



Dream International Limited

德 林 國 際 有 限 公 司

(Incorporated in Hong Kong with limited liability)
(Stock Code : 1126)



Interim Report

2006

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MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

The business environment remained difficult in the first half of 2006 for all plush stuffed toy manufacturers with material costs escalating, labour shortage persisting and competition mounting. The adverse market conditions inevitably affected the profitability of Dream International Limited (the "Company") and its subsidiaries (collectively the "Group"). The Group reported a slightly increase in turnover of HK\$445.4 million (2005: HK\$430.1 million), and its gross profit decreased to HK\$64.4 million (2005: HK\$83.5 million). As a result, it recorded loss attributable to equity holders of HK\$36.6 million (2005: HK\$16.5 million).

Nevertheless, the Group maintained its leadership in the industry and implemented various strategies to address the different market challenges. The Group pursued manufacturing automation and relentless efforts were made to improve workflow and rationalize the workforce to enhance production efficiency. During the period, its steel and plastic business managed deeper market penetration and made inroads into the scooter and inline skate market.

BUSINESS REVIEW

PRODUCT ANALYSIS

For the six months ended 30 June 2006, sales of plush stuffed toys amounted to HK\$364.2 million, representing 81.8% of the Group's total turnover. The Original Equipment Manufacturing ("OEM") business remained the Group's core business and contributed 94.5% of the turnover from the plush stuffed toy segment. Adding to its solid client base comprising renowned international brand and character licensors, the Group secured a new customer, Old Navy, a well-known clothing brand that also carries plush toys in its stores, and broadened its revenue stream at the same time.

The Original Design Manufacturing ("ODM") business accounted for the remaining 5.5% of this segment's turnover. The Group launched its new bedding and infant products in the US this year and this new product line received positive market response. Encouraged by this good start, the Group is striving to market this product line to more major US retailers.

The Group's steel and plastic toys business accounted for 18.2% of its total turnover, and the performance of this segment was encouraging during the review period. In October 2005, the Group set up a joint venture ("JV") to invest in C&H HK Corp., Ltd. and J.Y. Plasteel (Suzhou) Co., Ltd. ("J.Y. Plasteel") with the aim of expanding its steel and plastic toy segment. Construction of the new plant under J.Y. Plasteel in Taicang, Jiangsu province was completed during the period and it commenced full operation in August 2006. The new plant has allowed the Group to enrich its steel and plastic product mix and achieve a more balanced product portfolio, and in turn broaden exposure of its products in the international toy market. Moreover, the demand for bicycles and steel and plastic toys is rising in China. To capture the growing demand, the Group invested a further US\$2,500,000 in the JV. This raised the Company's shareholding up to 66.5% in the JV with paid up registered capital of US\$8,500,000.

MARKET ANALYSIS

For the six months ended 30 June 2006, the North American market accounted for 38.5% of the Group's total turnover, followed by Japan at 29.1%. Europe became another major market and its contribution to the Group's turnover increased to 25.2%, which was mainly driven by the acquired distribution channel of the well-known "Great" and "Far Great" brands in this market. Supported by the distribution channels acquired by the JV, the Group successfully tapped the China market.

OPERATIONAL ANALYSIS

The Group operated ten plants in China and two in Vietnam with the average utilization rate of the Group's production facilities maintained at above 90% level during the period. In China, the plants in Shuyang and Beiliu became fully operational during the review period. Thanks to the automated manufacturing processes, the new plant in Taicang had less reliance on labour. Together with the higher margin of steel and plastic products, the JV's business managed to achieve the breakeven point in the first half of 2006.

PROSPECTS

With persistently high raw material costs and lingering labour shortage in China, the toy industry will continue to face challenges ahead. The increasing minimum wage in Shenzhen and the eastern coastal areas of China will pose pressure on many manufacturers, especially the smaller ones. The Group expects consolidation of the toy industry to continue with only the well-established players surviving in the long run.

To combat labour shortages and rising wages in coastal areas of China, the Group will continue to relocate and invest in production facilities inland. Besides the Group's new plants in Shuyang and Beiliu, two other new plants in Mingguang and Chaohu of Anhui province commenced operation early this year. With its inland factories in full operation in the second half of this year, the Group expects to see its production capacity boosted by 30%.

