



ream

International
Limited

DREAM INTERNATIONAL LIMITED

德林國際有限公司

Incorporated in Hong Kong with limited liability

Stock Code: 1126

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MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

The first half of 2011 has been a challenging start for the Group. Turmoil surrounding the world economy combined with the earthquake in Japan, a major toy market, impacted on the toy industry. Dream International Limited (the “Company”) and its subsidiaries (collectively the “Group”) inevitably encountered a setback during the period under review.

For the six months ended 30 June 2011, the Group’s turnover amounted to HK\$460.9 million, representing a decrease of 28.6% compared with the same period last year (2010: HK\$645.5 million). The decline was primarily due to weakened market demand in Japan, the Group’s largest market, following the earthquake in March 2011. Another key factor was that an order from a Brazilian customer was booked during the last corresponding period, while a further order from the same customer was delayed during the reporting period.

Gross profit reached HK\$117.6 million (2010: HK\$206.4 million), with gross margin at 25.5% (2010: 32.0%). Decrease in gross margin was mainly due to the different categorization of expenses of licensing orders and orders from the Brazilian customer from general orders, as well as decline in sales from the steel and plastic toy business which dragged down the gross margin of the segment. The Group recorded an operating profit of HK\$29.2 million (2010: HK\$87.0 million), while net profit amounted to HK\$25.5 million (2010: HK\$76.1 million), with net margin at 5.5% (2010: 11.8%).

Despite the adverse conditions experienced in the first half year, the Group remained financially sound with cash and bank deposits of HK\$189.3 million (31 December 2010: HK\$277.5 million) as at 30 June 2011.

Business Review

Product Analysis

Plush stuffed toy segment

During the period, the plush stuffed toys business recorded turnover of HK\$418.0 million, accounting for 90.7% of the Group's total turnover. Original Equipment Manufacturing ("OEM") remained the core business of the Group, representing 89.2% of plush stuffed toys' sales. For the OEM business, the Group continued its strategy of nurturing closer cooperation with existing customers, which are famous character owners and licensors. During the period, sales to Japanese customers dropped as a result of the earthquake though orders are expected to pick up gradually later this year. The Group is phasing out its licensing business in view of strong demand from the OEM business, as well as to improve profitability. Still, the Group was able to retain certain clients of the licensing business and will work with them on an OEM basis.

Original Design Manufacturing ("ODM") business accounted for 10.8% of plush stuffed toys' sales. The Group received a second order from a globally renowned Brazilian consumer brand to manufacture premium gifts for its promotion campaign; however, the Group was instructed by the client to delay shipment during the period. The Group has actively sought to finalize details with the client regarding the order, such as shipment date and order size.

Steel and plastic toy segment

The steel and plastic toy segment recorded sales of HK\$42.9 million, accounting for 9.3% of the Group's total turnover. The lower sales contribution was indicative of unfavourable market sentiment in Japan and North America that led to a year-on-year segmental sales decline of 39.6%. In response to the slump, the Group improved the design and functionality of a new concept scooter that is now in the process of reaching the prototype stage. The scooter will subsequently be sent to several customers to test market response, and is expected to be launched by early next year in the US.



With regards to the China market, “Great” and “Far Great” branded products performed steadily during the first half year. The Group achieved a breakthrough in terms of penetrating the domestic market. An existing Japanese client started a new tricycle product line to tap the high-end China market and the Group was responsible for their manufacturing activities. Sales volume of such products grew steadily during the period.

The Group introduced ride-on products for the Tom and Jerry characters, targeting the China domestic market, which helped to diversify the Group’s licensing business and revenue streams.

Market Analysis

For the six months ended 30 June 2011, Japan remained the largest market for the Group despite the earthquake in March, accounting for approximately 40.1% of total turnover. North America-traditionally a major toy market-was second, contributing 35.9% of the Group’s total turnover. The European market accounted for approximately 21.3% of total turnover, while China took up 2.0%.

