
Dream
International
Limited

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

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

Independent non-executive directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

6th Floor
China Minmetals Tower
79 Chatham Road South
Tsimshatsui
Kowloon
Hong Kong

COMPANY SECRETARY

Ms Tsz Wai NG, *CPA*

AUDITOR

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

AUTHORISED REPRESENTATIVES

Mr Young M. LEE
Ms Tsz Wai NG

PRINCIPAL BANKERS

Citibank, N.A.
Shinhan Bank
Bank of China

SHARE REGISTRAR

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

FINANCIAL RELATIONS CONSULTANT

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

WEBSITE ADDRESS

www.dream-i.com.hk

STOCK CODE

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

Chairman's Statement

Kyoo Yoon Choi
Chairman

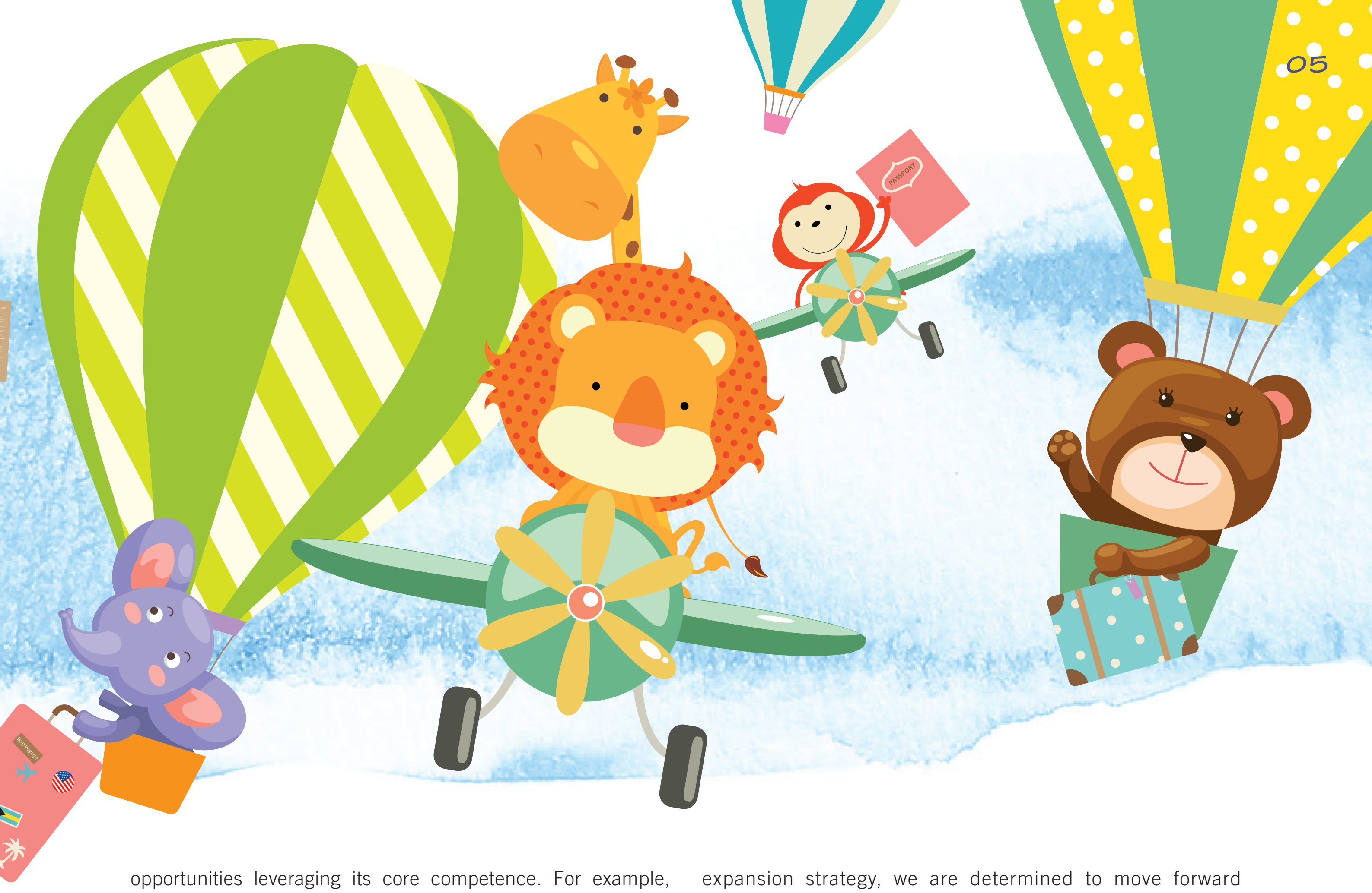
Dear Shareholders,

In 2012, the global economy slowly inched towards recovery. While the ongoing EUROzone debt crisis continued to present challenges and affected the performance of the toy industry, US consumer confidence and employment showed improvement. Elsewhere, orders from Japan, the largest market of Dream International Limited (the "Company") and its subsidiaries (collectively the "Group"), were returning to a normal level after last year's slump, boosting the Group's overall performance. I am pleased to report that the Group has successfully passed through the darkest hour before the dawn, overcoming challenges as it delivered a satisfactory business performance during the year under review.

In order to address the stagnant macroeconomic environment in the past two years, the Group adopted a two-pronged strategy to drive business growth. While continuously expanding relationship with current customers, we have also embarked on new initiatives to expand our market share. We have bolstered our product mix by securing more cartoon characters from Korea and Japan to broaden our customer base. These efforts have been complemented by innovative designs, new fabrics and additional functions to enhance the product value to our customers and to widen the income stream. The momentum of these efforts has continued as recently, the Group has also been consigned by existing customers who own world renowned toy brands to start a new product line – plastic figures. After years of careful cultivation, our business has become more stabilised and our initiatives have begun to bear fruit. We are confident that on top of the stable contributions from our established business segments, the new product category will become a major driver of our financial performance in coming years.

Geographically, the Group has observed that the prospects for growth of the global toy industry have been increasingly dependent on emerging markets. Rising disposable incomes in these developing markets have resulted in a new trend — the concept of spending a significant amount of money on toys. In the past few years, we have been carefully laying the groundwork to tap these markets with great potential to capture revenue from the rising purchasing power. We have achieved good progress in penetrating the China market, a potentially huge market with the world's largest and fastest-growing middle class. In addition to orders from a Brazilian customer in the past years, we are excited to achieve yet another encouraging breakthrough during the review year – a customer from Russia. We will continue to cultivate this relationship with the view of securing further orders from this customer. As the free trade agreements between Russia and China is expected to play a pivotal role in increasing two-way trading activities in the future, we expect to grasp more opportunities not only from this customer but from elsewhere in Russia.

The Group has been proactively diversifying its income sources and seeking new customers to sustain revenue growth to boost profitability. Towards this objective, the Group has been carefully reviewing its product portfolio and focusing on businesses and product lines with higher return and quality



opportunities leveraging its core competence. For example, we have recently established a self-owned brand "Dream, Made to Love, Made to Hug" within which the product series enjoy higher margins. On the operations front, the Group has proactively anticipated potential challenges and set up another production base in Vietnam early in 2004. This new facility benefits from relatively low local labour costs and is also largely free from the added problem of currency appreciation. We have also improved our profit margin by adopting stringent cost control measures thereby reducing various other costs despite a growth in turnover.

Looking ahead, the Japanese market is well on the way to recovery while the US economy is continuing to gain growth momentum supported by more and more improving economic indicators that are acting to stimulate consumer sentiment. Even though the EUROzone sovereign debt crisis continues to be a critical variable, there are strong signals pointing towards a recovery for markets around the world. With the solid foundation that we have laid across our operations, we are well-positioned to capture the opportunities that arise from economic recovery.

The Group aims to achieve growth by developing more new products and expanding its customer base to gain a larger market share. Newly designed plush stuffed toys under our newly launched own-brand and ride-on products with refined features will be rolled out to the market during the second half of this year. With a more stabilised production operation, the new plastic figures product category is expected to achieve reasonable growth primarily generated by both the Japanese and North American markets. To support our business expansion strategy, we are determined to move forward and fully ramp up our production in Vietnam to seize these business opportunities.

The Group possesses a broad customer base, enjoys a healthy financial position, and can leverage a strong R&D capability, solid product portfolio and worldwide reputation for quality. The solid foundation we have cultivated over the years has enabled Dream International to maintain its industry-leading position and overcome economic and market challenges. As dawn is breaking and our carefully sown seeds begin to sprout, we are confident that Dream International can grow stronger to new heights in order to maximise returns for our shareholders.

APPRECIATION

On behalf of the board, I would like to take this opportunity to thank the management team and staff for their dedication and contributions, which have helped the Group to overcome challenges and endure economic downturns and subsequently realise satisfactory results during the year. I would also like to extend my gratitude to our shareholders, business partners and customers for their trust and unwavering support.

Kyoo Yoon Choi
Chairman
26 March 2013

Management Discussion & Analysis

FINANCIAL REVIEW

In 2012, the global economy continued to trudge its way forward on a slow path to recovery. Though there were signs of improvement in the US economy, unfavourable market conditions due to the European sovereign debt crisis still affected the overall performance of the toy industry. Nevertheless, Japan, a major market of Dream International Limited (the "Company") and its subsidiaries (collectively the "Group"), has exhibited stronger signs of recovery since the 3/11 earthquake-tsunami that struck the country in 2011, which became a driver of the Group's financial results to return to a satisfactory level during the year under review.

For the year ended 31 December 2012, the Group's turnover grew by 24.9% to HK$1,353.3 million (2011: HK$1,083.2 million). Gross profit reached HK$346.1 million, a remarkable rise of 31.7% from HK$262.7 million in the previous year. The increases were primarily attributable to the recovery of the Japanese economy, accompanied by better consumer sentiment in general when compared with the last financial year. Gross margins improved further to 25.6% (2011: 24.3%), due to the Group's strategic direction towards higher margin products and the shift of the core focus towards the Original Equipment Manufacturing ("OEM") business, facilitating a more effective utilisation of resources. The Group also reaped the benefits of tighter cost control measures, which enhanced operational efficiency and decreased its distribution and administrative expenses despite the turnover growth. As a result, operating profit soared by 76.9% to HK$155.4 million (2011: HK$87.9 million), while net profit attributable to equity shareholders jumped by 72.9% to HK$129.2 million (2011: HK$74.7 million) with net margin reaching 9.5% (2011: 6.9%).

The Group maintained a healthy financial position with cash and bank deposits of HK$438.3 million (31 December 2011: HK$215.1 million) as at 31 December 2012.

BUSINESS REVIEW

Product Analysis

Plush stuffed toys segment

During the year under view, the plush stuffed toys business recorded a turnover of HK$1,278.6 million, accounting for 94.5% of the Group's total turnover. The OEM business remained the core contributor of the Group's total turnover, accounting for 86.7% of sales for the plush stuffed toy segment. The higher sales were mainly credited to growing orders from Japanese customers. During the year, the Group maintained close collaboration with well-known customers including globally renowned cartoon character owners and licensors. Following the launch of new products featuring iconic characters from Japan and Korea at the New York Toy Fair 2012 which generated a positive market response, the Group has already completed its first shipments of the new products of one of those characters in January 2013. It plans to participate in the toy fair in 2013 again to focus on the promotion of those popular characters.

Turnover from the Original Design Manufacturing ("ODM") business accounted for 13.3% of the plush stuffed toys' sales. The growth in the sales from this business was mainly attributable to the gradual recovery of the US economy and concomitant consumer confidence. The Group's newly established brand "Dream, Made to Love, Made to Hug" achieved an outstanding performance spurred by its success at the New York Toy Fair during the first half of 2012, which provided a solid foundation for the Group to launch new product designs to tap the high-end market. The new product launch is to be supported by promotional campaigns aimed at enhancing its brand awareness in the market. Furthermore, the volume of orders received from renowned US retailers for its "CALTOY" brand remained stable during the year under view.

Management Discussion & Analysis

BUSINESS REVIEW *(Continued)*

Product Analysis *(Continued)*

Ride-on toys segment

For the year ended 31 December 2012, sales generated from the ride-on toys segment were HK$56.4 million, making up 4.2% of the Group's total turnover. The Group's strategy was to shift its operations to better focus on the high-end market, especially in China, to capture the stronger market demand there and enhance profitability. The high-margin tricycle product line for a domestic customer remained China's best selling tricycle and the Group has plans to launch an upgraded version in the first half of 2013. Based on the preliminary positive feedback of current customers, this new tricycle series is expected to generate satisfactory sales. Moreover, the Group has managed to maintain a stable sales performance for its "Great", "Far Great" and "Tom and Jerry" brands in China and intends to launch a number of signature ride-on toys in 2013.

Plastic figures segment

The Group has achieved satisfactory progress in establishing the plastic figures segment which has started to generate revenue during the year under review. The Group has secured leading global customers for this segment riding on its partnership forged with world-class toy brands over the years. This product category is principally sold in Japan and North America, and several shipments have been made during the year and many more orders for this segment are expected in 2013.

Market Analysis

For the year ended 31 December 2012, Japan remained the Group's largest geographic market, accounting for 47.2% of the Group's total turnover. Business in North America picked up slightly, contributing 37.9% of the Group's total turnover, followed by the European market at 10.7%.