Plush stuffed toy will remain as the Group's core products. The Group will continue to inject resources into its OEM and ODM businesses and strive to enhance its ability to provide innovative product designs to existing clients, as well as look for ways to develop new designs and functions that agree with market trends. To improve its overall performance, the Group will concentrate on major customers and discontinue non-profitable accounts. It will also expand its ODM product lines and strive to extend their reach to other major US retailers.

On the other hand, the Group will also step up development of its steel and plastic toy segment. Since the performance of this segment was better than expected during the first half of the year, we are confident it will deliver strong performance for the whole year, especially in its peak season in the second half. Capitalizing on the well-established distribution network of the "Great" and "Far Great" brands acquired in 2005, the Group will seek to expand both the domestic and overseas markets and explore business opportunities with character licensors and increase exposure of its products by participating in international toy fairs.

The Group started to restructure its business in 2005. The benefits of this exercise are expected to be reflected in the second half of this year. To expand its markets in the future, the Group is studying the possibility of selling its products to South America and Russia. It is believed that such endeavors will help to strengthen the Group's position as the largest plush stuffed toy manufacturer in the world.

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2006, the Group had 10, 11187, 95, 8, 6 and 2240 employees in Hong Kong, Mainland China, South Korea, US, Japan and Vietnam respectively. The Group values its human resources and recognizes 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 2006, the Group had net current assets of HK\$173.2 million (31 December 2005: HK\$217.9 million). The Group's total cash and bank deposits as at 30 June 2006 amounted to HK\$115.7 million (31 December 2005: HK\$173.0 million). The total borrowings of the Group as at 30 June 2006 amounted to HK\$112.8 million (31 December 2005: 105.6 million). As a result, the Group's net total cash and bank balance as at 30 June 2006 amounted to HK\$2.8 million (31 December 2005: HK\$67.4 million).

The Group has consistently adhered to its prudent treasury policy. Most of the Group's liquid fund is placed in principal guaranteed short-term dual currencies deposits in various banks to enhance return from the liquid assets of the Group within the controllable risk level.

The Group's gearing ratio, calculated on the basis of total borrowings over the total shareholders' equity, was slightly increased to 21.1% (31 December 2005: 18.9%) to fund the expansion of the production plants in Vietnam and establishments of various satellite production plants in further inland area of Anhui and Jiangsu provinces of PRC.

PLEDGE ON GROUP ASSETS

As at 30 June 2006, the banking facilities of the Group were secured by mortgages over their land use rights, buildings and bank deposit with aggregate carrying value of HK\$4.2 million (31 December 2005: HK\$4.3 million), HK\$35.4 million (31 December 2005: HK\$36.2 million) and HK\$61.4 million (31 December 2005: HK\$69.8 million) respectively. Such pledged banking facilities were utilised to the extent of HK\$88.8 million (31 December 2005: HK\$42.3 million).

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF DREAM INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report of the Company set out on pages 6 to 19.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited requires the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on this 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.

We did not audit or review the comparative figures for the six-months ended 30 June 2005 and as of 31 December 2005.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 September 2006

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

(All amounts in HK dollar unless otherwise stated)

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2006	2005
		\$'000	\$'000
Sales	4	445,379	430,105
Cost of goods sold		(380,941)	(346,597)
Gross profit		64,438	83,508
Other gains	5	3,970	3,732
Other net loss		(9,162)	(8,665)
Selling and distribution costs		(14,354)	(16,378)
Administrative expenses		(71,834)	(78,357)
Operating loss	6	(26,942)	(16,160)
Finance costs		(3,242)	(1,154)
Share of profits less losses of associates		(213)	131
Loss before income tax		(30,397)	(17,183)
Income tax (expense)/credit	7	(6,451)	678
Loss for the period		(36,848)	(16,505)
Attributable to:			
– equity holders of the Company		(36,635)	(16,505)
– minority interests		(213)	–
		(36,848)	(16,505)
Dividend	8	–	–
Loss per share	9		
– Basic		(5.5 cents)	(2.5 cents)
– Diluted		(5.5 cents)	(2.5 cents)

The notes on pages 10 to 19 form part of this interim financial report.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2006

(All amounts in HK dollar unless otherwise stated)