Operational Analysis

As at 30 June 2011, the Group operated seven plants in total, of which four were in China and three in Vietnam, running at an average utilization rate of about 70.0%. As the first half year is traditionally the low season for manufacturing, production is expected to pick up in the remaining six months. In response to lower sales as a result of the delayed shipment to a Brazilian customer compounded by the earthquake in Japan, less production was outsourced during the period.

Prospects

The financial uncertainties hovering over the US and Europe have weakened consumer sentiment in the respective regions, while the natural disaster that struck Japan also dampened demand-all of which are major toy markets. In addition, rising material and labor costs in China combined with gradual appreciation of the Renminbi have presented challenges for most toy manufacturers in the country. Despite such concerns, the Group still sees some factors that are favorable for its development in the near future.

As the market consolidates as a result of the difficult operating environment, a substantial number of toy manufacturers have left the industry over the past few years. Reduction in available capacity has been occurring at a much faster pace than the decrease in order volume from major toy markets. In addition, the Japan market is expected to recover gradually during this year, which will create opportunities for large-scale toy manufacturers such as Dream International Limited. To cope with changing market conditions, as well as enhance profitability, the Group will continue to employ a dual production strategy, using self-owned production plants in China and Vietnam for a majority of orders while employing subcontractors when flexibility is called for.

Seeking sustainable business growth, the Group further diversified its product mix by setting up a new product category to produce plastic figures. The new plastic figures business will serve as one of the Group's latest initiatives to boost revenue in coming years. Thus far, product testing has been started, while the manufacturing site has been identified and will be located in Hanoi, Vietnam. Construction of manufacturing facilities, with an initial capacity to generate annual turnover of US\$20 million, will be completed by this year end. Total investment cost will amount to around US\$6 million.

With aggressive growth strategies, a healthy financial position and strong competitive advantages in the industry, the Group remains cautiously optimistic about the second half year. The management will closely monitor the market and will seize opportunities as they emerge so as to maximize returns for shareholders.

Number and Remuneration of Employees

At 30 June 2011, the Group had 8,552 employees (31 December 2010: 10,278) in Hong Kong, Mainland China, South Korea, US, Japan and Vietnam. The Group values its human resources and recognises the importance of attracting and retaining quality staff for its continuing success. Staff bonuses and share options are awarded based on individual performance.



Liquidity and Financial Resources and Gearing

The Group continued to maintain a reasonable liquidity position. As at 30 June 2011, the Group had net current assets of HK\$426.4 million (31 December 2010: HK\$431.5 million). The Group's total cash and cash equivalents as at 30 June 2011 amounted to HK\$164.4 million (31 December 2010: HK\$261.5 million). The total borrowings of the Group as at 30 June 2011 amounted to HK\$13.3 million (31 December 2010: HK\$14.0 million).

The Group's gearing ratio, calculated on the basis of total bank borrowings over the total shareholders' equity, was 2.0% at 30 June 2011 which was similar to 2.1% at 31 December 2010.

The Group has decided to add a new product line in plastic action figure business for future growth. Around US\$6 million of capital expenditure is expected for the establishment of a new factory in Hanoi, Vietnam in 2011 and it will be wholly financed by internal resource.

Pledge on Group Assets

Bank borrowings are secured on the Group's buildings, plant and machinery and land use rights with a net book value as at 30 June 2011 of HK\$38.1 million (31 December 2010: HK\$38.1 million).