Operational Analysis

As at 31 December 2012, the Group operated nine plants in total, four of which were in China and five in Vietnam, running on an average utilisation rate of 78.0%. In order to enhance production efficiency and implement tighter cost controls, the Group set up an additional plant in Hanoi, Vietnam during the year under review. Construction of the first phase of this plant was completed in the first half of 2012 and full operation commenced in July for the production of plastic figures. In December 2012, the Group also purchased a manufacturing plant in the Mekong Delta, Vietnam in order to increase the production capacity for plush stuffed toys products.

PROSPECTS

While the global economy continues to be affected by the unsolved European sovereign debt crisis and American political uncertainty related to cuts in the US Federal budget, the market has nonetheless displayed signs of recovery as reflected by the increase in customers' order volumes. The difficult operational environment within the toy industry caused by rising production costs, appreciation of the Renminbi, etc, continues to act as a catalyst on the industry consolidation process. The challenging situation is now presenting a golden opportunity for Dream International, one of the world's largest plush toy manufacturers, to expand its business under conditions of growing market demand but reduced competition.

Management Discussion & Analysis

PROSPECTS *(Continued)*

To facilitate business growth and enlarge market share, the Group embarked on initiatives leading to the creation of new growth drivers. Apart from the recently set up plastic figures segment, which is expected to be a key growth enabler in coming years, the Group has further enriched its product mix to cover baby plastic products in 2012 starting with toilet seats and currently preparing for the production of plastic chairs. Geographically, on top of the traditional toy markets such as Japan and North America, the Group has also expanded to another emerging market, Russia, leveraging its experience in the China market. The first shipment of baby toilet seats with various designs was made to Russia in the fourth quarter of 2012 and repeat orders are expected in the coming year.

On the other hand, the Group has also further explored opportunities within its existing business segments. Based on its sound track record and rich experience in manufacturing ride-on toys, the Group secured another Japanese client in late 2012. The Group not only produces tricycles under a popular character sold by that customer in Japan, but also plans to launch similar products that the same customer will sell in China later this year. In addition, the Group is to collaborate with a famous German brand to produce bicycles and tricycles targeting a launch first in Japan with China and other markets to follow during 2013. Regarding the plush stuffed toys business, given the initial success of its newly launched brand “Dream Made to Love, Made to Hug”, the Group plans on attracting new customers and exploring new distribution channels to accelerate growth.

To better support its growth strategies, the Group is planning to further expand its existing facilities, including construction of a clean room in the existing plastic figures factory. The additional facilities will not only boost production capacity for the plastic figures segment but also help lower production costs by shifting some orders from its production base in China to Vietnam taking advantage of a less expensive and more stable workforce.

Looking ahead, the Group will continue to emphasise profitability and efficiency as its prime objectives. With the continuous success achieved through the expansion of its product lines and product mix, the Group is confident that it can continue to thrive by achieving sustainable growth and maximising returns for its shareholders.

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2012, the Group had 8,578 (2011: 8,496) employees in Hong Kong, Mainland China, the Republic of 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 2012, the Group had net current assets of HK$604.2 million (2011: HK$475.4 million). The Group’s total cash and cash equivalents as at 31 December 2012 amounted to HK$281.6 million (2011: HK$177.1 million). The total bank loans of the Group as at 31 December 2012 amounted to HK$22.6 million (2011: HK$22.8 million).

The Group’s gearing ratio, calculated on the basis of total bank loans over the total equity, decreased slightly from 3.2% at 31 December 2011 to 2.7% at 31 December 2012.

PLEDGE ON GROUP ASSETS

Bank loans are secured on the Group’s buildings, plant and machinery and land use rights with a net carrying value as at 31 December 2012 of HK$26.5 million (2011: HK$33.5 million).

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Kyoo Yoon Choi, aged 64, 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 57, is the Vice President and the Chief Financial Officer of the Company. Mr Lee has 20 years of working experience in the US in the areas of accounting and finance such as public accounting, consulting to financial institutions, mergers and acquisitions, corporate controllership and investment banking. Prior to joining the Group in May 2001, Mr Lee was the managing director of Kohap (Hong Kong) Ltd, which is the trading and financing arm of a Korean conglomerate, Kohap Ltd. He is responsible for the overall financial management, strategic and business planning of the Group.

Mr James Chuan Yung Wang, aged 51, is the managing director of Dream International USA, Inc. He joined Dream International USA, Inc. on 1 July 1991 and has been in charge of the Group's marketing function in the US. Mr Wang graduated from the University of California, Los Angeles, with a bachelor's degree in business administration in 1986. Prior to joining the Group, Mr Wang had extensive experience in the fields of logistics and trading from his previous employments with Trans-union Line, KAL Trading Co. and Daewoo America Corp. He was appointed as an executive director on 1 April 2005.

Mr Hyun Ho Kim, aged 47, is currently the Head of accounting department of the Company. He joined the accounting department of C & H Co., Ltd in October 1994. After nine years of service, Mr Kim was gradually promoted to the position of general manager before he was relocated to Hong Kong to take charge of the accounting department of the Company in October 2003. Prior to joining C & H Co., Ltd, Mr Kim acquired eight years of comprehensive accounting experience in Poong Han Co., Ltd, a manufacturer of fabric and yarn, in South Korea. Mr Kim graduated from the Seok-Yeong University in South Korea, with a bachelor's degree of Economics in 1995.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Cheong Heon Yi, aged 48, received his bachelor's degree and master's degree in business administration from Seoul National University in Korea. Professor Yi was also awarded a philosophy of doctorate degree in accounting in 1997 from the University of California, Los Angeles. Professor Yi taught at the University of California, Los Angeles for a year before joining the Hong Kong Polytechnic University in 1997. Professor Yi is currently teaching financial accounting and reporting and financial statement analysis in the Accountancy Faculty of the City University of Hong Kong. He was appointed as the Company's independent non-executive director on 22 November 2003.

Professor Byong Hun Ahn, aged 66, received his bachelor's degree in Mechanical Engineering from Seoul National University in Korea. Professor Ahn awarded a philosophy of doctorate degree in Engineering Economic Systems in 1978 from Stanford University. Professor Ahn had taught at the Korea Advanced Institute of Science and Technology ("KAIST") and the KAIST Graduate School of Management and is currently acting as an Emeritus Professor in KAIST College of Business. His research interests focus on Economic of Strategy and Stakeholder Theory of Firms, and Corporate Social Responsibility. He is also the independent non-executive director of KB Real Estate Trust Co., Ltd in Seoul, Korea. He was appointed as the Company's independent non-executive director on 30 May 2008.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr Tae Woong Kang, aged 52, received his bachelor's degree in Business from Swinburne University of Technology and master's degree in Commerce from The University of Melbourne in Australia. He is a CPA member of the CPA Australia. Mr Kang is the Vice-President of Highpoint Limited, a Hong Kong consulting company providing advisory services on business and MD&A issues. Before joining Highpoint Limited, Mr Kang had extensive experience in the area of financial management and business restructuring in Hong Kong and Korea. He was appointed as the Company's independent non-executive director on 20 August 2010.

SENIOR MANAGEMENT

Mrs Shin Hee Cha, aged 58, the President of Dream Inko Co., Ltd. Mrs Cha joined C & H Co., Ltd in 1984 and has been in charge of the sales and marketing function of the Group. Mrs Cha was an executive director of the Company from 2006 to 2007 and relocated to Dream Inko Co., Ltd since 2007. She is the younger sister-in-law of Mr Kyoo Yoon Choi.

Mr Sung Sick Kim, aged 61, the President of Dream Vina Co., Ltd. Mr Kim has been working in the administration of C & H Korea and the Group since 1985 and is in charge of cost control within the Group. Mr Kim was an executive director of the Company from 1998 to 2003 and relocated to C & H Korea until 2010.

Mr Dong Wook Cha, aged 52, is the Head of accounting and administration department of the Company. Mr Cha has over seven years of experience in the field of accounting from his employments with Dongkook Trading Co. and Hyundai Heavy Industrial Co., Ltd. He joined C & H Korea on 1 February 1986 and has been working in the accounting and administrative department of the Group since 1996.

Report of the Directors

The directors of the Company (the "Directors") have pleasure in submitting their annual report with the audited financial statements for the year ended 31 December 2012.

PRINCIPAL PLACE OF BUSINESS

Dream International Limited (the "Company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 6th Floor, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the design, development, manufacture and sale of plush stuffed toys, ride-on toys and plastic figures and investment holding. The principal activities and other particulars of the subsidiaries are set out in note 20 to the financial statements.

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

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2012 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 31 to 119.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$129,191,000 (2011: HK$74,723,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

No interim dividend was paid (2011: HKNil cents per share) for the six months ended 30 June 2012.

The Directors now recommend the payment of a final dividend of HK8 cents per share (2011: HKNil cents per share) in respect of the year ended 31 December 2012.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	39.3%	
Five largest customers in aggregate	77.7%	
The largest supplier		5.2%
Five largest suppliers in aggregate		20.5%

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

Report of the Directors

CONNECTED TRANSACTIONS

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

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

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

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

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

(i) have been approved by the Board;

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

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

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

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

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

    During the year ended 31 December 2012, the rent and administrative expenses paid amounted to HK$2,998,000 (2011: HK$2,896,000).

Report of the Directors

CONNECTED TRANSACTIONS *(Continued)*

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

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

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

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

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

CORPORATE GOVERNANCE

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

FIXED ASSETS

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 31(c) to the financial statements. There were no movements during the year.

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

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

Report of the Directors

DIRECTORS

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

Chairman and executive director

Mr Kyoo Yoon Choi

Executive directors

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

Independent non-executive directors

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

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

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

DIRECTORS’ SERVICE CONTRACTS

The service contract of Professor Cheong Heon Yi, independent non-executive director, was renewed on 21 November 2011 for a term of two years commencing on 22 November 2011.

The service contract of Professor Byong Hun Ahn, independent non-executive director, was renewed on 30 May 2012 for a term of two years commencing on 30 May 2012.

The service contract of Mr Tae Woong Kang, independent non-executive director, was renewed on 20 August 2012 for a term of two years commencing on 20 August 2012.

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

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

Report of the Directors

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

The Directors who held office at 31 December 2012 had the following interests in the shares of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under Section 352 of the SFO or otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listing Issuers (the "Model Code"):

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

	Number of shares held				
	Personal interests (Note 1)	**Family interests**	**Corporate interests**	**Total**	**Percentage of issued share capital of the company**
The Company					
– Kyoo Yoon Choi (Note 2)	382,851,000	–	72,150,000	455,001,000	67.69%
– Young M. Lee	2,700,000	–	–	2,700,000	0.40%
– James Chuan Yung Wang	720,000	–	–	720,000	0.11%
– Hyun Ho Kim	150,000	–	–	150,000	0.02%
C & H Co., Ltd					
– Kyoo Yoon Choi (Note 3)	189,917	124,073	–	313,990	61.95%

Notes:

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

(2) C & H Co., Ltd which owned 382,850,000 shares in the Company sold the entire shares of the Company to Kyoo Yoon Choi on 27 July 2012. His personal interests in the Company became 382,851,000 shares. In addition, Kyoo Yoon Choi beneficially owns 100% of interest of Uni-Link Technology Limited which owned 72,150,000 shares of the Company. The total interests remain unchanged.

(3) Kyoo Yoon Choi together with his wife, Woul Hee Cha, holds approximately 61.95% of the issued share capital of C & H Co., Ltd.

Report of the Directors

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

(ii) Long positions in underlying shares of the Company

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

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

SHARE OPTION SCHEME

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

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

The total number of securities available for issue under the share option scheme as at 31 December 2012 was 42,835,000 shares (2011: 42,835,000 shares) (including options for 4,800,000 shares that have been granted but not yet lapsed or exercised) which represented 6.37% of the issued share capital of the Company at 31 December 2012. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

At 31 December 2012, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company granted at nominal consideration under the share option scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of par value US$0.01 each of the Company.

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

	Date granted	Period during which options exercisable (Note 1)	Exercise price per share	Number of options: Balance at 1 January 2012	Number of options: Lapsed during the year (Note 2)	Number of options: Balance at 31 December 2012
Directors:						
Young M. Lee	23 December 2011	23 December 2013 to 22 December 2016	HK$0.466	200,000	–	200,000
James Chuan Yung Wang	23 December 2011	23 December 2013 to 22 December 2016	HK$0.466	200,000	–	200,000
Hyun Ho Kim	23 December 2011	23 December 2013 to 22 December 2016	HK$0.466	150,000	–	150,000
Employees in aggregate:	23 December 2011	23 December 2013 to 22 December 2016	HK$0.466	4,350,000	(100,000)	4,250,000
				4,900,000	(100,000)	4,800,000

Notes:

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

(2) These 100,000 shares options related to an employee who left on or before 30 September 2012. These outstanding share options were lapsed by 31 December 2012.

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

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

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

Report of the Directors

SHARE OPTION SCHEME *(Continued)*

The life of share options granted on 23 December 2011 is five years commencing on the date on which an option is granted in accordance with the scheme.