	Note	Unaudited At 30 June 2006 \$'000	Audited At 31 December 2005 \$'000
Non-current assets			
Property, plant and equipment	10	190,459	147,090
Leasehold land and land use rights	10	15,872	11,269
Goodwill		100,194	100,154
Interest in associates		1,282	1,483
Other financial assets	11	63,256	71,670
Intangible assets	10	16,987	12,505
Deferred income tax assets		2,329	7,460
		390,379	351,631
Current assets			
Inventories		200,740	160,482
Trade and other receivables	12	210,904	176,541
Cash and cash equivalents		54,309	103,128
		465,953	440,151
Current liabilities			
Trade and other payables	13	187,867	108,720
Borrowings		96,911	105,568
Current income tax liabilities		7,961	7,986
		292,739	222,274
		173,214	217,877
Net current assets			
		563,593	569,508
Non-current liabilities			
Defined benefit retirement obligations		12,379	10,820
Borrowings		15,952	–
Deferred income tax liabilities		1,389	741
		29,720	11,561
Net assets		533,873	557,947
Capital and reserves			
Share capital	14	52,019	52,019
Reserves	15	459,968	490,930
Total equity attributable to equity shareholders of the Company		511,987	542,949
Minority interests		21,886	14,998
Total equity		533,873	557,947

The notes on pages 10 to 19 form part of this interim financial report.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

(All amounts in HK dollar unless otherwise stated)

	Note	Unaudited	
		Six months ended 30 June	
		2006 \$'000	2005 \$'000
Total equity at 1 January		557,947	621,858
Exchange differences on translation of financial statements of overseas subsidiaries			
Attributable to:			
– Equity shareholders of the Company	15	5,224	(149)
– Minority interests		81	–
Net income/(loss) for the period recognised directly in equity		5,305	(149)
Net loss for the period	15	(36,848)	(16,505)
Total recognised expense for the period		(31,543)	(16,654)
Dividend paid	8	–	(40,111)
Movements in equity arising from capital transactions with equity holders of the Company			
– Proceeds from shares issued under share option scheme	14, 15	–	1,157
– Equity settled share-based transactions	15	449	978
		449	2,135
Movements in equity arising from transactions between non-wholly owned subsidiaries and the minority shareholders			
– Capital contributions received from minority shareholders		7,020	–
Total equity at 30 June		533,873	567,228

The notes on pages 10 to 19 form part of this interim financial report.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

(All amounts in HK dollar unless otherwise stated)

	Unaudited	
	Six months ended 30 June	
	2006	2005
	\$'000	\$'000
Cash flows from operating activities	479	(28,931)
Cash flows from investing activities	(60,380)	(24,453)
Cash flows from financing activities	10,718	5,674
Net decrease in cash and cash equivalents	(49,183)	(47,710)
Cash and cash equivalents at 1 January	103,128	141,866
Effect of foreign exchange rate change	364	140
Cash and cash equivalents at 30 June	54,309	94,296

The notes on pages 10 to 19 form part of this interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

1 General information

The principal activities of Dream International Limited (the "Company") and its subsidiaries (together, the "Group") are design, development, manufacturing and sale of plush stuffed toys and steel and plastic toys.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 8th Floor, Tower 5, China HK City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The interim financial report was approved for issue on 20 September 2006.

2 Basis of preparation

This interim financial report for the six months ended 30 June 2006 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005. The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The adoption of the above amendments to standards and interpretations did not have significant financial impact to the Group.

NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

4 Sales and segment information

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. The Group is principally engaged design, development, manufacturing and sale of plush stuffed toys and steel and plastic toys.

(a) Primary reporting format – business segments

The Group comprises two main business segments:

- manufacture and sale of plush stuffed toys; and
- manufacture and sale of steel and plastic toys.

	Plush stuffed toys		Steel and plastic toys		Unallocated		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Sales from external customers	364,224	409,117	81,155	20,988	-	-	445,379	430,105
Other gains from external customers	318	130	233	13	3,419	3,589	3,970	3,732
Total	364,542	409,247	81,388	21,001	3,419	3,589	449,349	433,837
Segment result	(29,359)	(14,057)	2,417	(2,103)	-	-	(26,942)	(16,160)
Operating loss							(26,942)	(16,160)
Finance costs							(3,242)	(1,154)
Share of profits less losses of associates							(213)	131
Loss before income tax							(30,397)	(17,183)
Income tax (expense)/credit							(6,451)	678
Loss for the period							(36,848)	(16,505)

NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

(b) *Secondary reporting format – geographical segments*

The Group participates in several principal economic environments as set out below.

