporary differences relating to the undistributed profits of subsidiaries based in the PRC and Korea amounted to HK$62,809,000 (2015: HK$56,632,000) and HK$116,648,000 (2015: HK$110,921,000) respectively. Deferred tax liabilities of HK$3,140,000 (2015: HK$2,832,000) and HK$11,665,000 (2015: HK$22,184,000) 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.

25 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$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2015	236,474	526,100	762,574
Changes in equity for 2015:			
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	–	82,958	82,958
At 31 December 2015	236,474	554,909	791,383
At 1 January 2016	236,474	554,909	791,383
Changes in equity for 2016:			
Dividends declared in respect of the current year	–	(6,769)	(6,769)
Total comprehensive income for the year	–	77,497	77,497
At 31 December 2016	236,474	625,637	862,111

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

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

	2016 **HK$'000**	2015 HK$'000
Interim dividend declared and paid of HK1 cent per ordinary share (2015: HK3 cents per ordinary share)	**6,769**	20,306
Final dividend proposed after the end of the reporting period of HK3 cents per ordinary share (2015: HKNil cents per ordinary share)	**20,306**	–
	27,075	20,306

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2016 **HK$'000**	2015 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HKNil cents per ordinary share (2015: HK5 cents per ordinary share)	**–**	33,843

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital

	2016		2015	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**676,865**	**236,474**	676,865	236,474

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

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

(d) Nature and purpose of reserves

(i) General reserve fund

The general reserve fund comprises of PRC subsidiaries' general reserve fund and Korean 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, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

According to the Korean Commercial Code, the Korean 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 Korean subsidiary's share capital before any payout of its dividend. This fund can be transferred to retained profits or used to reduce an accumulated loss.

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

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

(ii) 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).

(iii) 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).

(iv) Fair value reserve

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

(e) Capital management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the 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, which was unchanged from 2015, 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.

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Capital management *(Continued)*

The net debt-to-capital ratios at 31 December 2016 and 2015 are as follows:

	Notes	2016 HK$'000	2015 HK$'000
Current liabilities			
Trade and other payables	21	**330,802**	253,425
Bank loans	22	**23,252**	3,916
Total debt		**354,054**	257,341
Less: Cash and cash equivalents	20(a)	**(316,370)**	(251,476)
Time deposits with more than three months to maturity when placed	20(a)	**(108,232)**	(25,123)
Total cash		**(70,548)**	(19,258)
Add: Proposed dividends	25(b)	**20,306**	–
Net cash		**(50,242)**	(19,258)
Total equity		**1,291,884**	1,026,886
Net debt-to-capital ratio		**N/A**	N/A

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

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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, other 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 end of the reporting period, the Group has a certain concentration of credit risk as 43% (2015: 42%) and 78% (2015: 67%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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

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

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(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 end of the reporting period of the Group'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 end of the reporting period) and the earliest date the Group can be required to pay.

	2016		
	Contractual undiscounted cash outflow		
	Within 1 year or on demand HK$'000	**Total HK$'000**	**Carrying amount at 31 December HK$'000**
Bank loan	**23,265**	**23,265**	**23,252**
Trade and other payables (excluding receipt in advance)	**296,136**	**296,136**	**296,136**
	319,401	**319,401**	**319,388**

	2015		
	Contractual undiscounted cash outflow		
	Within 1 year or on demand HK$'000	Total HK$'000	Carrying amount at 31 December HK$'000
Bank loan	3,926	3,926	3,916
Trade and other payables (excluding receipt in advance)	238,520	238,520	238,520
	242,446	242,446	242,436

As shown in the above analysis, a bank loan of the Group amounting to HK$23,265,000 (2015: bank loans amounting to HK$3,926,000) was due to be repaid during 2017 (2015: to be repaid during 2016). The short-term liquidity risk inherent in this contractual maturity has been addressed at the time the loans were drawn and are accounted for in the Group's cash flow forecasts.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group monitors the level of its fixed 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.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (as defined above) at the end of the reporting period.

	2016		2015	
	Effective interest rate	**Amount**	Effective interest rate	Amount
	%	**HK$'000**	%	HK$'000
Fixed rate borrowings:				
Bank loans	**1.70**	**23,252**	2.40	3,916

(ii) Sensitivity analysis

At 31 December 2016 and 2015, the Group's borrowings are stated at amortised cost and the Group did not have any borrowings bearing floating interest rates which would expose the Group to cash flow interest rate risk.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(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 HKD, USD, British Pound, Renminbi Yuan, Vietnamese Dong and Japanese Yen.

For the Group's companies with HKD as functional currency, it is not expected that there are any significant movements in the USD/HKD exchange rate as the HKD is pegged to the USD.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of reporting period 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.