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

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

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31 December 2012, the Company has been notified of the following interests in the Company's issued shares at 31 December 2012 amounting to 5% or more of the ordinary shares in issue:

Name	**Capacity in which shares held**	**Number of shares held**	**Percentage of the issued share capital of the Company**
Uni-Link Technology Limited (Note 1)	Beneficial owner	72,150,000	10.73%

Notes:

(1) Kyoo Yoon Choi beneficially owns 100% of the issued share capital of Uni-Link Technology Limited which owned 72,150,000 shares of the Company. James Chuan Yung Wang, being a director of the Company, is also a director of Uni-Link Technology Limited.

Save as disclosed above, as at 31 December 2012, the Company is not aware of any other registered substantial shareholder who holds 5% or more of the issued share capital of the Company.

Report of the Directors

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 date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the related party transactions as disclosed in note 35 to the financial statements, no contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2012, C & H Korea Group is principally engaged in the business of property investment in Seoul, the Republic of Korea, leather goods and accessories agency, fabric and textile manufacturing and investment holding in Korea and Vietnam. Mr Kyoo Yoon Choi is deemed to be interested in these businesses, some of which may compete with the Group's businesses as he is a shareholder and a director of C & H Co., Ltd.

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

BANK LOANS

Particulars of the bank loans of the Company and the Group as at 31 December 2012 are set out in note 27 to the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 120 of the annual report.

Report of the Directors

RETIREMENT SCHEMES

The Group operates a defined benefit retirement scheme which covers 0.5% of the Group's employees and a Mandatory Provident Fund Scheme.

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

Particulars of these retirement schemes are set out in note 28 to the financial statements.

CONFIRMATION OF INDEPENDENCE

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting policies, principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of annual results for year ended 31 December 2012.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Young M. Lee
Director

Hong Kong, 26 March 2013

Corporate Governance Report

The board of directors of the Company (the "Board") is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2012.

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.

Throughout the year ended 31 December 2012, the Company has applied the principles and complied with the code provisions contained in the Corporate Governance Code (applicable after 1 April 2012) and the former Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") (the "Listing Rules"), save for the deviation from the code provision A.2.1 of the CG Code.

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

BOARD OF DIRECTORS

Composition and responsibilities

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

As at 31 December 2012, the Board consisted of four executive directors, namely Mr Kyoo Yoon Choi (Chairman are Chief Executive Officer ("CEO")), Mr Young M. Lee (Vice President and Chief Financial Officer ("CFO")), Mr James Chuan Yung Wang and Mr Hyun Ho Kim, and three independent non-executive directors ("INEDs"), namely Professor Cheong Heon Yi, Professor Byong Hun Ahn and Mr Tae Woong Kang (collectively the "Directors"). There is no financial, business, family or other material/relevant relationship among members of the Board.

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

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

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

Directors' securities transactions

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

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

Board meeting and general meeting

Eight board meetings and an annual general meeting ("AGM") were held during the year with details of the Directors' attendance set out below:

	Number of attendance/Meetings held	
Name of director	**Board meetings**	**AGM**
Kyoo Yoon Choi (Chairman)	2/8	1/1
Young M. Lee	8/8	1/1
James Chuan Yung Wang	4/8	0/1
Hyun Ho Kim	8/8	1/1
Cheong Heon Yi	5/8	1/1
Byong Hun Ahn	4/8	1/1
Tae Woong Kang	5/8	1/1

Directors' training and professional development

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

All Directors have participated in appropriate continuous professional development activities either by attending training courses or by 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 since 1 April 2012 up to 31 December 2012 is as follows:

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

Notes:

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

B: attending training courses and/or seminars

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

Independent non-executive directors

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

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

Professor Cheong Heon Yi was appointed as the Company's INED on 22 November 2003 and has served on the Board for more than 9 years. To the best knowledge of the Board, Professor Cheong Heon Yi has not relied on the remuneration given by the Company and he is independent of any connected person and substantial shareholder of the Company. Therefore, the Board believes that Professor Cheong Heon Yi is able to exercise his professional judgment and draw upon his extensive knowledge in accounting and financial management and corporate governance matters for the benefit of the Company and its shareholders as a whole and, in particular, the independent shareholders. The Board considers that Professor Cheong Heon Yi meets the independence guidelines set out in Rule 3.13 of the Listing Rules and is independent in accordance with the terms of the guidelines.

DELEGATION BY THE BOARD

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

The Board has delegated functions that are necessary and incidental to carry out the decisions of the Board or to facilitate the day-to-day operations of the Group in ordinary course of business to the executive management and divisional heads of different business units under the instruction/supervision of the CEO, CFO and Chief Operations Officer. The Board and management will also seek advice from the Audit Committee, Remuneration Committee and Nomination Committee. These committees are mainly composed of and chaired by INEDs. In case of urgency, executive management is empowered to make any decisions in prompt response to the opportunities and threats that might arise from time to time. However, those emergency decisions or any other exceptional decisions made by management should be reported back to the Board for ratification as soon as practical.

The three INEDs are persons of high calibre, with academic and professional qualifications in the fields of finance, accounting and business management. With their experience gained from senior positions held in other companies, they provide valuable support towards the effective discharge of the duties and responsibilities of the Board. Each of the INEDs gives an annual confirmation of his independence to the Company, and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules. These three INEDs comprise the Audit, Remuneration and Nomination Committees formed by the Board.

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

Corporate Governance Report

DELEGATION BY THE BOARD *(Continued)*

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1, the roles of Chairman and CEO should be separated and should not held by the same individual. The Chairman of the Board is responsible for formulating the strategic planning, business development, overall leadership and effective running of the Board, by ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner. The CEO, supported by other chief executives, is delegated with the authority and responsible for running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives.

Upon the resignation of Mr Min Chul Hong on 31 December 2005, the duties of the CEO were temporarily shared by other executive directors and key executives except the Chairman.

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 the positions as it helps to maintain the continuity of the policies and stability of the operations of the Company. The Board including three INEDs has a fairly independence element in the composition and will play an active role to ensure a balance of power and authority.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises one executive director and three INEDs. The Remuneration Committee was formed in January 2005 and held meeting at least once a year. Three meetings were held in the year of 2012. The attendance of each Remuneration Committee member is set out as follows:

Name of director	Number of attendance/ meetings held
Byong Hun Ahn (Chairman)	3/3
Cheong Heon Yi	3/3
Tae Woong Kang	3/3
Young M. Lee	3/3

Corporate Governance Report

REMUNERATION COMMITTEE *(Continued)*

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

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

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

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

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

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

The Directors acknowledge their responsibility to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders in a timely manner. The Directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance ("Companies Ordinance"), all applicable to Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and all applicable disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2012, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate HKFRSs which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the financial statements.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The auditor's responsibilities are set out in the Independent Auditor's Report.

Corporate Governance Report

AUDIT COMMITTEE

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

Name of director	Number of attendance/ meetings held
Cheong Heon Yi (Chairman)	4/4
Byong Hun Ahn	4/4
Tae Woong Kang	4/4

During the year ended 31 December 2012, the Audit Committee performed the following works:

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

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

(iii) reviewed the effectiveness of internal control system;

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

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

(vi) reviewed and recommended to the Board for approval of the 2012 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.

Corporate Governance Report

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, internal control and risk management systems.

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

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

NOMINATION COMMITTEE

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

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

During the year ended 31 December 2012, the Nomination Committee performed the following work:

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

(ii) assessed the independence of INEDs; and

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

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

During the year under review, the Board approved the terms of reference of the Board, the Audit Committee, the Nomination Committee and the Remuneration Committee and the shareholder communication policy.

AUDITORS' REMUNERATION

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

Services rendered	**Fees paid/payable** HK$'000
Audit services	3,939
Other audit-related services	600
	4,539

INTERNAL CONTROLS

The Company set up an internal audit department in May 2006. The head of the internal audit department was appointed by the Board to review of the effectiveness of the internal control system of the Group which covers all material controls, including financial, operational and compliance controls as well as risk management functions. The internal auditor has performed a review of the internal control system of the Group for the year ended 31 December 2012 and the relevant review report has been submitted to the Audit Committee in March 2013 for consideration. The Board, through the reviews made by the internal auditor and the Audit Committee, considers that the Group's internal control system has operated effectively.

During the year ended 31 December 2012, the Board has conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. The Board has not identified any major issues during their course of review.

Corporate Governance Report

COMPANY SECRETARY

Ms Ng Tsz Wai was appointed as the Company Secretary of the Company with effect from 27 November 2012. All Directors have access to the advice and services of the Company Secretary. During the year ended 31 December 2012, 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 2012 AGM is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board and the Chairman of the Audit, Remuneration and Nomination Committees together with the external auditors are also present at the AGM to answer shareholders' questions.

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

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

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

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced all its price-sensitive information, announcements, interim and annual results in a timely manner in compliance with the Listing Rules. The Company also maintains a company website as a channel to let shareholders know the Company's news and raise questions through emails and telephone.

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

VOTING BY POLL

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

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

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

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

Independent Auditor's Report

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

We have audited the consolidated financial statements of Dream International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 31 to 119, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

26 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Note	**2012 HK$'000**	2011 HK$'000
Turnover	3 & 15	**1,353,340**	1,083,152
Cost of sales		**(1,007,276)**	(820,476)
Gross profit		**346,064**	262,676
Other revenue	4(a)	**20,894**	12,106
Other net loss	4(b)	**(3,324)**	(4,539)
Distribution costs		**(49,242)**	(45,846)
Administrative expenses		**(158,944)**	(143,638)
Profit on disposal of land and buildings	8	**–**	7,097
Profit from operations		**155,448**	87,856
Finance costs	5(a)	**(3,139)**	(1,179)
Share of (loss)/profit of associates	21	**(664)**	143
Profit before taxation	5	**151,645**	86,820
Income tax	9	**(29,692)**	(15,999)
Profit for the year		**121,953**	70,821
Attributable to:			
Equity shareholders of the Company		**129,191**	74,723
Non-controlling interests		**(7,238)**	(3,902)
Profit for the year		**121,953**	70,821
Earnings per share	14		
Basic		**19.22¢**	11.12¢
Diluted		**19.22¢**	11.12¢

The notes on pages 38 to 119 form part of these consolidated financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 31(b).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Profit for the year		**121,953**	70,821
Other comprehensive income for the year (after tax adjustments):	13		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**13,006**	3,847
Available-for-sale securities: net movement in the fair value reserve		**(156)**	(20)
		12,850	3,827
Total comprehensive income for the year		**134,803**	74,648
Attributable to:			
Equity shareholders of the Company		**141,945**	77,965
Non-controlling interests		**(7,142)**	(3,317)
Total comprehensive income for the year		**134,803**	74,648

The notes on pages 38 to 119 form part of these consolidated financial statements.

Consolidated Balance Sheet

At 31 December 2012

	Note	**2012** **HK$'000**	2011 HK$'000
Non-current assets			
Fixed assets	17(a)		
– Interests in leasehold land held for own use under operating leases		**22,596**	22,884
– Other property, plant and equipment		**169,046**	158,686
		191,642	181,570
Long term receivables	16	**930**	2,796
Prepayments		**–**	1,990
Other intangible assets	18	**9,029**	12,191
Interest in associates	21	**27**	690
Net defined benefit retirement asset	28(a)	**3,114**	2,619
Deferred tax assets	30(b)	**7,825**	11,625
Goodwill	19	**2,753**	–
Other financial assets	22	**24,925**	23,048
		240,245	236,529
Current assets			
Inventories	23	**183,572**	231,565
Trade and other receivables	24	**208,496**	240,083
Current tax recoverable	30(a)	**1,016**	4,125
Other financial assets	22	**14,674**	13,339
Time deposits	25(a)	**156,735**	38,000
Cash and cash equivalents	25(a)	**281,550**	177,115
		846,043	704,227
Current liabilities			
Trade and other payables	26	**208,006**	201,343
Bank loans	27	**20,810**	17,900
Current tax payable	30(a)	**12,991**	9,554
		241,807	228,797
Net current assets		**604,236**	475,430
Total assets less current liabilities		**844,481**	711,959
Non-current liabilities			
Bank loans	27	**1,812**	4,924
Deferred tax liabilities	30(b)	**394**	22
		2,206	4,946
NET ASSETS		**842,275**	707,013

Consolidated Balance Sheet

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
CAPITAL AND RESERVES			
Share capital	31(c)	**52,303**	52,303
Reserves		**785,322**	642,918
Total equity attributable to equity shareholders of the Company		**837,625**	695,221
Non-controlling interests		**4,650**	11,792
TOTAL EQUITY		**842,275**	707,013

Approved and authorised for issue by the board of directors on 26 March 2013.

Young M. Lee
Director

Hyun Ho Kim
Director

The notes on pages 38 to 119 form part of these consolidated financial statements.

Balance Sheet

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Fixed assets	17(b)	**7,433**	9,379
Long term receivables	16	**930**	2,796
Other intangible assets	18	**356**	362
Investments in subsidiaries	20	**604,683**	437,623
Interest in associates	21	**1,248**	1,248
		614,650	451,408
Current assets			
Inventories	23	**51,383**	68,099
Trade and other receivables	24	**160,519**	199,080
Current tax recoverable	30(a)	**1,008**	4,080
Time deposits	25(a)	**76,735**	–
Cash and cash equivalents	25(a)	**44,887**	64,791
		334,532	336,050
Current liabilities			
Trade and other payables	26	**195,118**	173,316
Net current assets		**139,414**	162,734
Total assets less current liabilities		**754,064**	614,142
Non-current liabilities			
Net defined benefit retirement obligation	28(a)	**–**	1,369
Deferred tax liabilities	30(b)	**394**	22
		394	1,391
NET ASSETS		**753,670**	612,751
CAPITAL AND RESERVES	31(a)		
Share capital		**52,303**	52,303
Reserves		**701,367**	560,448
TOTAL EQUITY		**753,670**	612,751

Approved and authorised for issue by the board of directors on 26 March 2013.