REVIEW REPORT TO THE BOARD OF DIRECTORS OF DREAM INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 9 to 30, which comprises the consolidated balance sheet of Dream International Limited (the “company”) as of 30 June 2011 and the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



REVIEW REPORT TO THE BOARD OF DIRECTORS OF DREAM INTERNATIONAL LIMITED *(Continued)*

(Incorporated in Hong Kong with limited liability)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2011 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 August 2011

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2011 — unaudited

	Note	Six months ended 30 June	
		2011 HK\$'000	2010 HK\$'000
Turnover	3 & 4	460,934	645,530
Cost of sales	10	(343,363)	(439,128)
Gross profit		117,571	206,402
Other revenue		5,981	4,355
Other net gain		1,763	2,648
Distribution costs		(25,032)	(58,696)
Administrative expenses		(71,110)	(67,692)
Profit from operations		29,173	87,017
Finance costs	5(a)	(496)	(491)
Share of losses of associates		(268)	(194)
Profit before taxation	5	28,409	86,332
Income tax	6	(2,933)	(10,251)
Profit for the period		25,476	76,081
Attributable to:			
Equity shareholders of the company		25,985	75,717
Non-controlling interests		(509)	364
Profit for the period		25,476	76,081
Earnings per share	7		
Basic and diluted		3.9 cents	11.3 cents

The notes on pages 16 to 30 form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in note 14.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2011 — unaudited

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Profit for the period	25,476	76,081
Other comprehensive income for the period (after tax and reclassification adjustments):		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	10,033	(1,234)
Available-for-sale securities: net movement in fair value reserve	(10)	186
	10,023	(1,048)
Total comprehensive income for the period	35,499	75,033
Attributable to:		
Equity shareholders of the company	35,642	74,573
Non-controlling interests	(143)	460
Total comprehensive income for the period	35,499	75,033

The notes on pages 16 to 30 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

at 30 June 2011 — unaudited

	Note	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Non-current assets			
Fixed assets	9		
— Interests in leasehold land held for own use under operating leases		18,184	20,022
— Other property, plant and equipment		160,028	163,838
		178,212	183,860
Long term receivables		6,459	7,231
Prepayments		1,994	1,992
Intangible assets		16,020	16,690
Interests in associates		262	522
Other financial assets	8	32,334	10,162
Deferred tax assets		12,499	13,625
		247,780	234,082
Current assets			
Inventories	10	233,764	197,813
Trade and other receivables	11	191,176	224,085
Current tax recoverable		125	—
Other financial assets	8	7,105	19,030
Bank deposits	12	24,930	16,006
Cash and cash equivalents	12	164,351	261,534
Assets held for sale		—	2,722
		621,451	721,190
Current liabilities			
Trade and other payables	13	181,171	264,738
Bank loans		7,254	7,904
Current tax payable		6,653	17,019
		195,078	289,661
Net current assets		426,373	431,529
Total assets less current liabilities		674,153	665,611

CONSOLIDATED BALANCE SHEET (Continued)

at 30 June 2011 — unaudited

Note	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Non-current liabilities		
Bank loans	6,031	6,101
Net defined benefit retirement obligation	268	268
	6,299	6,369
NET ASSETS		
	667,854	659,242
CAPITAL AND RESERVES		
Share capital	52,303	52,303
Reserves	600,585	591,830
Total equity attributable to equity shareholders of the company		
	652,888	644,133
Non-controlling interests	14,966	15,109
TOTAL EQUITY		
	667,854	659,242

The notes on pages 16 to 30 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2011 — unaudited