	Exposure to foreign currencies (expressed in HKD)									
	2016					2015				
	United States Dollars $'000	**Hong Kong dollars $'000**	**Renminbi Yuan $'000**	**Vietnamese Dong $'000**	**Japanese Yen $'000**	United States Dollars $'000	Hong Kong dollars $'000	Renminbi Yuan $'000	Vietnamese Dong $'000	Japanese Yen $'000
Long term loans to subsidiaries	**–**	**47,819**	**–**	**–**	**325**	–	46,819	–	–	315
Trade and other receivables	**68,508**	**6,085**	**954**	**135,371**	**17,812**	110,275	4,112	13,568	155,217	5,364
Cash and cash equivalents	**47,526**	**2,037**	**97**	**101,466**	**10,651**	50,952	1,892	103	18,274	6,165
Trade and other payables	**(175,899)**	**(5,023)**	**(1,872)**	**(185,069)**	**(8,360)**	(176,919)	(3,418)	(2,441)	(200,473)	(3,514)
Bank loans	**–**	**–**	**–**	**–**	**–**	(3,924)	–	–	–	–
Net exposure arising from recognised assets and liabilities	**(59,865)**	**50,918**	**(821)**	**51,768**	**20,428**	(19,616)	49,405	11,230	(26,982)	8,330

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(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 end of the reporting period 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.

	2016		2015	
	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%**	**(20)**	3%	282
	(3)%	**20**	(3)%	(282)
Vietnamese Dong	**3%**	**1,232**	3%	(795)
	(3)%	**(1,232)**	(3)%	795
Japanese Yen	**20%**	**3,317**	20%	1,414
	(20)%	**(3,317)**	(20)%	(1,414)

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 into HKD at the exchange rate ruling at the end of reporting period 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 end of the reporting period, 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 is performed on the same basis for 2015.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement

(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 the end of each reporting period 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

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair values *(Continued)*

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

(1) Fair value hierarchy (Continued)

	Fair value at 31 December 2016 HK$'000	Fair value measurements as at 31 December 2016 categorised into			Fair value at 31 December 2015 HK$'000	Fair value measurements as at 31 December 2015 categorised into		
		Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000		Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurements								
Financial assets:								
Available-for-sale debt securities								
– Unlisted	8,255	–	8,255	–	8,260	–	8,260	–
Equity-linked security	–	–	–	–	6,591	–	6,591	–
Structured debt security	7,644	–	7,644	–	7,731	–	7,731	–
	15,899	–	15,899	–	22,582	–	22,582	–

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

The fair value of available-for-sale debt securities, equity-linked security and structured debt security 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 2016 and 2015.

27 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2016 not provided for in the financial statements are as follows:

	2016 HK$'000	2015 HK$'000
Contracted for	**106,656**	90,694
Authorised but not contracted for	**184,545**	15,169
	291,201	105,863

All the capital commitments outstanding as at 31 December 2016 and 2015 represented additional investments in buildings, plant and machineries and land use rights in Vietnam.

(b) At 31 December 2016, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:

	2016 HK$'000	2015 HK$'000
Within 1 year	**14,407**	14,094
After 1 year but within 5 years	**6,418**	14,708
	20,825	28,802

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.

28 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 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2016 HK$'000	2015 HK$'000
Short-term employee benefits	**25,063**	21,320

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

	2016 HK$'000	2015 HK$'000
(b) Sales of goods to		
Related companies (notes (i) and (ii))	**25,116**	11,707
(c) Sales of other property, plant and equipment to		
A related company (notes (i) and (iii))	**–**	63
(d) Purchase of leasehold land and other property, plant and equipment from		
A related company (notes (i) and (ii))	**15,559**	–
(e) Purchase of goods from		
A related company (notes (i) and (iii))	**19**	117
(f) Processing fees paid/payable to		
A related company (notes (i) and (iii))	**132**	–
(g) Processing fees received/receivable from		
A related company (notes (i) and (ii))	**9,400**	–
A related company (notes (i) and (iii))	**–**	926
	9,400	926
(h) Rental paid/payable to		
A related company (notes (i) and (ii))	**3,009**	3,059

28 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(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 as they are below the de minimis transactions threshold under Rule 14A.76(1).

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

29 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 23 and 26 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and financial instruments respectively. Other key sources of estimation uncertainty are as follows:

(a) Impairment of leasehold land and other property, plant and equipment

If circumstances indicate that the carrying value of leasehold land and other property, plant and equipment 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 leasehold land and other property, plant and equipment 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 leasehold land and other property, plant and equipment 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.