Young M. Lee
Director

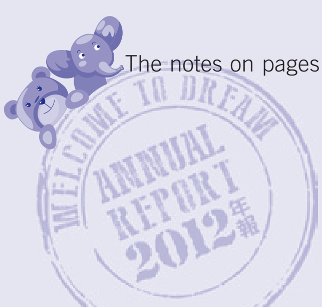
Hyun Ho Kim
Director

The notes on pages 38 to 119 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

		Attributable to equity shareholders of the Company										
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve fund HK$'000	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 2011		52,303	181,013	3,344	18,427	(3,062)	41,499	399	350,210	644,133	15,109	659,242
Changes in equity for 2011:												
Profit for the year		–	–	–	–	–	–	–	74,723	74,723	(3,902)	70,821
Other comprehensive income	13	–	–	–	–	–	3,262	(20)	–	3,242	585	3,827
Total comprehensive income for the year		–	–	–	–	–	3,262	(20)	74,723	77,965	(3,317)	74,648
Final dividend approved in respect of the previous year	31(b)	–	–	–	–	–	–	–	(26,887)	(26,887)	–	(26,887)
Cancellation of share options		–	–	(3,344)	–	–	–	–	3,344	–	–	–
Equity settled share-based transactions		–	–	10	–	–	–	–	–	10	–	10
Balance at 31 December 2011		52,303	181,013	10	18,427	(3,062)	44,761	379	401,390	695,221	11,792	707,013
Balance at 1 January 2012		52,303	181,013	10	18,427	(3,062)	44,761	379	401,390	695,221	11,792	707,013
Changes in equity for 2012:												
Profit for the year		–	–	–	–	–	–	–	129,191	129,191	(7,238)	121,953
Other comprehensive income	13	–	–	–	–	–	12,910	(156)	–	12,754	96	12,850
Total comprehensive income for the year		–	–	–	–	–	12,910	(156)	129,191	141,945	(7,142)	134,803
Equity settled share-based transactions		–	–	459	–	–	–	–	–	459	–	459
Balance at 31 December 2012		52,303	181,013	469	18,427	(3,062)	57,671	223	530,581	837,625	4,650	842,275



The notes on pages 38 to 119 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Operating activities			
Cash generated from/(used in) operations	25(b)	**272,417**	(3,139)
Tax paid			
– Hong Kong Profits Tax paid		**–**	(11,721)
– Tax paid outside Hong Kong		**(18,854)**	(13,478)
Net cash generated from/(used in) operating activities		**253,563**	(28,338)
Investing activities			
Payment for purchase of property, plant and equipment		**(39,645)**	(27,897)
Proceeds from the disposal of property, plant and equipment		**894**	13,781
Payment for purchase of club memberships		**–**	(2,100)
Proceeds from the disposal of club memberships		**4,328**	2,132
Payment for purchase of other financial assets		**(13,800)**	(24,377)
Acquisition of a subsidiary, net of cash acquired		**(1,816)**	–
Interest received		**7,618**	3,439
Increase in time deposits with maturity over three months		**(118,735)**	(21,994)
Proceeds received upon maturity of other financial assets		**12,953**	15,872
Proceeds from the disposal of assets held for sale		**–**	2,722
Net cash used in investing activities		**(148,203)**	(38,422)
Financing activities			
Interest paid		**(3,139)**	(1,179)
Proceeds from bank loans		**53,213**	22,023
Repayment of bank loans		**(53,753)**	(12,758)
Dividend paid	31(b)	**–**	(26,887)
Net cash used in financing activities		**(3,679)**	(18,801)
Net increase/(decrease) in cash and cash equivalents		**101,681**	(85,561)
Cash and cash equivalents at 1 January		**177,115**	261,534
Effect of foreign exchange rate changes		**2,754**	1,142
Cash and cash equivalents at 31 December	25(a)	**281,550**	177,115

The notes on pages 38 to 119 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Group and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 36.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(f) Other investments in debt and equity securities

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

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

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

Investment in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(k)(i)).

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. When these investments are derecognised or impaired (see note 1(k)(i)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(h) Property, plant and equipment

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

– freehold land and buildings;

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

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).

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

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

– Freehold land is not depreciated.

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

– Plant and machinery	5 – 10 years
– Other fixed assets	3 – 10 years

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

(i) Intangible assets (other than goodwill)

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

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

Club memberships with indefinite useful lives are stated in the balance sheet at cost less accumulated impairment losses, and are tested annually for impairment.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets

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

(i) Classification of assets leased to the Group

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

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

(ii) Operating lease charges

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets

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

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

– significant financial difficulty of the debtor;

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

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

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

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

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

– For investments in subsidiaries and associates (including those recognised using the equity method (see note 1(d))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(ii) Impairment of other assets

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

– property, plant and equipment;

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

– prepayments;

– other intangible assets; and

– goodwill.

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

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated 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 to sell, or value in use, if determinable.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

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

(l) Inventories

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

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Trade and other receivables

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

(n) Interest-bearing borrowings

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

(o) Trade and other payables

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

(p) Cash and cash equivalents

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

(q) Employee benefits

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

In calculating the Group's obligation in respect of a plan, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iii) Share-based payments

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Employee benefits *(Continued)*

(iv) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(r) Income tax

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

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

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

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

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

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

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

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

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

    – the same taxable entity; or

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

(s) Provisions and contingent liabilities

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(iii) Commission income

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

(iv) Compensation income

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

(u) Translation of foreign currencies

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

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The results of foreign operations outside Hong Kong are translated into HKD at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into HKD at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Non-current assets held for sale

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

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Non-current assets held for sale *(Continued)*

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

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

(x) Related parties

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

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

(2) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) 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 several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following development is relevant to the Group's financial statements:

– Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

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

3 TURNOVER

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

The Group's customer base is diversified and includes two (2011: three) customers with whom transactions have exceeded 10% of the Group's revenues. During the year ended 31 December 2012, the revenues from sales of plush stuffed toys and plastic figures to these customers amounted to approximately HK$531,667,000 and HK$348,214,000 (2011: HK$332,034,000, HK$270,434,000 and HK$114,284,000) respectively and arose in Hong Kong, North America, Japan and Europe (2011: Hong Kong, North America, Japan and Europe) geographical regions in which the plush stuffed toys and plastic figures segments are active. Details of concentrations of credit risk arising from these customers are set out in note 32(a).

Further details regarding the Group's principal activities are disclosed in note 15 to these financial statements.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

4 OTHER REVENUE AND NET LOSS

(a) Other revenue

	2012 HK$'000	2011 HK$'000
Bank interest income	**6,362**	2,449
Interest income from other financial assets	**1,256**	990
Compensation income	**6,976**	–
Commission income from a related company and a fellow subsidiary	**3,660**	3,115
Sundry income	**2,640**	5,552
	20,894	12,106

(b) Other net loss

	2012 HK$'000	2011 HK$'000
Net gain/(loss) on disposal of property, plant and equipment	**406**	(455)
Gain/(loss) on disposal of club memberships	**446**	(1,469)
Net realised and unrealised (loss)/gain on other financial assets	**(662)**	61
Impairment loss on club memberships (note 18)	**(10)**	(2,787)
Net foreign exchange loss	**(3,327)**	(1,897)
Gain on disposal of assets held for sale (note 7)	**–**	37
Others	**(177)**	1,971
	(3,324)	(4,539)

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

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

	Note	2012 HK$'000	2011 HK$'000
(a) Finance costs			
Interest expense on bank borrowings wholly repayable within five years		**3,139**	1,179
(b) Staff costs #			
Expenses recognised in respect of defined benefit retirement plan	28(a)(v)	**1,401**	2,036
Contributions to defined contribution retirement plan		**12,970**	428
Total retirement costs		**14,371**	2,464
Equity settled share-based payment expenses		**459**	10
Salaries, wages and other benefits		**335,194**	282,297
		350,024	284,771
(c) Other items			
Amortisation of land lease premium	17(a)	**524**	461
Depreciation #	17(a)	**22,663**	24,195
Impairment loss recognised on trade receivables	24(b)	**2,966**	1,602
Reversal of impairment loss on trade receivables	24(b)	**(417)**	(1,664)
Impairment loss recognised on other receivables		**1,006**	3,519
Reversal of impairment loss on other receivables		**(707)**	–
Auditors' remuneration		**4,869**	4,311
Operating lease charges: minimum lease payments in respect of property rentals #		**24,235**	23,108
Cost of inventories #	23(b)	**1,007,276**	820,476

Cost of inventories includes HK$305,993,000 (2011: HK$247,852,000) relating to staff costs, depreciation and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

6 LOSSES FROM FIRE

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

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

	2012 **HK$'000**
Loss on fixed assets (note 17(a)):	
– Cost	**10,691**
– Accumulated depreciation	**(4,065)**
	6,626
Loss on inventories	**7,987**
Total losses	**14,613**
Less:	
Scrap material sales	**(155)**
Compensation receivable (note 24)	**(12,858)**
Net losses from fire (recorded in "administrative expenses")	**1,600**

7 ASSETS HELD FOR SALE

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

The disposal was completed on 5 May 2011 and a gain on disposal of US$5,000 (equivalent to HK$37,000) was recognised in 2011.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

8 PROFIT ON DISPOSAL OF LAND AND BUILDINGS

On 15 April 2011, a subsidiary of the Company in Suzhou, the PRC disposed of a warehouse together with the associated land use right (the "Land and Warehouse") in Suzhou, at a cash consideration of RMB10,933,000 (equivalent to HK$13,229,000) plus a right to occupy the Land and Warehouse from 1 May 2011 to 31 December 2012, with a fair value estimated to be RMB828,000 (equivalent to HK$1,002,000). The net book value of the Land and Warehouse at the disposal date was RMB4,911,000 (equivalent to HK$5,942,000). The transaction is considered as a sales and operating leaseback arrangement and the Group recorded a profit on disposal of RMB5,865,000 (equivalent to HK$7,097,000) net of professional fee and related taxes of RMB985,000 (equivalent to HK$1,192,000) for the year ended 31 December 2011.

9 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2012 **HK$'000**	2011 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**3,405**	2,796
Under-provision in respect of prior years	**–**	136
	3,405	2,932
Current tax – Outside Hong Kong		
Provision for the year	**24,015**	10,677
Over-provision in respect of prior years	**(2,020)**	–
	21,995	10,677
Deferred tax		
Origination and reversal of temporary differences (note 30(b)(i))	**4,292**	4,168
Effect of change in tax rate on recognition of tax losses	**–**	(1,778)
	4,292	2,390
	29,692	15,999

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

The Corporate Income Tax (“CIT”) rate applicable to subsidiaries registered in the PRC is 25% (2011: 25%). Certain PRC subsidiaries are entitled to income tax holidays granted by the PRC tax authorities whereby they are exempted from CIT for two years starting from the first profit making year and thereafter subject to CIT at 50% of the prevailing tax rate for the following three years.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the previously recognised assets to be recovered.

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

	2012 **HK$'000**	2011 HK$'000
Profit before taxation	**151,645**	86,820
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**31,248**	19,518
Tax effect of non-deductible expenses	**3,584**	1,693
Tax effect of non-taxable income	**(8,614)**	(9,343)
Tax effect of utilisation of previously unrecognised tax losses	**(3,316)**	–
Tax effect of unused tax losses not recognised	**7,378**	3,275
Tax effect of recognition of previously unrecognised tax losses	**(2,333)**	–
Tax effect of written-off of previously recognised tax losses	**3,765**	2,498
Effect of change in tax rate on recognition of tax losses	**–**	(1,778)
(Over)/under-provision in prior years	**(2,020)**	136
Actual tax expense	**29,692**	15,999

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

10 DIRECTORS' REMUNERATION

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

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

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Share-based payments (note) HK$'000	2011 Total HK$'000
Chairman and executive director						
Kyoo Yoon Choi	240	–	–	240	–	240
Executive directors						
Young M. Lee	–	2,069	–	2,069	–	2,069
James Chuan Yung Wang	–	1,353	–	1,353	–	1,353
Hyun Ho Kim	–	1,287	–	1,287	–	1,287
Independent non-executive directors						
Cheong Heon Yi	146	–	–	146	–	146
Byong Hun Ahn	132	–	–	132	–	132
Tae Woong Kang	120	–	–	120	–	120
	638	4,709	–	5,347	–	5,347

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

10 DIRECTORS' REMUNERATION *(Continued)*

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

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the report of the directors and note 29.