Note	Attributable to equity shareholders of the company								Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	General reserve			Retained profits	Total		
				fund	Exchange reserve	Fair value reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2010	52,019	176,893	626	19,102	34,049	85	181,902	464,676	11,315	475,991
Changes in equity for the six months ended 30 June 2010:										
Profit for the period	—	—	—	—	—	—	75,717	75,717	364	76,081
Other comprehensive income	—	—	—	—	(1,330)	186	—	(1,144)	96	(1,048)
Total comprehensive income for the period	—	—	—	—	(1,330)	186	75,717	74,573	460	75,033
Dividend approved in respect of the previous year ^{14(b)}	—	—	—	—	—	—	(20,056)	(20,056)	—	(20,056)
Disposal of interest in a subsidiary	—	—	—	(675)	(1,579)	—	2,254	—	—	—
Balance at 30 June 2010 and 1 July 2010	52,019	176,893	626	18,427	31,140	271	239,817	519,193	11,775	530,968
Changes in equity for the six months ended 31 December 2010:										
Profit for the period	—	—	—	—	—	—	123,880	123,880	2,998	126,878
Other comprehensive income	—	—	—	—	9,899	128	—	10,027	336	10,363
Total comprehensive income for the period	—	—	—	—	9,899	128	123,880	133,907	3,334	137,241
Dividend declared in respect of the current year ^{14(a)}	—	—	—	—	—	—	(13,371)	(13,371)	—	(13,371)
Shares issued under share option scheme	284	4,120	—	—	—	—	—	4,404	—	4,404
Lapse of share options	—	—	(344)	—	—	—	344	—	—	—
Deregistration of a subsidiary	—	—	—	—	460	—	(460)	—	—	—
Balance at 31 December 2010	52,303	181,013	282	18,427	41,499	399	350,210	644,133	15,109	659,242

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

for the six months ended 30 June 2011 — unaudited

Note	Attributable to equity shareholders of the company							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	General reserve fund	Exchange reserve	Fair value reserve	Retained profits			
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Balance at 1 January 2011	52,303	181,013	282	18,427	41,499	399	350,210	644,133	15,109	659,242
Changes in equity for the six months ended 30 June 2011:										
Profit for the period	—	—	—	—	—	—	25,985	25,985	(509)	25,476
Other comprehensive income	—	—	—	—	9,667	(10)	—	9,657	366	10,023
Total comprehensive income for the period	—	—	—	—	9,667	(10)	25,985	35,642	(143)	35,499
Dividend approved in respect of the previous year	14(b)	—	—	—	—	—	(26,887)	(26,887)	—	(26,887)
Balance at 30 June 2011	52,303	181,013	282	18,427	51,166	389	349,308	652,888	14,966	667,854

The notes on pages 16 to 30 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2011 — unaudited

		Six months ended 30 June	
	Note	2011 HK\$'000	2010 HK\$'000
Cash used in operations		(45,074)	(22,221)
Tax paid		(12,815)	(4,812)
Net cash used in operating activities		(57,889)	(27,033)
Net cash used in investing activities		(14,673)	(68,152)
Net cash used in financing activities		(28,129)	(46,974)
Net decrease in cash and cash equivalents		(100,691)	(142,159)
Cash and cash equivalents at 1 January	12	261,534	287,761
Effect of foreign exchange rate changes		3,508	88
Cash and cash equivalents at 30 June	12	164,351	145,690

The notes on pages 16 to 30 form part of this interim financial report.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 26 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the company and its subsidiaries (the “group”) since the 2010 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the board of directors is included on pages 7 and 8.

The financial information relating to the financial year ended 31 December 2010 that is included in the interim financial report as being previously reported information does not constitute the company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2010 are available from the company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 March 2011.

2 Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the group and the company. Of these, the following developments are relevant to the group's financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)
- Amendments to HK(IFRIC) 14, HKAS 19 — *The limit on a defined benefit asset, minimum funding requirements and their interaction — Prepayments of a minimum funding requirement*

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

The amendments to HK(IFRIC) 14 have had no material impact on the group's financial statements as they were consistent with policies already adopted by the group.

The remaining developments related primarily to clarification of certain disclosure requirements applicable to the group's financial statements. These developments have had no material impact on the contents of this interim financial report.

3 Segment reporting

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

- Plush stuffed toys: this segment is involved in the design, development, manufacture and sale of plush stuffed toys. These products are either sourced externally or are manufactured in the group's manufacturing facilities located primarily in the People's Republic of China (the "PRC") and Vietnam and sold to customers mainly located in Japan and North America.
- Steel and plastic toys: this segment is involved in the design, development, manufacture and sale of steel and plastic toys. These products are manufactured in the PRC and sold to customers mainly located in the PRC and Japan.