29 ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(b) Valuation 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 statement of profit or loss in future accounting periods could be affected by differences in this estimation.

The valuation of inventories is also dependent on the application of up to date costing rates and judgements with regard to the level of labour and production overheads absorbed into the valuation.

(c) Impairment of other intangible assets

The Group performs an annual review at the end of each reporting period to assess the recoverable amount of other intangible assets with indefinite useful life which 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.

(d) Impairment of receivables

Receivables that are measured at cost or amortised cost are reviewed at the end of each reporting period 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.

(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.

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, 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.

31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Other property, plant and equipment		**3,447**	4,223
Other intangible assets		**2,306**	2,516
Interest in subsidiaries		**518,492**	521,299
Long term loans to subsidiaries		**248,903**	177,110
Deferred tax assets		**548**	488
		773,696	705,636
Current assets			
Trade and other receivables		**311,216**	304,733
Current tax recoverable		**1,347**	–
Cash and cash equivalents		**104,237**	71,800
		416,800	376,533
Current liabilities			
Trade and other payables		**305,133**	289,628
Bank loan		**23,252**	–
Current tax payable		**–**	1,158
		328,385	290,786
Net current assets		**88,415**	85,747
NET ASSETS		**862,111**	791,383

31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016 *(Continued)*

	Note	2016 HK$'000	2015 HK$'000
CAPITAL AND RESERVES	25(a)		
Share capital		**236,474**	236,474
Reserves		**625,637**	554,909
TOTAL EQUITY		**862,111**	791,383

Approved and authorised for issue by the board of directors on 27 March 2017

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

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 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 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(Continued)*

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9, *Financial instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's consolidated financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at FVTPL will continue with their classification and measurements upon the adoption of HKFRS 9.

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(Continued)*

HKFRS 9, *Financial instruments* *(Continued)*

(a) Classification and measurement *(Continued)*

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise at cost less impairment losses in accordance with the accounting policies set out in note 1(e). This change in policy will have impacts on the Group's net assets as well as reported performance amounts such as profit, earnings per share and total comprehensive income.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting HKFRS 15 on its consolidated financial statements. Based on the preliminary assessment, the Group has not identified any material impacts on its consolidated financial statements on adoption of HKFRS 15.

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(Continued)*

HKFRS 16, *Leases*

As disclosed in note 1(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 27(b), at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$20,825,000 for properties, which are all payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

Five year financial summary

	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016 HK$'000**
Results					
Revenue	1,353,340	1,352,607	1,637,265	1,814,469	**2,151,268**
Profit from operations	159,258	159,732	167,316	201,143	**354,253**
Finance costs	(3,139)	(836)	(899)	(524)	**(385)**
Share of profits less losses of associates	(664)	467	(243)	–	**–**
Profit before taxation	155,455	159,363	166,174	200,619	**353,868**
Income tax	(29,692)	(42,581)	(44,790)	(51,231)	**(59,755)**
Profit for the year	125,763	116,782	121,384	149,388	**294,113**
Attributable to:					
– Equity shareholders of the Company	133,001	123,934	122,787	150,783	**295,500**
– Non-controlling interests	(7,238)	(7,152)	(1,403)	(1,395)	**(1,387)**
Profit for the year	125,763	116,782	121,384	149,388	**294,113**
Earnings per share					
Basic	HK19.79 ¢	HK18.44 ¢	HK18.16 ¢	HK22.28 ¢	**HK43.66 ¢**
Diluted	HK19.79 ¢	HK18.37 ¢	HK18.14 ¢	HK22.28 ¢	**HK43.66 ¢**

	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016 HK$'000**
Assets and liabilities					
Investment property	–	–	–	–	**1,313**
Leasehold land and other property, plant and equipment	191,642	216,092	324,499	433,147	**598,956**
Long term receivables and prepayments	930	6,368	12,464	16,105	**28,509**
Goodwill	2,753	2,753	2,753	2,753	**2,753**
Other intangible assets	9,029	9,583	9,400	7,618	**6,688**
Interest in associates	27	502	–	–	**–**
Deferred tax assets	7,825	7,697	12,425	7,603	**3,779**
Other financial assets	24,925	28,980	25,691	21,099	**20,852**
Net current assets	604,236	614,216	561,017	539,687	**632,778**
Total assets less current liabilities	841,367	886,191	948,249	1,028,012	**1,295,628**
Deferred tax liabilities	(394)	–	–	–	**(1,147)**
Other non-current liabilities	(2,562)	(1,216)	(891)	(1,126)	**(2,597)**
NET ASSETS	838,411	884,975	947,358	1,026,886	**1,291,884**

Dream International Limited