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2011: two) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other three (2011: three) individuals are as follows:

	2012 **HK$'000**	2011 HK$'000
Salaries and other emoluments	**6,238**	5,758
Discretionary bonuses	**–**	–
Share-based payments	**57**	–
Retirement scheme contributions	**–**	–
	6,295	5,758

The emoluments of the three (2011: three) individuals with the highest emolument are within the following bands:

	2012 **No. of individuals**	2011 No. of individuals
HK$		
1,000,001 – 1,500,000	**–**	1
1,500,001 – 2,000,000	**2**	1
2,000,001 – 2,500,000	**–**	–
2,500,001 – 3,000,000	**1**	1

12 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$140,460,000 (2011: HK$46,147,000) which has been dealt with in the financial statements of the Company.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

13 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	2012			2011		
	Before tax amount HK$'000	**Tax credit HK$'000**	**Net-of-tax amount HK$'000**	Before tax amount HK$'000	Tax credit HK$'000	Net-of-tax amount HK$'000
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**13,006**	**–**	**13,006**	3,847	–	3,847
Available-for-sale securities: net movement in the fair value reserve	**(207)**	**51**	**(156)**	(22)	2	(20)
Other comprehensive income	**12,799**	**51**	**12,850**	3,825	2	3,827

14 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$129,191,000 (2011: HK$74,723,000) and the weighted average of 672,165,000 ordinary shares (2011: 672,165,000 ordinary 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 for both 2012 and 2011 as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

15 SEGMENT REPORTING

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

- Plush stuffed toys: this segment is involved in the design, development, manufacture and sale of plush stuffed toys. These products are either sourced externally or are manufactured in the Group's manufacturing facilities located primarily in the PRC and Vietnam.

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

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

(a) Segment results, assets and liabilities

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

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specially attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

15 SEGMENT REPORTING *(Continued)*

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out below.

	Plush stuffed toys		Ride-on toys		Plastic figures		Total	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Revenue from external customers	**1,278,595**	1,002,787	**56,365**	78,404	**18,380**	1,961	**1,353,340**	1,083,152
Inter-segment revenue	**5,033**	632	**–**	–	**–**	–	**5,033**	632
Reportable segment revenue	**1,283,628**	1,003,419	**56,365**	78,404	**18,380**	1,961	**1,358,373**	1,083,784
Reportable segment profit/(loss) (adjusted EBITDA)	**224,370**	141,727	**(20,054)**	(9,196)	**(14,941)**	(5,255)	**189,375**	127,276
Bank interest income	**6,107**	2,261	**17**	133	**238**	55	**6,362**	2,449
Interest expense	**(3,084)**	(1,179)	**–**	–	**(55)**	–	**(3,139)**	(1,179)
Depreciation and amortisation for the year	**(14,749)**	(17,971)	**(6,188)**	(6,327)	**(2,250)**	(358)	**(23,187)**	(24,656)
Reportable segment assets	**556,868**	572,042	**95,247**	101,992	**57,992**	20,412	**710,107**	694,446
Additions to non-current segment assets during the year	**15,126**	9,365	**877**	3,577	**26,647**	14,955	**42,650**	27,897
Reportable segment liabilities	**202,875**	166,089	**76,273**	64,183	**48,458**	4,894	**327,606**	235,166

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

15 SEGMENT REPORTING *(Continued)*

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

	2012 HK$'000	2011 HK$'000
Revenue		
Reportable segment revenue	**1,358,373**	1,083,784
Elimination of inter-segment revenue	**(5,033)**	(632)
Consolidated turnover	**1,353,340**	1,083,152
Profit		
Reportable segment profit	**189,375**	127,276
Share of (loss)/profit of associates	**(664)**	143
Interest income	**7,618**	3,439
Depreciation and amortisation	**(23,187)**	(24,656)
Finance costs	**(3,139)**	(1,179)
Impairment loss on club memberships	**(10)**	(2,787)
Unallocated head office and corporate expenses	**(18,348)**	(15,416)
Consolidated profit before taxation	**151,645**	86,820
Assets		
Reportable segment assets	**710,107**	694,446
Elimination of inter-segment receivables	**(119,600)**	(33,823)
	590,507	660,623
Club memberships	**9,029**	12,191
Interest in associates	**27**	690
Other financial assets	**39,599**	36,387
Deferred tax assets	**7,825**	11,625
Current tax recoverable	**1,016**	4,125
Unallocated head office and corporate assets	**438,285**	215,115
Consolidated total assets	**1,086,288**	940,756
Liabilities		
Reportable segment liabilities	**327,606**	235,166
Elimination of inter-segment payables	**(119,600)**	(33,823)
	208,006	201,343
Deferred tax liabilities	**394**	22
Current tax payable	**12,991**	9,554
Unallocated head office and corporate liabilities	**22,622**	22,824
Consolidated total liabilities	**244,013**	233,743

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

15 SEGMENT REPORTING *(Continued)*

(c) Geographical information

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

	Revenue from external customers		Specified non-current assets	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Hong Kong (place of domicile)	**7,245**	7,023	**–**	–
North America	**512,341**	394,729	**201**	206
Japan	**639,122**	465,005	**3,963**	3,874
Europe	**144,459**	200,771	**–**	–
South America	**10,609**	–	**–**	–
The PRC	**28,773**	8,896	**50,143**	64,398
Vietnam	**2,528**	1,854	**141,402**	117,241
Republic of Korea	**3,663**	1,095	**7,742**	10,722
Other countries	**4,600**	3,779	**–**	–
	1,346,095	1,076,129	**203,451**	196,441
	1,353,340	1,083,152	**203,451**	196,441

16 LONG TERM RECEIVABLES

On 1 January 2010, the Company disposed of a 100% ownership interest in C & H Toys (Shuyang) Co., Ltd ("CTSY") to the factory manager at a consideration of US$1,387,000 (equivalent to HK$10,757,000). In accordance with the agreement, the balance is secured by the property and land use rights of CTSY with a carrying value of RMB7,866,000 (equivalent to HK$8,968,000) as at 1 January 2010, interest-free and receivable by instalments as follows:

	The Group and the Company	
	2012 HK$'000	2011 HK$'000
Within 1 year	**2,325**	1,864
After 1 year but within 5 years	**930**	2,796
	3,255	4,660

Balance receivables within 1 year is included in "other receivables and prepayments" in note 24.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 FIXED ASSETS

(a) The Group

	Note	Freehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor Vehicles HK$'000	Construction in progress HK$'000	Sub-total HK$'000	Interests in leasehold land held for own use under operating leases HK$'000	Total HK$'000
Cost:										
At 1 January 2011		101,434	14,681	150,854	25,499	9,228	1,373	303,069	21,598	324,667
Exchange adjustments		1,357	148	2,798	267	144	(14)	4,700	188	4,888
Additions		1,058	1,040	10,502	1,303	955	8,089	22,947	4,950	27,897
Disposals		(4,385)	(1,981)	(2,318)	(278)	(1,868)	–	(10,830)	(1,990)	(12,820)
Transfers		2,250	–	–	125	–	(2,375)	–	–	–
At 31 December 2011		101,714	13,888	161,836	26,916	8,459	7,073	319,886	24,746	344,632
At 1 January 2012		101,714	13,888	161,836	26,916	8,459	7,073	319,886	24,746	344,632
Exchange adjustments		266	46	1,030	356	64	(10)	1,752	27	1,779
Addition through acquisition of a subsidiary		–	–	243	9	–	–	252	–	252
Additions		5,817	1,580	8,500	817	1,954	20,762	39,430	215	39,645
Disposals		(35)	(9,108)	(16,064)	(11,203)	(1,315)	–	(37,725)	–	(37,725)
Written off due to losses from fire	6	(7,880)	–	(2,687)	(124)	–	–	(10,691)	–	(10,691)
Transfers		14,549	–	8,712	–	–	(23,261)	–	–	–
At 31 December 2012		114,431	6,406	161,570	16,771	9,162	4,564	312,904	24,988	337,892
Accumulated amortisation, depreciation and impairment loss:										
At 1 January 2011		13,899	12,815	87,071	21,036	4,410	–	139,231	1,576	140,807
Exchange adjustments		294	111	1,595	186	72	–	2,258	20	2,278
Charge for the year		4,947	1,095	15,065	1,637	1,451	–	24,195	461	24,656
Written back on disposals		(238)	(1,669)	(971)	(96)	(1,510)	–	(4,484)	(195)	(4,679)
At 31 December 2011		18,902	12,352	102,760	22,763	4,423	–	161,200	1,862	163,062
At 1 January 2012		18,902	12,352	102,760	22,763	4,423	–	161,200	1,862	163,062
Exchange adjustments		104	38	732	327	31	–	1,232	6	1,238
Addition through acquisition of a subsidiary		–	–	60	5	–	–	65	–	65
Charge for the year		3,543	774	15,611	1,402	1,333	–	22,663	524	23,187
Written back on disposals		–	(9,108)	(15,790)	(11,189)	(1,150)	–	(37,237)	–	(37,237)
Written off due to losses from fire	6	(2,428)	–	(1,540)	(97)	–	–	(4,065)	–	(4,065)
At 31 December 2012		20,121	4,056	101,833	(13,211)	4,637	–	143,858	2,392	146,250
Net book value:										
At 31 December 2012		94,310	2,350	59,737	3,560	4,525	4,564	169,046	22,596	191,642
At 31 December 2011		82,812	1,536	59,076	4,153	4,036	7,073	158,686	22,884	181,570

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 FIXED ASSETS *(Continued)*

(b) The Company

	Freehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 1 January 2011	4,603	9,707	31,708	11,821	1,152	58,991
Additions	–	674	2,759	231	216	3,880
Disposals	–	–	–	–	(106)	(106)
At 31 December 2011	4,603	10,381	34,467	12,052	1,262	62,765
At 1 January 2012	4,603	10,381	34,467	12,052	1,262	62,765
Additions	–	1,242	474	139	–	1,855
Disposals	–	(9,108)	(29,822)	(11,788)	(1,167)	(51,885)
At 31 December 2012	4,603	2,515	5,119	403	95	12,735
Accumulated depreciation:						
At 1 January 2011	766	8,957	30,059	11,367	660	51,809
Charge for the year	115	404	715	168	281	1,683
Written back on disposals	–	–	–	–	(106)	(106)
At 31 December 2011	881	9,361	30,774	11,535	835	53,386
At 1 January 2012	881	9,361	30,774	11,535	835	53,386
Charge for the year	116	428	1,027	178	280	2,029
Written back on disposals	–	(9,108)	(28,480)	(11,505)	(1,020)	(50,113)
At 31 December 2012	997	681	3,321	208	95	5,302
Net book value:						
At 31 December 2012	3,606	1,834	1,798	195	–	7,433
At 31 December 2011	3,722	1,020	3,693	517	427	9,379

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 FIXED ASSETS *(Continued)*

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

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Outside Hong Kong				
– medium-term leases	**113,300**	101,974	**–**	–
– freehold	**3,606**	3,722	**3,606**	3,722
	116,906	105,696	**3,606**	3,722
Representing:				
Land and buildings carried at cost	**94,310**	82,812	**3,606**	3,722
Interests in leasehold land held for own use under operating leases	**22,596**	22,884	**–**	–
	116,906	105,696	**3,606**	3,722

(d) Pledged assets

Certain fixed assets of the Group with an aggregate carrying amount of HK$26,529,000 (2011: HK$33,453,000) as at 31 December 2012 were pledged to various banks to secure bank loans granted to the Group (note 27).

Notes to the Consolidated Financial Statements

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18 OTHER INTANGIBLE ASSETS

	The Group		
	Club memberships HK$'000	Patent HK$'000	Total HK$'000
Cost:			
At 1 January 2011	17,696	3,382	21,078
Additions	2,100	–	2,100
Disposals	(3,600)	–	(3,600)
Exchange adjustment	(331)	–	(331)
At 31 December 2011	15,865	3,382	19,247
At 1 January 2012	15,865	3,382	19,247
Disposals	(3,882)	–	(3,882)
Exchange adjustment	967	–	967
At 31 December 2012	12,950	3,382	16,332
Accumulated amortisation and impairment losses:			
At 1 January 2011	1,006	3,382	4,388
Impairment loss	2,787	–	2,787
Exchange adjustment	(119)	–	(119)
At 31 December 2011	3,674	3,382	7,056
At 1 January 2012	3,674	3,382	7,056
Impairment loss	10	–	10
Exchange adjustment	237	–	237
At 31 December 2012	3,921	3,382	7,303
Net book value:			
At 31 December 2012	9,029	–	9,029
At 31 December 2011	12,191	–	12,191

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

18 OTHER INTANGIBLE ASSETS *(Continued)*

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

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

	The Company Club memberships HK$'000
Cost:	
At 1 January 2011	1,301
Exchange adjustment	8
At 31 December 2011	1,309
At 1 January 2012	1,309
Exchange adjustment	(6)
At 31 December 2012	1,303
Accumulated impairment losses:	
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	947
Net book value:	
At 31 December 2012	356
At 31 December 2011	362

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

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19 GOODWILL

	The Group HK$'000
At 1 January 2011, 31 December 2011 and 1 January 2012	–
Acquisition of a subsidiary	2,753
At 31 December 2012	2,753

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

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

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

20 INVESTMENTS IN SUBSIDIARIES

	2012 HK$'000	2011 HK$'000
Unlisted equities, at cost	**329,560**	277,394
Less: impairment loss	**(14,683)**	(22,138)
	314,877	255,256
Loans to subsidiaries	**289,806**	272,367
Less: impairment loss	**–**	(90,000)
	289,806	182,367
	604,683	437,623

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

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

In 2011, the Company set up a wholly-owned subsidiary, Shenzhen C & H Plastic & Hardware Co., Ltd, in the PRC, with capital contribution of RMB500,000 (equivalent to HK$602,000).