3 Segment reporting (*Continued*)

(a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

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

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

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

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

3 Segment reporting (Continued)

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

Information regarding the group's reportable segments as provided to the group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

For the six months ended 30 June	Plush stuffed toys		Steel and plastic toys		Total	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Revenue from external customers	418,046	574,469	42,888	71,061	460,934	645,530
Inter-segment revenue	349	—	—	—	349	—
Reportable segment revenue	418,395	574,469	42,888	71,061	461,283	645,530
Reportable segment profit (adjusted EBITDA)	45,298	95,724	1,462	5,384	46,760	101,108
Reportable segment assets	538,872	538,258	109,691	108,216	648,563	646,474
Additions to non-current segment assets during the period	8,456	69,717	3,286	1,173	11,742	70,890
Reportable segment liabilities	151,570	228,144	66,827	65,633	218,397	293,777

(b) Reconciliations of reportable segment revenue, profit, assets and liabilities

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Revenue		
Reportable segment revenue	461,283	645,530
Elimination of inter-segment revenue	(349)	—
Consolidated turnover	460,934	645,530

3 Segment reporting (Continued)

(b) Reconciliations of reportable segment revenue, profit, assets and liabilities (Continued)

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Profit		
Reportable segment profit	46,760	101,108
Share of losses of associates	(268)	(194)
Interest income	1,793	991
Depreciation and amortisation	(12,321)	(11,352)
Finance costs	(496)	(491)
Unallocated head office and corporate expenses	(7,059)	(3,730)
Consolidated profit before taxation	28,409	86,332
	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Assets		
Reportable segment assets	648,563	646,474
Elimination of inter-segment receivables	(36,958)	(28,771)
Club memberships	16,020	16,690
Interests in associates	262	522
Other financial assets	39,439	29,192
Deferred tax assets	12,499	13,625
Current tax recoverable	125	—
Unallocated head office and corporate assets	189,281	277,540
Consolidated total assets	869,231	955,272

3 Segment reporting (Continued)

(b) Reconciliations of reportable segment revenue, profit, assets and liabilities (Continued)

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Liabilities		
Reportable segment liabilities	218,397	293,777
Elimination of inter-segment payables	(36,958)	(28,771)
	181,439	265,006
Current tax payable	6,653	17,019
Unallocated head office and corporate liabilities	13,285	14,005
Consolidated total liabilities	201,377	296,030

4 Seasonality of operations

The group's plush stuffed toys and steel and plastic toys divisions, on average experience higher sales in the second half year, compared to the first half year, due to the increased demand of its products during the holiday season. As such, the first half year reports lower revenues and segment results for these segments than the second half.

5 Profit before taxation

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

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
(a) Finance costs:		
Interest expense on bank borrowings wholly repayable within five years	496	491
(b) Other items:		
Amortisation:		
— land lease premium	205	228
— intangible assets	—	338
Depreciation	12,116	10,786
Operating lease charges: minimum lease payments in respect of property rentals	11,139	10,217
Inventories write-down and losses	2,748	2,034
Reversal of write-down of inventories	(747)	(6,551)
Bank interest income	(1,284)	(645)
Interest income from other financial assets	(509)	(346)
Net unrealised loss/(gain) on financial assets designated as fair value through profit or loss	77	(709)

6 Income tax

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Current tax — Hong Kong Profits tax	1,136	2,699
Current tax — Outside Hong Kong	1,188	5,908
Deferred taxation	609	1,644
	2,933	10,251

The provision for Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the period. Taxation for subsidiaries outside Hong Kong is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

7 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\$25,985,000 (six months ended 30 June 2010: HK\$75,717,000) and the weighted average number of ordinary shares of 672,165,000 shares (six months ended 30 June 2010: 668,529,000 shares).

(b) Diluted earnings per share

The company did not have dilutive potential ordinary shares outstanding during the six months ended 30 June 2011 and 2010. Accordingly, the diluted earnings per share is the same as the basic earnings per share for the periods presented.