In presenting information on the basis of geographical segments, segment sales is based on the geographical destination of delivery of goods.

	Unaudited Sales	
	Six months ended 30 June	
	2006 \$'000	2005 \$'000
North America	171,293	173,516
Japan	129,516	171,642
Europe	112,172	65,355
South Korea	7,806	5,598
Others	24,592	13,994
	445,379	430,105

There is no major disparity in the ratios between sales and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

5 Other gains

Other gains

Interest income from bank deposits
(including related option premium
income on dual currency option deposits)

Sundry income

	Unaudited	
	Six months ended 30 June	
	2006 \$'000	2005 \$'000
	3,419	3,589
	551	143
	3,970	3,732

NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

6 Operating Loss

The following items have been charged to operating loss during the interim period:

	Unaudited Six months ended 30 June	
	2006 \$'000	2005 \$'000
Cost of inventories (<i>Note</i>)	380,941	346,597
Amortisation of leasehold land and land use rights	296	53
Depreciation of property, plant and equipment	12,674	10,392
Loss on early termination of the long-term bank deposit	–	3,700
Change in fair value of financial instruments	8,652	4,106
Staff costs	117,155	125,582
Operating lease charges:		
minimum lease payment – property rentals	14,372	15,542

Note: Cost of inventories includes \$99,115,000 (2005: \$92,478,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

7 Income tax (expense)/credit

Hong Kong and overseas profits tax has been provided at the rate of 17.5% (2005: 17.5%) and at the rates of taxation prevailing in the countries in which the Group operates respectively.

	Unaudited Six months ended 30 June	
	2006 \$'000	2005 \$'000
Current income tax		
– Hong Kong profits tax	(461)	(1,794)
– Overseas taxation	–	(34)
Deferred income tax	(5,990)	2,506
	(6,451)	678

In accordance with the relevant regulations and the Enterprise Income Tax Law applicable in the People's Republic of China (the "PRC"), the PRC subsidiaries are exempted from Enterprise Income Tax for two years starting from the first profit-making year and thereafter subject to Enterprise Income Tax at 50% of the standard tax rate for the following three years. During the period ended 30 June 2006, two PRC subsidiaries (2005: one) were subject to Enterprise Income Tax at standard tax rate, no PRC subsidiary (2005: one) was subject to Enterprise Income Tax at 50% of the standard tax rate, and the remaining five PRC subsidiaries (2005: one) were loss making and had not commenced its first profit making year.

NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

8 Dividend

Unaudited
Six months ended 30 June

	2006 \$'000	2005 \$'000
Dividend paid		
2004 final dividend of \$0.060 per share approved and paid in 2005	—	40,111
	<hr style="border: 1px solid black;"/>	<hr style="border: 1px solid black;"/>
Dividend declared		
Interim dividend declared after the balance sheet date	—	—
	<hr style="border: 1px solid black;"/>	<hr style="border: 1px solid black;"/>

9 Loss per share

(a) *Basic loss per share*

The calculation of basic loss per share is based on the loss attributable to shareholders of \$36,635,000 (2005: \$16,505,000) and the weighted average number of 668,529,000 (2005: 668,078,200) ordinary shares in issue during the period.

(b) *Diluted loss per share*

The diluted loss per share for the six months period ended 30 June 2006 is the same as their respective basic loss per share as the potential ordinary shares outstanding during the period were anti-dilutive. The anti-dilutive situation was the same for the comparative diluted loss per share for the six months period ended 30 June 2005.

NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

10 Capital expenditure

	Property, plant and equipment \$'000	Intangible assets \$'000	Leasehold land and land use rights \$'000	Total \$'000
Six months ended				
30 June 2006				
Opening net book amount				
at 1 January 2006	147,090	12,505	11,269	170,864
Additions	54,975	4,616	4,795	64,386
Disposals	(458)	(437)	–	(895)
Depreciation and amortisation	(12,674)	(354)	(296)	(13,324)
Exchange difference	1,526	657	104	2,287
	<u>190,459</u>	<u>16,987</u>	<u>15,872</u>	<u>223,318</u>
Closing net book amount				
at 30 June 2006	<u>190,459</u>	<u>16,987</u>	<u>15,872</u>	<u>223,318</u>

11 Other financial assets

The long-term structured deposit is a hybrid instrument that includes a non-derivative host contract and an embedded derivative. Upon inception this financial instrument was designated as at fair value with changes in fair value recognised in profit and loss. The carrying amount of the long-term structured deposit of HK\$61,363,000 was presented as other financial assets at 30 June 2006, and the loss for the period of HK\$8,652,000 has been recognised as other net loss. Comparative figures have been reclassified to conform to current period's presentation.

NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

12 Trade and other receivables

	As at	
	30 June 2006 Unaudited \$'000	31 December 2005 Audited \$'000
Trade debtors, deposits and prepayments	194,723	173,680
Amount due from ultimate holding company	14,766	1,254
Amounts due from fellow subsidiaries	515	101
Amounts due from associates	900	1,506
	210,904	176,541

At 30 June 2006 and 31 December 2005, the ageing analysis of the trade receivables (net of specific allowances for bad and doubtful debts) based on invoice date is as follows:

	As at	
	30 June 2006 Unaudited \$'000	31 December 2005 Audited \$'000
Current	99,719	76,745
1 to 3 months	31,074	18,483
More than 3 months but less than 1 year	3,003	3,783
More than 1 year	80	233
	133,876	99,244

Trade receivables, which generally have terms of 14 to 90 days, are recognised and carried in the balance sheet at original invoice amounts less provisions for overdue debts which are considered by the directors to be doubtful.

13 Trade and other payables

	As at	
	30 June 2006 Unaudited \$'000	31 December 2005 Audited \$'000
Creditors and accrued charges	181,427	98,421
Amounts due to ultimate holding company	36	–
Amounts due to fellow subsidiaries	6,404	4,389
Amounts due to associates	–	5,910
	187,867	108,720

NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

At 30 June 2006 and 31 December 2005, the ageing analysis of the trade payables based on invoice date is as follows:

	As at	
	30 June 2006 Unaudited \$'000	31 December 2005 Audited \$'000
Within 1 month	75,163	39,589
After 1 month but within 3 months	27,962	7,870
After 3 months but within 6 months	6,047	1,311
After 6 months but within 1 year	304	911
Over 1 year	1,012	1,260
	<u>110,488</u>	<u>50,941</u>

14 Share capital

	No. of shares (thousands)	Amount \$'000
Authorised:		
Ordinary shares of US\$0.01	<u>5,000,000</u>	<u>390,000</u>
Issued and fully paid:		
At 1 January 2005	667,549	51,942
Shares issued under share option scheme	<u>980</u>	<u>77</u>
At 31 December 2005 and 30 June 2006	<u>668,529</u>	<u>52,019</u>

NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

15 Reserves

	Share premium \$'000	Capital reserve \$'000	General reserve fund \$'000	Exchange reserve \$'000	Retained profits \$'000	Total \$'000
At 1 January 2005	175,813	4,054	15,045	5,641	369,363	569,916
Dividends approved in respect of the previous year	-	-	-	-	(40,111)	(40,111)
Transfer between reserves	-	-	128	-	(128)	-
Premium on exercise of share options	1,080	-	-	-	-	1,080
Equity settled share-based transactions	-	978	-	-	-	978
Exchange differences on translation of financial statements of foreign entities	-	-	-	(149)	-	(149)
Loss for the period	-	-	-	-	(16,505)	(16,505)
At 30 June 2005	<u>176,893</u>	<u>5,032</u>	<u>15,173</u>	<u>5,492</u>	<u>312,619</u>	<u>515,209</u>
At 1 Jan 2006	176,893	5,969	15,045	8,393	284,630	490,930
Equity settled share-based transactions	-	449	-	-	-	449
Exchange differences on translation of financial statements of foreign entities	-	-	-	5,224	-	5,224
Loss for the period	-	-	-	-	(36,635)	(36,635)
At 30 June 2006	<u>176,893</u>	<u>6,418</u>	<u>15,045</u>	<u>13,617</u>	<u>247,995</u>	<u>459,968</u>