Reversals of impairment loss on unlisted equities and loans to subsidiaries of HK$7,455,000 (2011: HK$9,336,000) and HK$90,000,000 (2011: HK$Nil) respectively were recognised for the year ended 31 December 2012 as a result of the increase in the recoverable amounts of investments in and loans to certain subsidiaries.

Loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for loans to subsidiaries of HK$132,972,000 (2011: HK$110,702,000) which are unsecured, interest-bearing at a fixed rate of 1% or 0.5% over LIBOR per annum and with maturities through January 2014 to September 2020. Accordingly, these loans have been classified as non-current assets. The interest rates charged for the year ended 31 December 2012 ranged from 0.81% to 1.08% (2011: 0.75% to 1.54%).

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

			Proportion of ownership interest			
Name of company	**Place of incorporation/ registration and operation**	**Particulars of issued/ registered and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
Dream International USA, Inc.	United States of America	Registered and paid up capital of US$1,000,000	100%	100%	–	Trading of plush stuffed toys
J.Y. International Company Limited	Hong Kong	Authorised and issued capital of US$3,500,000	100%	100%	–	Trading of plush stuffed toys and investment holding
C & H Toys (Suzhou) Co., Ltd #	The PRC	Registered and paid up capital of US$9,200,000	100%	100%	–	Trading of plush stuffed toys
Dream Inko Co., Ltd	Republic of Korea	Registered and paid up capital of KRW100,000,000	100%	–	100%	Design, development and trading of plush stuffed toys and investment holding
Dream Vina Co., Ltd	Vietnam	Registered and paid up capital US$12,764,827	100%	60.83%	39.17%	Manufacture of plush stuffed toys and investment holding
Dream Textile Co., Ltd	Vietnam	Registered and paid up capital of US$5,500,000	100%	54.55%	45.45%	Manufacture of fabrics and dyeing

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(Expressed in Hong Kong dollars unless otherwise indicated)

20 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ registration and operation	Particulars of issued/ registered and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
Dream Mekong Co., Ltd	Vietnam	Registered capital of US$5,000,000 and paid up capital of US$3,000,000	100%	–	100%	Manufacture of plush stuffed toys
Dream Plastic Co., Ltd	Vietnam	Registered capital of US$4,500,000 and paid up capital of US$4,500,000	100%	100%	–	Manufacture of plastic figures
C & H HK Corp., Ltd	Hong Kong	Authorised and issued capital of US$10,500,000	72.86%	72.86%	–	Trading of ride-on toys and investment holding
J.Y. Plasteel (Suzhou) Co., Ltd #	The PRC	Registered and paid up capital of US$10,500,000	72.86%	–	100%	Manufacture of ride-on toys
C & H Toys (Mingguang) Co., Ltd #	The PRC	Registered and paid up capital of US$1,000,000	100%	100%	–	Manufacture of plush stuffed toys
C & H Toys (Chaohu) Co., Ltd #	The PRC	Registered and paid up capital of US$2,000,000	100%	–	100%	Manufacture of plush stuffed toys
Shenzhen C & H Plastic & Hardware Co., Ltd	The PRC	Registered and paid up capital of RMB500,000	100%	1%	99%	Manufacture of plastic figures
Dream Shenzhen Co., Ltd #	The PRC	Registered and paid up capital of RMB20,000,000	100%	100%	–	Manufacture of plush stuffed toys and plastic figures
JM Mekong Co., Ltd	Vietnam	Registered and paid up capital of US$385,715	100%	–	100%	Manufacture of plush stuffed toys

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

21 INTEREST IN ASSOCIATES

	The Group		The Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Unlisted equities, at cost	**–**	–	**1,248**	1,248
Share of net assets	**27**	690	**–**	–
	27	690	**1,248**	1,248

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

Name of associate	Place of incorporation/ registration and operation	Particulars of issued share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by an associate	Principal activities
Kedington Enterprises Inc.	British Virgin Islands	US$800,000	20%	20%	–	Investment holding
Yuan Lin Toys (Suzhou) Co., Ltd	The PRC	US$800,000	20%	–	100%	Manufacture of plush stuffed toys

Summary of financial information on associates

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenue HK$'000	(Loss)/profit HK$'000
2012					
100 per cent	**26,061**	**(25,928)**	**(133)**	**35,416**	**(3,318)**
Group's effective interest	**5,213**	**(5,186)**	**(27)**	**7,083**	**(664)**
2011					
100 per cent	26,453	(23,004)	(3,449)	38,728	716
Group's effective interest	5,291	(4,601)	(690)	7,746	143

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

22 OTHER FINANCIAL ASSETS

	The Group	
	2012	2011
	HK$'000	HK$'000
Non-current		
Equity-linked securities (notes (i) and (vi))	**3,469**	3,132
Available-for-sale debt securities – unlisted (note (ii))	**6,856**	6,516
Available-for-sale equity securities – unlisted (note (iii))	**14,600**	13,400
	24,925	23,048
Current		
Equity-linked securities (notes (iv) and (vi))	**14,674**	10,165
Held-to-maturity debt securities – unlisted (note (v))	**–**	3,174
	14,674	13,339
	39,599	36,387

Notes:

(i) Equity-linked securities represent structured funds placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date of 8 February 2014.

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

(iii) Available-for-sale equity securities – unlisted represents an investment in a Korean private company and is carried at cost.

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

Equity-linked securities as at 31 December 2011 represented two structured funds placed with investment banks in Korea, amounting to HK$3,366,000 and HK$6,799,000, with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200 and maturity date of 25 May 2012 and 10 August 2012, respectively.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

22 OTHER FINANCIAL ASSETS *(Continued)*

Notes: *(Continued)*

(v) Held-to-maturity debt securities – unlisted as at 31 December 2011 represented an investment in commercial paper with a maturity date of 12 January 2012 and was interest-bearing at 6.50% per annum and carried at amortised cost.

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

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

23 INVENTORIES

(a) Inventories in the balance sheets comprise:

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Raw materials	**61,379**	98,548	**8,608**	21,998
Work in progress	**41,710**	46,702	**9,814**	15,977
Finished goods	**80,483**	86,315	**32,961**	30,124
	183,572	231,565	**51,383**	68,099

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

	The Group	
	2012	2011
	HK$'000	HK$'000
Carrying amount of inventories sold	**997,308**	827,819
Write-down of inventories	**12,497**	2,709
Reversal of write-down of inventories	**(2,529)**	(10,052)
	1,007,276	820,476

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors and bills receivable	**140,410**	184,859	**80,873**	123,055
Less: allowance for doubtful debts (note 24(b))	**(5,912)**	(3,287)	**(2,664)**	–
	134,498	181,572	**78,209**	123,055
Other receivables and prepayments	**51,941**	53,406	**13,673**	10,595
Compensation receivable (note 6)	**12,858**	–	**–**	–
Amounts due from related companies	**6,699**	–	**–**	–
Amount due from ultimate holding company	**–**	5,105	**–**	–
Amounts due from subsidiaries	**–**	–	**68,637**	65,430
Amount due from an associate	**2,500**	–	**–**	–
	208,496	240,083	**160,519**	199,080

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$1,719,000 (2011: HK$1,957,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

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

(a) Ageing analysis

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

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 month	**93,996**	134,008	**45,710**	80,150
1 to 2 months	**18,194**	29,201	**14,338**	26,245
2 to 3 months	**13,279**	16,889	**12,739**	16,660
3 to 4 months	**2,087**	963	**458**	–
Over 4 months	**6,942**	511	**4,964**	–
	134,498	181,572	**78,209**	123,055

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis *(Continued)*

Trade debtors and bills receivable are due within 30 to 60 days from the date of billing. Further details on the Group's credit policy are set out in note 32(a).

(b) Impairment of trade debtors and bills receivable

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

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

	The Group		The Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
At 1 January	**3,287**	3,873	**–**	1,944
Impairment loss recognised	**2,966**	1,602	**2,664**	–
Reversal of impairment loss	**(417)**	(1,664)	**–**	(1,362)
Uncollectible amounts written off	**–**	(582)	**–**	(582)
Exchange differences	**76**	58	**–**	–
At 31 December	**5,912**	3,287	**2,664**	–

At 31 December 2012, the Group's and the Company's trade debtors of HK$7,089,000 (2011: HK$4,073,000) and HK$3,488,000 (2011: HK$Nil) was individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, the Group and the Company recognised specific allowances for doubtful debts of HK$5,912,000 (2011: HK$3,287,000) and HK$2,664,000 (2011: HK$Nil). The Group does not hold any collateral over these balances.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

	The Group		**The Company**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Neither past due nor impaired	**92,130**	144,042	**40,536**	88,070
Less than 1 month past due	**30,838**	35,304	**30,108**	34,774
1 to 3 months past due	**6,967**	265	**5,265**	211
More than 3 months but less than 12 months past due	**3,237**	1,085	**1,476**	–
More than 12 months past due	**149**	90	**–**	–
	41,191	36,744	**36,849**	34,985
	133,321	180,786	**77,385**	123,055

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

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

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank deposits within three months to maturity when placed	**101,669**	63,721	**16,433**	35,879
Cash at bank and in hand	**179,881**	113,394	**28,454**	28,912
Cash and cash equivalents in the balance sheet and consolidated cash flow statement	**281,550**	177,115	**44,887**	64,791
Time deposits with more than three months to maturity when placed	**156,735**	38,000	**76,735**	–
	438,285	215,115	**121,622**	64,791

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$33,549,000 (2011: HK$42,374,000) representing Renminbi Yuan deposits placed with banks in the PRC by the Group. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

	Note	**2012** **HK$'000**	2011 HK$'000
Profit before taxation		**151,645**	86,820
Adjustments for:			
Bank interest income	4(a)	**(6,362)**	(2,449)
Interest income from other financial assets	4(a)	**(1,256)**	(990)
Net (gain)/loss on disposal of property, plant and equipment	4(b)	**(406)**	455
Profit on disposal of land and buildings	8	**–**	(7,097)
(Gain)/loss on disposal of club memberships	4(b)	**(446)**	1,469
Losses from fire	6	**1,600**	–
Net realised and unrealised loss/(gain) on other financial assets	4(b)	**662**	(61)
Equity settled share-based payment expense	5(b)	**459**	10
Finance costs	5(a)	**3,139**	1,179
Amortisation of land lease premium	5(c)	**524**	461
Depreciation	5(c)	**22,663**	24,195
Impairment loss on club memberships	18	**10**	2,787
Share of loss/(profit) of associates		**664**	(143)
Foreign exchange loss		**6,019**	818
Changes in working capital:			
Decrease/(increase) in inventories		**40,006**	(33,752)
Decrease/(increase) in trade and other receivables		**43,606**	(14,996)
Decrease in long term receivables		**1,862**	4,437
Decrease in long term prepayment		**1,990**	–
Increase in net defined benefit retirement assets		**(495)**	–
Increase/(decrease) in trade and other payables		**6,533**	(63,395)
Decrease in net defined benefit retirement obligation		**–**	(2,887)
Cash generated from/(used in) operations		**272,417**	(3,139)

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

26 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**57,620**	65,248	**280**	9,345
Accrued charges and other payables	**147,118**	119,888	**75,624**	56,277
Loan from holder of non-controlling interests	**–**	13,979	**–**	–
Amounts due to related companies	**1,573**	–	**1,549**	–
Amount due to ultimate holding company	**–**	783	**–**	783
Amounts due to fellow subsidiaries	**–**	820	**–**	–
Amounts due to subsidiaries	**–**	–	**117,665**	106,911
Amount due to an associate	**1,695**	625	**–**	–
	208,006	201,343	**195,118**	173,316

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

Loan from holder of non-controlling interests was unsecured, interest-free and repayable on demand. The loan from holder of non-controlling interests was fully repaid during the year ended 31 December 2012.

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Due within 1 month or on demand	**44,970**	40,013	**280**	9,345
Due after 1 month but within 3 months	**11,841**	24,889	**–**	–
Due after 3 months but within 6 months	**10**	245	**–**	–
Due after 6 months but within 1 year	**799**	101	**–**	–
	57,620	65,248	**280**	9,345

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27 BANK LOANS

At 31 December 2012, the bank loans were as follows:

	The Group	
	2012	2011
	HK$'000	HK$'000
Current		
– Secured bank loan	**8,619**	9,341
– Guaranteed bank loans	**12,191**	8,559
	20,810	17,900
Non-current		
– Secured bank loan		
– after 1 year but within 2 years	**1,035**	1,791
– after 2 years but within 5 years	**777**	3,133
	1,812	4,924
	22,622	22,824

Bank loans of the Group are secured as follows:

(i) Buildings, plant and machinery and land use rights with a carrying value as at 31 December 2012 of HK$26,529,000 (2011: HK$33,453,000) were pledged to a bank in respect of a loan amounting to HK$10,431,000 (2011: HK$14,265,000).

Bank loans of the Group are guaranteed as follows:

(i) A bank loan totalling HK$4,496,000 (2011: HK$4,265,000) was guaranteed by the Group's related company, C & H Co., Ltd, and a director of the Company.