8 Other financial assets

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Non-current		
Equity-linked securities (<i>notes (i) & (vii)</i>)	10,698	3,442
Available-for-sale debt securities – unlisted (<i>note (ii)</i>)	7,036	6,720
Available-for-sale equity securities – unlisted (<i>note (iii)</i>)	14,600	—
	32,334	10,162
Current		
Equity-linked securities (<i>notes (iv) & (vii)</i>)	3,647	—
Equity-linked deposits (<i>notes (v) & (vii)</i>)	—	15,645
Held-to-maturity debt securities – unlisted (<i>note (vi)</i>)	3,458	3,385
	7,105	19,030
	39,439	29,192

Notes:

- (i) Equity-linked securities as at 30 June 2011 represent two structured funds placed with investment banks in Korea, amounting to HK\$3,399,000 and HK\$7,299,000, with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200 and maturity date of 8 February 2014 and 10 August 2012, respectively.

Equity-linked securities as at 31 December 2010 represented 18 months 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 25 May 2012.

- (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.

8 Other financial assets (Continued)

Notes: (Continued)

- (iii) Available-for-sale equity securities — unlisted represents an investment in a Korean private company.
- (iv) Equity-linked securities represent 18 months 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 25 May 2012.
- (v) Equity-linked deposits represented 12 months deposits placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date of 10 February 2011.
- (vi) Held-to-maturity debt securities — unlisted represents an investment in commercial paper with a maturity date of 12 January 2012 and interest-bearing at 6.50% per annum.
- (vii) These financial assets are designated as fair value through profit or loss.
- (viii) None of the above other financial assets are past due or impaired.

9 Fixed assets

During the six months ended 30 June 2011, the group acquired items of fixed assets with a cost of HK\$11,742,000 (six months ended 30 June 2010: HK\$42,514,000). Items of fixed assets with a net book value of HK\$6,820,000 were disposed of during the six months ended 30 June 2011 (six months ended 30 June 2010: HK\$544,000), resulting in a gain on disposal of HK\$7,008,000 (six months ended 30 June 2010: HK\$287,000).

On 15 April 2011, a PRC subsidiary of the company disposed of a warehouse together with the associated land use right (the "Land and Warehouse") at Suzhou, the PRC at a consideration of RMB10,933,000 (equivalent to HK\$13,010,000). After the disposal, the subsidiary is entitled to occupy the Land and Warehouse from 1 May 2011 to 31 December 2012 without additional consideration. The transaction is considered as a sales and operating leaseback arrangement and recorded a gain on disposal of RMB5,865,000 (equivalent to HK\$6,980,000) for the period ended 30 June 2011.

In addition, during the period ended 30 June 2010, the group disposed of fixed assets with a net book value of HK\$9,763,000 through the disposal of interest in a subsidiary.

10 Inventories

During the six months ended 30 June 2011, an amount of HK\$747,000 (six months ended 30 June 2010: HK\$6,551,000) has been recognised as a reversal of write-down of inventories. The reversal arose due to an increase in the estimated net realisable value as a result of the sales of aged inventories to customers.



11 Trade and other receivables

Included in trade and other receivables are debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis:

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Current	81,711	141,481
Less than 1 month past due	34,749	7,136
1 to 3 months past due	1,886	7,455
More than 3 months but less than 12 months past due	1,210	1,158
More than 12 months past due	92	87
Trade debtors and bills receivable, net of allowance for doubtful debts	119,648	157,317
Other receivables and prepayments	65,965	60,389
Amount due from ultimate holding company	5,516	5,246
Amount due from a fellow subsidiary	47	1,133
	191,176	224,085

The group generally grants a credit period of 30 days to 60 days to its customers. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted.