16 Commitments

Capital commitments outstanding at 30 June 2006 not provided for in the Group's interim financial report:

	As at	
	30 June 2006 Unaudited \$'000	31 December 2005 Audited \$'000
Contracted but not provided for	<u>6,680</u>	<u>26,313</u>

NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

17 Material related party transactions

- (a) During the period, the Group entered into the following transactions with its related parties:

	Unaudited	
	Six months ended 30 June	
	2006	2005
	\$'000	\$'000
(i) Sales to:		
Fellow subsidiaries:		
– Jung Yoon Textiles (Private) Ltd.	502	585
– Gina World Co., Ltd.	–	5,719
	502	6,304
Associates:		
– Sung Won Industries Inc.	–	–
– Yuan Lin Toys (Suzhou) Co., Ltd.	654	1,623
	654	1,623
(ii) Purchases from:		
Associate:		
– Yuan Lin Toys (Suzhou) Co., Ltd.	4,028	20,118
(iii) Rentals paid/payable to:		
The ultimate holding company:		
– C & H Co., Ltd.	2,736	3,491
(iv) Processing fee paid/payable to:		
Associate:		
– Yuan Lin Toys (Suzhou) Co., Ltd.	4,266	2,125
(b) Key management compensation:		

	Unaudited	
	Six months ended 30 June	
	2006	2005
	\$'000	\$'000
Salaries and other short-term benefits	7,327	8,974
Share-based payments	151	78
	7,478	9,052

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

INTERIM DIVIDEND

The Board of Directors did not recommend the payment of interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

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

As at 30 June 2006, the interests and short positions of each directors and chief executives 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 (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

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

	Number of shares held			Total	Percentage of issued share of capital of the Company
	Personal Interests (Note 1)	Family interests	Corporate interests		
The Company					
Kyoo Yoon Choi	-	-	455,000,000 (note 2)	455,000,000	68.06%
Tae Sub Choi	585,000	-	-	585,000	0.09%
Young M. Lee	1,740,000	-	-	1,740,000	0.26%
C & H Co., Ltd.					
Kyoo Yoon Choi	189,917	124,073 (Note 3)	-	313,990	61.03%
Shin Hee Cha	21,319	-	-	21,319	4.14%
Tae Sub Choi	5,685	-	-	5,685	1.10%

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 36.91% of the issued share capital of C & H Co., Ltd., and together with his wife, Woul Hee Cha, hold approximately 61.03% 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 24.12% 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 of the Company (including their spouse and children under 18 years of age) had any interests or short positions in the shares, underlying shares 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 Stock Exchange 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 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 Stock Exchange on the date of grant and (iii) the average closing price of the shares on the Stock Exchange 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 Stock Exchange. 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 2006 was 49,071,000 shares (including options for 20,031,000 shares that have been granted but not yet lapsed or exercised) which represented 7.34% of the issued share capital of the Company at 30 June 2006. 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.

As at 30 June 2006, the directors individually and other employees in aggregate 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 share and the consideration paid by each holder for each grant is HK\$1.00.

	Date Granted	Period during which options exercisable (Note 1)	Exercise price per share	Market value per share at date of grant of options	No. of options outstanding as at 1 January 2006	No. of options exercised during the period	No. of options lapsed during the period (Note 2)	No. of Options Outstanding as at 30 June 2006
Directors								
Shin Hee Cha (appointed on 24 January 2006)	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	HK\$1.20	3,500,000	-	-	3,500,000
Young M. Lee	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	HK\$1.20	1,360,000	-	-	1,360,000
Tae Sub Choi	15 April 2003	15 April 2004 to 15 April 2013	HK\$1.43	HK\$1.42	1,365,000	-	-	1,365,000
James Wang	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	HK\$1.20	520,000	-	-	520,000
Employees in aggregate								
	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	HK\$1.20	4,681,000	-	-	4,681,000
	15 April 2003	15 April 2004 to 15 April 2013	HK\$1.43	HK\$1.42	455,000	-	-	455,000
	2 January 2004	2 January 2005 to 2 January 2014	HK\$1.87	HK\$1.85	8,150,000	-	-	8,150,000
Other (Note 3)	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	HK\$1.20	2,600,000	-	2,600,000	-
					22,631,000	-	2,600,000	20,031,000