(ii) A bank loan amounting to HK$7,695,000 (2011: HK$4,294,000) was guaranteed by standby letter of credit issued by a bank on behalf of a subsidiary of the Company.

As at 31 December 2012, the Group's banking facilities were not subject to the fulfilment of financial covenants (2011: Nil).

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28 EMPLOYEES RETIREMENT SCHEMES

(a) Defined benefit retirement plan

The Group makes contributions to a defined benefit retirement plan which covers 0.5% of the Group's employees. The plan is administered by trustees, who are independent, with their assets held separately from those of the Group.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The latest independent actuarial valuation of the plan was at 31 December 2012 and was prepared by qualified actuaries of Towers Watson Hong Kong Limited, who are fellows of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement plan are 89.6% (2011: 71.2%) covered by the plan assets held by the trustees.

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

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Present value of wholly or partly funded obligations	**7,217**	8,097	**–**	1,369
Fair value of plan assets	**(6,467)**	(5,768)	**–**	–
	750	2,329	**–**	1,369
Net unrecognised actuarial losses	**(3,864)**	(4,948)	**–**	–
	(3,114)	(2,619)	**–**	1,369

A portion of the above asset is expected to be utilised after more than one year. However, it is not practicable to segregate this amount from the amounts recoverable 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$1,796,000 in contributions to the defined benefit retirement plan in 2013.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

28 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

(ii) Plan assets

As at 31 December 2012 and 2011, the Group's liability under this plan is covered by deposits placed with several banks. There is no plan asset invested in the Company's own financial instruments or any property occupied or other assets used by the Group.

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

	The Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**8,097**	7,710
Benefits paid	**(6,428)**	(3,878)
Current service cost	**1,634**	1,572
Interest cost	**348**	413
Liabilities transferred in	**584**	–
Actuarial losses	**2,344**	2,530
Exchange differences	**638**	(250)
At 31 December	**7,217**	8,097

(iv) Movements in plan assets

	The Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**5,768**	4,634
Group's contributions paid to the plan	**1,696**	2,100
Benefits paid	**(186)**	(934)
Actuarial expected return on plan assets	**186**	179
Assets transferred in	**433**	–
Actuarial gains/(losses)	**28**	(20)
Assets distributed on settlement	**(1,984)**	–
Exchange differences	**526**	(191)
At 31 December	**6,467**	5,768

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

28 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

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

	The Group	
	2012	2011
	HK$'000	HK$'000
Current service cost	**1,634**	1,572
Interest cost	**348**	413
Actuarial expected return on plan assets	**(186)**	(179)
Net actuarial losses recognised	**474**	230
Settlement gain	**(869)**	–
	1,401	2,036

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

	The Group	
	2012	2011
	HK$'000	HK$'000
Cost of sales	**922**	509
Administrative expenses	**479**	1,527
	1,401	2,036

The actual return on plan assets of the Group (taking into account all changes in the fair value of the plan assets excluding contributions paid and received) was net income of HK$214,000 (2011: HK$159,000).

(vi) The principal actuarial assumptions used as at 31 December 2012 (expressed as weighted averages) are as follows:

	2012	2011
Discount rate	**3.8%**	4.7%
Expected rate of return on plan assets	**N/A**	3.7%
Future salary increases	**5.0%**	5.0%

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Notes to the Consolidated Financial Statements

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28 EMPLOYEES RETIREMENT SCHEMES *(Continued)*

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

Historical information

	The Group				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Present value of the defined benefit obligations	**7,217**	8,097	7,710	9,442	13,397
Fair value of plan assets	**(6,467)**	(5,768)	(4,634)	(4,965)	(4,502)
Deficit in the plan	**750**	2,329	3,076	4,477	8,895
Experience adjustments arising on plan liabilities	**1,835**	2,065	(641)	1,574	989
Experience adjustments arising on plan assets	**(28)**	20	(24)	(82)	(221)

(b) Defined contribution retirement plan

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

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

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29 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

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

Exercisable period	Exercise price per share	Number of options 2012 '000	Number of options 2011 '000
Options granted to directors:			
23 December 2013 to 22 December 2016	HK$0.466	**550**	550
Options granted to employees:			
23 December 2013 to 22 December 2016	HK$0.466	**4,350**	4,350
		4,900	4,900

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(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

	2012		2011	
	Weighted average exercise price	**Number of options ’000**	Weighted average exercise price	Number of options ’000
Outstanding at the beginning of the period	**HK$0.466**	**4,900**	HK$1.84	6,260
Granted during the period	**–**	**–**	HK$0.466	4,900
Lapsed during the period	**HK$0.466**	**(100)**	–	–
Cancelled during the period	**–**	**–**	HK$1.84	(6,260)
Outstanding at the end of the period	**HK$0.466**	**4,800**	HK$0.466	4,900
Exercisable at the end of the period	**–**	**–**	–	–

The options outstanding at 31 December 2012 had an exercise price of HK$0.466 (2011: HK$0.466) and a weighted average remaining contractual life of 4 years (2011: 5 years).

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Fair value of share options and assumptions:

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	2011
Fair value of share options and assumptions	
Fair value at measurement date	**HK$0.206**
Share price	**HK$0.450**
Exercise price	**HK$0.466**
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**80%**
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**5 years**
Expected dividends	**4.0%**
Risk-free interest rate (based on Exchange Fund Notes)	**0.8%**

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on public available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

The total number of share options outstanding at the end of the year has a vesting period of 2 years and will be exercisable from 23 December 2013 to 22 December 2016. The fair value of the share options granted during the year ended 31 December 2011, valued as at the grant date was HK$1,009,000. Share options were granted under a service condition, taking into account the expected forfeiture due to employees' leaving service during the vesting period. The related total equity settled share-based payment expenses amounted to HK$915,000. Of these, HK$459,000 (2011: HK$10,000) was included in the consolidated income statement for the year ended 31 December 2012, and the remaining amount will be recognised over the remaining vesting period.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

30 INCOME TAX IN THE BALANCE SHEETS

(a) Current taxation in the balance sheets represents:

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Provision for Hong Kong Profits Tax for the year	**3,405**	2,795	**3,405**	2,795
Provisional Profits Tax paid	**–**	(7,208)	**–**	(7,208)
	3,405	(4,413)	**3,405**	(4,413)
(Tax recoverable)/balance of Profits Tax provision relating to prior years	**(3,995)**	418	**(4,413)**	–
Overseas tax payable	**12,565**	9,424	**–**	333
	11,975	5,429	**(1,008)**	(4,080)
Representing:				
Tax recoverable	**(1,016)**	(4,125)	**(1,008)**	(4,080)
Tax payable	**12,991**	9,554	**–**	–
	11,975	5,429	**(1,008)**	(4,080)

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Deferred tax assets and liabilities recognised:

(i) The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet 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 2011	(241)	(12,569)	893	(1,819)	111	(13,625)
Charged/(credited) to the consolidated income statement (note 9(a))	282	4,595	325	(1,034)	–	4,168
Credited to reserves (note 13)	–	–	–	–	(2)	(2)
Effect of change in tax rate	–	(1,778)	–	–	–	(1,778)
Exchange adjustments	(1)	(397)	(40)	72	–	(366)
At 31 December 2011	40	(10,149)	1,178	(2,781)	109	(11,603)
At 1 January 2012	40	(10,149)	1,178	(2,781)	109	(11,603)
Charged/(credited) to the consolidated income statement (note 9(a))	374	4,184	(83)	(183)	–	4,292
Credited to reserves (note 13)	–	–	–	–	(51)	(51)
Exchange adjustments	2	(29)	102	(144)	–	(69)
At 31 December 2012	416	(5,994)	1,197	(3,108)	58	(7,431)

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

(ii) The Company

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

	Depreciation allowances (less than)/ in excess of the related depreciation HK$'000
At 1 January 2011	(261)
Charged to the income statement	283
At 31 December 2011	22
At 1 January 2012	22
Charged to the income statement	372
At 31 December 2012	394

(iii) Reconciliation to the balance sheets:

	The Group		**The Company**	
	2012 **HK$'000**	2011 HK$'000	**2012** **HK$'000**	2011 HK$'000
Net deferred tax asset recognised in the balance sheets	**(7,825)**	(11,625)	**–**	–
Net deferred tax liability recognised in the balance sheets	**394**	22	**394**	22
	(7,431)	(11,603)	**394**	22

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$112,004,000 (2011: HK$90,648,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entity. Tax losses amounting to HK$9,754,000 (2011: HK$9,913,000) do not expire under current tax legislation, while the remaining tax losses amounting to HK$102,250,000 (2011: HK$80,735,000) expire at various dates up to and including 2017 (2011: 2016) as follows:

	2012 **HK$'000**	2011 HK$'000
2012	**–**	10,189
2013	**24,431**	18,684
2014	**7,863**	10,805
2015	**11,332**	21,249
2016	**17,712**	19,808
2017	**40,912**	–
	102,250	80,735
No expiry date	**9,754**	9,913
	112,004	90,648

(d) Deferred tax liabilities not recognised

At 31 December 2012, temporary differences relating to the undistributed profits of subsidiaries based in the PRC and The Republic of Korea amounted to HK$43,141,000 (2011: HK$43,090,000) and HK$175,646,000 (2011: HK$122,197,000) respectively. Deferred tax liabilities of HK$2,157,000 (2011: HK$2,155,000) and HK$35,129,000 (2011: HK$24,439,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

The Company

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2011	52,303	181,013	3,344	356,821	593,481
Changes in equity for 2011:					
Final dividends approved in respect of the previous year	–	–	–	(26,887)	(26,887)
Cancellation of share options	–	–	(3,344)	3,344	–
Equity settled share-based transactions	–	–	10	–	10
Total comprehensive income for the year	–	–	–	46,147	46,147
At 31 December 2011	52,303	181,013	10	379,425	612,751
At 1 January 2012	52,303	181,013	10	379,425	612,751
Changes in equity for 2012:					
Equity settled share-based transactions	–	–	459	–	459
Total comprehensive income for the year	–	–	–	140,460	140,460
At 31 December 2012	52,303	181,013	469	519,885	753,670

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividend

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

	2012 **HK$'000**	2011 HK$'000
Final dividend proposed after the balance sheet date of HK8 cents per ordinary share (2011: HKNil cents per ordinary share)	**53,773**	–

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

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

	2012 **HK$'000**	2011 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HKNil cents per ordinary share (2011: HK4 cents per ordinary share)	**–**	26,887

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital

	2012		2011	
	Number of shares ’000	**Amount HK$’000**	Number of shares ’000	Amount HK$’000
Authorised:				
Ordinary shares of US$0.01 each				
At 31 December	**5,000,000**	**390,000**	5,000,000	390,000
Ordinary shares, issued and fully paid:				
At 31 December	**672,165**	**52,303**	672,165	52,303

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

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

(ii) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to directors and employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 1(q)(iii).

(iii) General reserve fund

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

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

(iv) Other reserve

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

(v) Exchange reserve

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

(vi) Fair value reserve

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

(e) Distributability of reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of section 79B of the Hong Kong Companies Ordinance, was HK$519,885,000 (2011: HK$379,425,000). After the balance sheet date the directors proposed a final dividend of HK8 cents per ordinary share (2011: HKNil cents per ordinary share), amounting to HK$53,773,000 (2011: HK$Nil). This dividend has not been recognised as a liability at the balance sheet date.

(f) Capital management

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(f) Capital management *(Continued)*

The Group's strategy was to maintain a relatively low net debt-to-capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-capital ratio at 31 December 2012 and 2011 was as follows:

		The Group		**The Company**	
	Note	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Current liabilities					
Trade and other payables	26	**208,006**	201,343	**195,118**	173,316
Bank loans	27	**20,810**	17,900	**–**	–
		228,816	219,243	**195,118**	173,316
Less: Cash and cash equivalents	25(a)	**(281,550)**	(177,115)	**(44,887)**	(64,791)
Time deposits with more than three months to maturity when placed	25(a)	**(156,735)**	(38,000)	**(76,735)**	–
Non-current liabilities					
Bank loans	27	**1,812**	4,924	**–**	–
Total (cash)/debt		**(207,657)**	9,052	**73,496**	108,525
Add: Proposed dividends	31(b)	**53,773**	–	**53,773**	–
Net (cash)/debt		**(153,884)**	9,052	**127,269**	108,525
Total equity		**842,275**	707,013	**753,670**	612,751
Net debt-to-capital ratio		**N/A**	1%	**17%**	18%

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

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

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, the Group has a certain concentration of credit risk as 27% (2011: 23%) and 67% (2011: 87%) 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 24.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Liquidity risk

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

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

The Group

	2012 Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 years but less than 5 years HK$'000**	**Total HK$'000**	**Balance sheet carrying amount HK$'000**
Bank loans	**21,029**	**1,132**	**838**	**22,999**	**22,622**
Trade and other payables (excluding advances from customers)	**170,860**	**–**	**–**	**170,860**	**170,860**
	191,889	**1,132**	**838**	**193,859**	**193,482**

	2011 Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total HK$'000	Balance sheet carrying amount HK$'000
Bank loans	18,599	2,232	3,860	24,691	22,824
Trade and other payables (excluding advances from customers)	197,749	–	–	197,749	197,749
	216,348	2,232	3,860	222,440	220,573

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Liquidity risk *(Continued)*

The Company

	2012 Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total HK$'000	Balance sheet carrying amount HK$'000
Trade and other payables (excluding advances from customers)	**158,818**	**–**	**–**	**158,818**	**158,818**

	2011 Contractual undiscounted cash outflow				
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total HK$'000	Balance sheet carrying amount HK$'000
Trade and other payables (excluding advances from customers)	170,158	–	–	170,158	170,158

As shown in the above analysis, bank loans of the Group amounting to HK$21,029,000 (2011: HK$18,599,000) were due to be repaid during 2013. The short-term liquidity risk inherent in this contractual maturity has been addressed at the time the loans were drawn and are accounted for in the Group's cash flow forecasts.