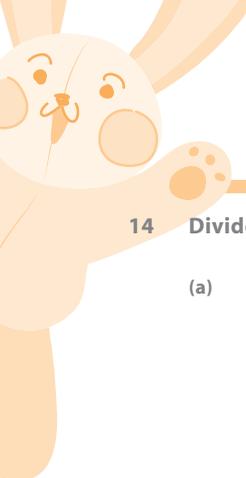
12 Cash and cash equivalents

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Bank deposits within three months to maturity when placed	78,526	31,549
Cash at bank and in hand	85,825	229,985
Cash and cash equivalents in the consolidated balance sheet and condensed consolidated cash flow statement	164,351	261,534
Bank deposits with more than three months to maturity when placed	24,930	16,006
	189,281	277,540

13 Trade and other payables

Included in trade and other payables are trade creditors with the following ageing analysis:

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Due within 1 month or on demand	30,303	58,004
Due after 1 month but within 3 months	21,124	49,715
Due after 3 months but within 6 months	5	—
Due after 6 months but within 1 year	32	83
Due after 1 year	—	22
Total creditors	51,464	107,824
Accrued charges and other payables	108,090	135,074
Loan from non-controlling interests	15,564	15,550
Amount due to ultimate holding company	891	805
Amounts due to fellow subsidiaries	4,318	3,406
Amount due to an associate	844	2,079
	181,171	264,738



14 Dividends

(a) Dividends payable to equity shareholders attributable to the interim period

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Interim dividend declared and paid after the interim period of HK nil cents per ordinary share (2010: HK2 cents per ordinary share)	—	13,371

(b) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK4 cents per ordinary share (six months ended 30 June 2010: HK3 cents per ordinary share)	26,887	20,056

15 Capital commitments outstanding not provided for in the interim financial report

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Contracted for	1,659	796

16 Contingent liabilities

In March 2011, a customer (the "Customer") initiated a claim against a subsidiary (the "Subsidiary") in respect of products manufactured by the Subsidiary and sold to the Customer during the year ended 31 December 2010 (the "Claim"). As at 30 June 2011, the Customer did not brought the Claim to court but requested compensation totalling US\$4,855,000 (equivalent to HK\$37,781,000) from the Subsidiary. Having considered the Claim in conjunction with the company's legal counsel, the board of directors believes that the Subsidiary is unlikely liable to the Claim. Accordingly, no provision in respect of the Claim has been recorded as at 30 June 2011.



17 Material related party transactions

During the six months ended 30 June 2011, the group entered into the following transactions with its related parties:

		Six months ended 30 June	
		2011 HK\$'000	2010 HK\$'000
(a)	Key management personnel remuneration		
	Salaries and other short-term benefits	5,572	2,672
(b)	Sales of goods to		
	Fellow subsidiaries	209	1,873
(c)	Purchase of goods from		
	An associate	7,090	5,903
(d)	Purchase of raw materials from		
	An associate	8	371
(e)	Commission received/receivable from		
	A fellow subsidiary	1,592	2,161
(f)	Sharing of administrative services charged by		
	Ultimate holding company	5,947	3,014
(g)	Rentals paid/payable to		
	Ultimate holding company	1,485	1,295
(h)	Processing fee paid/payable to		
	An associate	2,951	4,122

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2011 (30 June 2010: HK2 cents per ordinary share).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2011, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the company under Section 352 of Part XV of the SFO or otherwise notified to the company and The Stock Exchange of Hong Kong Limited ("SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH
THE LISTING RULES *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND
SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND
DEBENTURES OF THE COMPANY OR ANY ASSOCIATED
CORPORATION *(Continued)*

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

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

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

(i) Long position in ordinary shares of US\$0.01 each *(Continued)*

Notes:

1. The shares are registered under the names of the directors and chief executives of the company who are the beneficial owners.
2. Kyoo Yoon Choi in his own name holds approximately 37.47% of the issued share capital of C & H Co., Ltd, and together with his wife, Woul Hee Cha, hold approximately 61.95% of the issued share capital of C & H Co., Ltd which owned 382,850,000 shares in the company. In addition, Kyoo Yoon Choi beneficially owns 100% of interest of Uni-Link Technology Limited which owned 72,150,000 shares of the company.
3. The wife of Kyoo Yoon Choi, Woul Hee Cha, holds approximately 24.48% of the issued share capital of C & H Co., Ltd.