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 year anniversary of the date of grant | 30% |
| On or after 2nd year anniversary of the date of grant | another 30% |
| On or after 3rd year anniversary of the date of grant | another 40% |
2. Pursuant to the condition of the share option scheme, any unexercised number of options granted to any employees will lapse three months after the employee ceases employment relationship with the Company.
3. This 2,600,000 share options related to Mr. Chul Hong MIN who resigned as director of the Company on 31 December 2005. According to the Company's share option scheme, his outstanding share options was lapsed on 1 April 2006.
4. The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

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

The estimated fair value of the share options that were granted after 7 November 2002 but which had not vested on 1 January 2005 are recognised in the financial statements over the relevant vesting periods according to the Hong Kong Financial Reporting Standard 2 "Share-based Payment". The weighted average value per option granted at the date of grant using the binomial option pricing model were calculated with the following variables:

	Date of grant	
	15 April 2003	2 January 2004
Weighted average value per option granted	0.36	0.53

Variables:

Closing share price at date of grant	1.42	1.85
Risk-free interest rate per annum	3.68%	4.37%
Expected life	10 years	10 years
Annualised volatility	50.83%	44.90%
Expected dividend per share	HK\$0.088	HK\$0.094

The binomial option pricing model was developed to estimate the fair value of American style options. It is one of the commonly used models to estimate the fair value of an option which can be exercised before the expiry of the option period. Such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because changes in the subjective input assumptions can materially affect the fair value estimate, the binomial option pricing model costs does not necessarily provide a reliable measure of the fair value of the share options.

Apart from the foregoing, at no time during the period was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the director or chief executive of the Company or any of their spouses or children under eighteen years of age 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 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 2006, the Company had been notified of the following substantial shareholders' interest 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 held	Number of shares held	Percentage of the issued share capital of the Company
C & H Co., Ltd. (note)	Beneficial owner	382,850,000	57.27%
Uni-Link Technology Limited (note)	Beneficial owner	72,150,000	10.79%

Note:

Kyoo Yoon Choi, being a director of C & H Co., Ltd., together with his wife, Woul Hee Cha, hold approximately 61.03% 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 68.06% 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 2006, the Company is not aware of any other registered substantial shareholder who holds 5% or more of the issued share capital of the Company.

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

During the six months period ended 30 June 2006, 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 period ended 30 June 2006, the Company has fully complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

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 throughout the accounting period under review.

AUDIT COMMITTEE

The audit committee has reviewed with the management and the Company's auditors, PricewaterhouseCoopers, 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 2006. The comparative figures for the six months ended 30 June 2005 were reviewed by the Company's audit committee and outgoing auditors, KPMG, and the comparative figures as of 31 December 2005 were audited by KPMG.

Hong Kong, 20 September 2006

By order of the Board
Young M. LEE
Director

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Kyoo Yoon CHOI
(Chairman and Executive Director)

Mrs. Shin Hee CHA
(President)
(appointed on 24 January 2006)

Mr. Tae Sub CHOI
(Vice-president and
Chief Operation Officer)

Mr. Young M. LEE
(Executive Managing Director and
Chief Financial Officer)

Mr. James WANG

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Valiant, Kin Piu CHEUNG
Professor Cheong Heon YI
Dr. Chan YOO

AUDIT COMMITTEE

Mr. Valiant, Kin Piu CHEUNG
Professor Cheong Heon YI
Dr. Chan YOO

REMUNERATION COMMITTEE

Dr. Chan YOO
Mr. Valiant, Kin Piu CHEUNG
Professor Cheong Heon YI

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

COMPANY SECRETARY

Mr. Wilson, Wai Sing WONG,
FCCA, FCPA, FCS (PE), FCIS, MPA

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
33/F., Cheung Kong Center
2 Queen's Road Central
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Young M. LEE
Mr. Wilson, Wai Sing WONG

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Citibank, N.A.
Shinhan Finance Limited

SHARE REGISTRAR

Abacus Share Registrars 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
18 Harcourt Road, Hong Kong

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