(c) Interest rate risk

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Interest rate risk *(Continued)*

(i) Interest rate profile

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

The Group

	2012		2011	
	Effective interest rate %	**Amount HK$'000**	Effective interest rate %	Amount HK$'000
Fixed rate borrowings:				
Bank loans	**2.52**	**4,496**	7.57	7,090
Variable rate borrowings:				
Bank loans	**4.46**	**18,126**	5.06	15,734
Total borrowings		**22,622**		22,824
Fixed rate borrowings as a percentage of total net borrowings		**19.87%**		31.06%

(ii) Sensitivity analysis

At 31 December 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately HK$197,000 (2011: HK$219,000). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2011.

(d) Currency risk

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk *(Continued)*

(i) Exposure to currency risk

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

The Group

Exposure to foreign currencies (expressed in HKD)

	2012					2011			
	United States Dollars $'000	British Pound $'000	Renminbi Yuan $'000	Vietnamese Dong $'000	Japanese Yen $'000	United States Dollars $'000	Renminbi Yuan $'000	Vietnamese Dong $'000	Japanese Yen $'000
Trade and other receivables	206,368	84	10,614	68,526	10,834	176,427	1,102	30,200	10,120
Cash and cash equivalents	65,604	238	1,516	34,049	4,241	28,879	634	18,423	247
Trade and other payables	(164,080)	(71)	(4,950)	(30,794)	(4,529)	(101,425)	(23,680)	(43,689)	(3,353)
Bank loans	(4,457)	–	–	–	–	–	–	(6,628)	–
Net exposure arising from recognised assets and liabilities	103,435	251	7,180	71,781	10,546	103,881	(21,944)	(1,694)	7,014

The Company

Exposure to foreign currencies (expressed in HKD)

	2012		2011	
	Renminbi Yuan $'000	Japanese Yen $'000	Renminbi Yuan $'000	Japanese Yen $'000
Trade and other receivables	10,614	3,895	1,102	3,490
Cash and cash equivalents	1,414	2,852	634	36
Trade and other payables	(4,445)	(3,577)	(23,508)	(3,321)
Net exposure arising from recognised assets and liabilities	7,583	3,170	(21,772)	205

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

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

The Group

	2012		2011	
	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	**5%**	**300**	10%	(1,832)
	(5)%	**(300)**	(10)%	1,832
British Pound	**10%**	**19**	–	–
	(10)%	**(19)**	–	–
Vietnamese Dong	**10%**	**5,298**	10%	(567)
	(10)%	**(5,298)**	(10)%	567
Japanese Yen	**15%**	**1,238**	10%	555
	(15)%	**(1,238)**	(10)%	(555)

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

The Company

	2012		2011	
	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	**5%**	**317**	10%	(1,818)
	(5)%	**(317)**	(10)%	1,818
Japanese Yen	**15%**	**398**	10%	17
	(15)%	**(398)**	(10)%	(17)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2011.

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(e) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

2012

	The Group		
	Level 1 HK$'000	**Level 2 HK$'000**	**Total HK$'000**
Assets			
Available-for-sale debt securities: – Unlisted	6,856	–	6,856
Equity-linked securities	–	18,143	18,143
	6,856	18,143	24,999

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(e) Fair values *(Continued)*

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

2011

	The Group		
	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
Assets			
Available-for-sale debt securities:			
– Unlisted	6,516	–	6,516
Equity-linked securities	–	13,297	13,297
	6,516	13,297	19,813

During the years ended 31 December 2012 and 2011, there were no significant transfers between instruments in Level 1 and Level 2.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2011.

(f) Estimation of fair values

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

(i) Securities

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

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

(f) Estimation of fair values *(Continued)*

(ii) Derivatives

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

33 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	2012 **HK$'000**	2011 HK$'000
Contracted for	**1,660**	14,510
Authorised but not contracted for	**4,688**	12,030
	6,348	26,540

(b) At 31 December 2012, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:

	2012 **HK$'000**	2011 HK$'000
Within 1 year	**12,183**	11,235
After 1 year but within 5 years	**5,385**	2,747
After 5 years	**2,033**	2,091
	19,601	16,073

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.

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34 CONTINGENT LIABILITIES

In March 2012, a customer (the "Customer") initiated a claim against the Company and two subsidiaries of the Company including one subsidiary in the PRC (the "PRC Subsidiary") and requested compensation in respect of products manufactured by the PRC Subsidiary and sold to the Customer mostly during the year ended 31 December 2010 (the "Claim"). The subsidiaries filed and served their defence and counterclaim on 30 January 2013, denying liability to the Customer and counterclaiming against the Customer for US$78,000 (equivalent to HK$605,000), being the sum of various outstanding invoices and debit notes rendered to the Customer in 2010 and 2011, plus interest and costs.

On 20 February 2013, the Company applied to strike out the Claim against it (but not against the subsidiaries) on the basis that the Claim discloses no reasonable cause of action against the Company. The Customer has agreed to discontinue its Claim against the Company and pay the Company's costs incurred in the action and the Customer and the Company are in the process of applying jointly to the Court for leave for the Claim against the Company to be discontinued.

The Customer is expected to file and serve its reply and defence to counterclaim of the subsidiaries by 15 April 2013.

Having considered the Claim in conjunction with the Company's legal counsel, the board of directors believes that the subsidiaries have reasonable grounds to contest the Claim based on the information and evidence presently available. Therefore, no provision has been recorded in respect of the Claim as at 31 December 2012 and 31 December 2011.

35 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Key management personnel remuneration

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

	2012 **HK$'000**	2011 HK$'000
Short-term employee benefits	**13,527**	11,105
Share-based payments	**114**	–
	13,641	11,105

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

(b) Sales of goods to

	2012 **HK$'000**	2011 HK$'000
Related companies (notes (i) and (ii))	**1,048**	–
A fellow subsidiary (notes (i) and (ii))	**139**	717
	1,187	717

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(Expressed in Hong Kong dollars unless otherwise indicated)

35 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

		2012 HK$'000	2011 HK$'000
(c)	**Purchase of goods from**		
	A fellow subsidiary (notes (i) and (iii))	**15**	171
	An associate	**13,126**	11,193
		13,141	11,364
(d)	**Purchase of materials from**		
	A related company (notes (i) and (iii))	**20**	–
	A fellow subsidiary (notes (i) and (iii))	**6**	–
	An associate	**81**	23
		107	23
(e)	**Commission received/receivable from**		
	A related company (notes (i) and (ii))	**873**	–
	A fellow subsidiary (notes (i) and (ii))	**2,787**	3,115
		3,660	3,115
(f)	**Sharing of administrative services from**		
	A related company (notes (i) and (iii))	**7,042**	–
	Ultimate holding company (notes (i) and (iii))	**2,967**	9,392
		10,009	9,392
(g)	**Rental paid/payable to**		
	A related company (notes (i) and (ii))	**1,538**	–
	Ultimate holding company (notes (i) and (ii))	**1,460**	2,896
		2,998	2,896
(h)	**Processing fees paid/payable to**		
	An associate	**2,047**	3,830

Notes:

(i) These are transactions with C & H Co., Ltd and its subsidiaries ("C & H Korea Group"). A director of the Company is the controlling shareholder of both the C & H Korea Group and the Group. C & H Co., Ltd ceased to be the ultimate holding company on 27 July 2012. At 31 December 2012, the directors consider the Group is controlled by Mr Kyoo Yoon Choi, with his principal place of business at 6th Floor, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

(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" in the report of the directors.

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

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

Notes to the Consolidated Financial Statements

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36 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 28, 29 and 32 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations, fair value of share options granted and financial instruments respectively. Other key areas of estimation uncertainty are as follows:

(a) Impairment of fixed assets

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

(b) Impairment of intangible assets

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

(c) Impairment of receivables

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

(d) Write down of inventories

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

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

36 ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(e) Taxation, indirect taxes and duties

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

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012 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 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements (2011)*	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
Annual Improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

Notes to the Consolidated Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012 *(Continued)*

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

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

The amendments to HKAS 1 require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income will be modified accordingly when the amendments are adopted for the first time.

HKFRS 10, Consolidated financial statements

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

The application of HKFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013. However, it may in the future result in investees being consolidated which would not have been consolidated under the Group's existing policies or vice versa.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required in HKFRS 12 are generally more extensive than those required in the current standards. The Group may have to make additional disclosures about its interests in other entities when the standard is adopted for the first time in 2013.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. HKFRS 13 is effective as from 1 January 2013, but retrospective adoption is not required.

Notes to the Consolidated Financial Statements

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37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012 *(Continued)*

Revised HKAS 19, Employee benefits

Revised HKAS 19 introduces a number of amendments to the accounting for employee benefits. Among them, revised HKAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. This will change the Group's accounting for defined benefit plans under which the corridor method is currently applied. The revised HKAS 19 is effective as from 1 January 2013, and retrospective adoption is required. The expected financial effect on Group's consolidated balance sheet as at 1 January 2012, 31 December 2012 and its income statement for the year ended 31 December 2012, to be included as restated comparative amounts in the Group's 2013 annual financial statements, is as follows:

	Estimated impact on the balance sheet as at 1 January 2012			Estimated impact on the balance sheet as at 31 December 2012		
	As currently reported as at 1 January 2012	Expected retrospective effect of change in accounting policy in 2013	As expected to be restated in 2013	As currently reported as at 31 December 2012	Expected retrospective effect of change in accounting policy in 2013	As expected to be restated in 2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	236,529	(2,619)	233,910	240,245	(3,114)	237,131
Current assets	704,227	–	704,227	846,043	–	846,043
Current liabilities	(228,797)	–	(228,797)	(241,807)	–	(241,807)
Non-current liabilities	(4,946)	(2,329)	(7,275)	(2,206)	(750)	(2,956)
Net assets	707,013	(4,948)	702,065	842,275	(3,864)	838,411

	Estimated impact on the results for the year ended 31 December 2012		
	As currently reported for the year ended 31 December 2012	Expected retrospective effect of change in accounting policy in 2013	As expected to be restated in 2013
	HK$'000	HK$'000	HK$'000
Turnover	1,353,340	–	1,353,340
Gross profit	346,064	–	346,064
Profit before taxation	151,645	3,810	155,455
Profit for the year	121,953	3,810	125,763
Total comprehensive income	134,803	1,084	135,887

Five Year Financial Summary

	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012 HK$'000**
Results					
Turnover	1,048,589	994,052	1,544,857	1,083,152	**1,353,340**
(Loss)/profit from operations	(35,495)	89,111	214,986	87,856	**155,448**
Finance costs	(6,888)	(2,690)	(873)	(1,179)	**(3,139)**
Share of (loss)/profit of associates	(509)	(318)	(196)	143	**(664)**
(Loss)/profit before taxation	(42,892)	86,103	213,917	86,820	**151,645**
Income tax expense	(13,427)	(7,865)	(10,958)	(15,999)	**(29,692)**
(Loss)/profit for the year	(56,319)	78,238	202,959	70,821	**121,953**
Attributable to:					
– Equity shareholders of the Company	(41,929)	74,619	199,597	74,723	**129,191**
– Non-controlling interests	(14,390)	3,619	3,362	(3,902)	**(7,238)**
(Loss)/profit for the year	(56,319)	78,238	202,959	70,821	**121,953**
(Loss)/earnings per share					
Basic	HK (6.27)¢	HK11.16¢	HK29.83¢	HK11.12¢	**HK19.22¢**
Diluted	HK (6.27)¢	HK11.16¢	HK29.83¢	HK11.12¢	**HK19.22¢**

	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012 HK$'000**
Assets and liabilities					
Fixed assets	193,329	148,339	183,860	181,570	**191,642**
Long term receivables	–	–	7,231	2,796	**930**
Prepayment	–	9,184	1,992	1,990	**–**
Other intangible assets	12,516	14,028	16,690	12,191	**9,029**
Interest in associates	950	638	522	690	**27**
Net defined benefit retirement asset	–	–	–	2,619	**3,114**
Deferred tax assets	503	2,299	13,625	11,625	**7,825**
Goodwill	–	–	–	–	**2,753**
Other financial assets	–	6,142	10,162	23,048	**24,925**
Net current assets	178,377	296,407	431,529	475,430	**604,236**
Total assets less current liabilities	385,675	477,037	665,611	711,959	**844,481**
Deferred tax liabilities	–	–	–	(22)	**(394)**
Other non-current liabilities	(6,978)	(1,046)	(6,369)	(4,924)	**(1,812)**
NET ASSETS	378,697	475,991	659,242	707,013	**842,275**