(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, at no time during the period under review, the directors and chief executives (including their spouses and children under 18 years of age) had any interests or exercised, any rights to subscribe for shares of the company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the company and the SEHK pursuant to the Model Code.



ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(Continued)*

SHARE OPTION SCHEME

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

The maximum number of shares which may be issued upon the exercise of all outstanding options and yet to be exercised under the share option scheme shall not exceed 30% of the issued share capital of the company from time to time. Subject 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 30 June 2011 was 42,835,000 shares (including options for 6,260,000 shares that have been granted but not yet lapsed or exercised) which represented 6.37% of the issued share capital of the company at 30 June 2011. In respect of the maximum entitlement of each participant under the scheme, 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.

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(Continued)*

SHARE OPTION SCHEME *(Continued)*

As at 30 June 2011, the employees in aggregate of the group had the following interests in options to subscribe for shares of the company granted at nominal consideration under the share option scheme of the company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of the company of par value US\$0.01 each.

	Date granted	Period during which options are exercisable <i>(note 1)</i>	Number of options			
			Exercise price per share	Balance at 1 January 2011	Lapsed during the period <i>(note 2)</i>	Balance at 30 June 2011
Employees in aggregate	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	260,000	—	260,000
	2 January 2004	2 January 2005 to 2 January 2014	HK\$1.87	6,000,000	—	6,000,000
				6,260,000	—	6,260,000



ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(Continued)*

SHARE OPTION SCHEME *(Continued)*

Notes:

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

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

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

The life of the above granted share options is ten years commencing on the date on which an option is granted in accordance with the scheme.

Save as disclosed above, at no time during the period was the company, its holding company, its associated companies or fellow subsidiaries a party to any arrangement to enable the directors and chief executive of the company (including their spouses and children under 18 years of age) to hold any interests or short positions in the shares in, or underlying shares in, or debentures of, the company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the company and the SEHK pursuant to the Model Code.

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(Continued)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 30 June 2011, the company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the company's issued share capital. These interests are in addition to those disclosed above in respect of directors and chief executives:

Name	Capacity in which shares were held	Number of shares held	Percentage of the issued share capital of the company
C & H Co., Ltd <i>(Note)</i>	Beneficial owner	382,850,000	56.96%
Uni-Link Technology Limited <i>(Note)</i>	Beneficial owner	72,150,000	10.73%

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

Save as disclosed above, as at 30 June 2011, the company is not aware of any other registered substantial shareholder who holds 5% or more of the issued share capital of the company.



ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(Continued)*

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

During the six months ended 30 June 2011, neither the company nor any of its subsidiaries has purchased, sold or redeemed any of the company's shares.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2011, the company has fully complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the SEHK.

MODEL CODE FOR SECURITIES TRANSACTIONS

The company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules regarding the Model Code. Based on the specific enquires of the company's directors, the directors have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the group and discussed internal control and financial reporting matters of the interim results for the six months ended 30 June 2011.

By order of the Board
Young M. LEE
Director

Hong Kong, 26 August 2011

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

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

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

COMPANY SECRETARY

Mr. Chi Chung SHUM, CPA



AUDITORS

KPMG

Certified Public Accountants

8/F., Prince's Building

10 Chater Road, Central

Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Young M. LEE

Mr. Chi Chung SHUM

PRINCIPAL BANKERS

Citibank, N.A.

Shinhan Bank

Bank of China

SHARE REGISTRAR

Tricor Abacus Limited

26/F., Tesbury Centre

28 Queen's Road East

Hong Kong

FINANCIAL RELATIONS CONSULTANT

Strategic Financial Relations Limited

Unit A, 29/F., Admiralty Centre I

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Access to Bloomberg 1126:HK