



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

In the first half of 2007, Dream International Limited (the "Company") and its subsidiaries (collectively the "Group") reported improved results. The improvement was driven by various measures implemented to increase profitability during the period and the Group's efforts to reinforce, reorganize and restructure its business in the past two years taking effect.

For the six months ended 30 June 2007, turnover decreased by 6.8% to HK\$415.1 million, attributable mainly to the Group eliminating small quantity orders and focusing on larger scale and higher margin customers. The shift of focus enhanced the cost-effectiveness of production. With the Group's operation in Vietnam on smooth track and its plants in inland China enjoying lower labour costs, cost of sales came down by more than 10% during the period. Boasting quality products and leadership in the industry, the Group was able to transfer part of the rising production cost to customers. As a result, its gross profit rose to HK\$73.5 million, an increase of approximately 14.1%, from HK\$64.4 million in the same period last year.

Restructuring of Dream INKO Co. Ltd, including streamlining of its workforce, continued to bear fruits, as reflected in a 10.8% decrease in administrative expenses and narrowing of operating loss to HK\$6.9 million, a significant drop of 74.4% when compared to the loss of HK\$26.9 million in last corresponding period. Delivering improved operating performance and with a HK\$12.9 million over-provision of Hong Kong profit tax booked during the period, the Group turned its business around in the first half year and reported profit attributable to equity holders amounting to HK\$3.2 million (2006: loss of HK\$36.6 million).

BUSINESS REVIEW

Product Analysis

During the period, sales of plush stuffed toys amounted to HK\$345.4 million, representing 83.2% of the Group's total turnover. Original Equipment Manufacturing ("OEM") business continued to be the Group's core business and contributed 91.7% of the turnover of the plush stuffed toy segment. In addition to strengthening cooperation with renowned character owners and licensors to sustain order inflow, the Group gained more orders from a famous international fast food chain which became its customer in the second half of 2006. The Group also explored new business opportunities with several marketing companies and new customers during the period.

Original Design Manufacturing ("ODM") business brought in increased contribution to the plush stuffed toy segment, amounting to HK\$28.4 million and accounting for 8.3% of the segment's turnover. Launched in August 2006, interactive educational electronic plush toys were well-received in the market and have been attracting regular orders from a chain store retailer. The Group continued to develop new products based on creative and trendy concept to meet the customer needs, but has shifted its focus to customers placing larger and higher margin orders.

Steel and plastic toys business accounted for 16.8% of the total turnover of the Group during the period. The Group secured two new customers who have provided more channels for the products to penetrate the US market. One of the customers is a marketing company that distributes toys to major US retailers, while the other is a giant chain store retailer in the US. The two customers regularly orders scooters, bicycles, tricycles and other ride-on toys from the Group and are expected to increase their order volumes in the future. In May 2007, the Group, through its subsidiary J Y Plasteel (Suzhou) Co., Ltd., grasped a cross-selling opportunity and secured a character license from Disney to manufacture scooters and ride-on products for Disney's China market. This is a significant progress of the Group to expand its domestic business in China. The Disney character products are currently under development and their first shipment is expected in the second half year.

Market Analysis

For the six months ended 30 June 2007, North America remained as the Group's largest market and accounted for 41.7% of the Group's total turnover, with the main drive coming from the two new customers in the steel and plastic toy segment. Japan came second and was responsible for 30.6% of the Group's total turnover. Another major market Europe brought in 20.4% of the Group's turnover, while China represented 3.7%.

Operational Analysis

The Group operated 11 plants during the period, 10 in China and one in Vietnam, running at an average utilization rate of about 87%. The four plants in the cities in inland China, namely Shuyang, Beiliu, Mingguang and Chaohu, were in smooth operation and had helped lower operation cost of the Group.

PROSPECTS

Toy manufacturers can expect continuous pressure from rising labour cost and appreciation of the RMB. The tough operational environment, however, will accelerate consolidation of the toy industry which will benefit competent players, such as the Group. Those who survive the competition will have stronger bargaining power. For example, the Group was able to increase the selling price of its products in the first half of 2007 and expects to be able to continue to do so in the near future. Therefore, the Group is prudently optimistic about its business in the second half year and coming years.

To solidify its market position and attract more customers, apart from striving to provide innovative products that meet market demands, the Group will also increase its R&D and marketing budgets this year. It will allocate more resources to grow the interactive educational electronic plush toy segment that has great potential, and also market character products to especially US chain stores. As for the steel and plastic toy segment, the Group will endeavor to add more mass market retailers to its customer base and also launch various product lines under the "Great" and "Far Great" brands in US retail chain stores to increase their exposure. Through these efforts, the Group expects to deepen its penetration of the US market in the near future. Furthermore, the successful cross-selling of steel and plastic toys to Disney will accelerate the Group's business expansion in China.

To mitigate the increasing production cost in China, the Group will expand its production base in Vietnam which boasts lower operating and labour costs and thus higher profit margins. Construction of a fabric manufacturing plant in Vietnam will start in the third quarter of 2007 and this new plant is targeted to commence operation in the second half of 2008. Facilities for fabric dyeing will be installed and a polyester line will be moved from Shanghai to the new plant. With its own material and processing lines, the new plant will be saved from having to wait for material to be delivered from China and can enhance production efficiency. The Group is also planning to build an additional plush toy plant with 1,000 sewing machines in Vietnam to relieve some of the cost pressure experienced by its production plants in China. These future initiatives are going to boost the Group's competitiveness and prepare it for capturing more opportunities in the market.

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2007, the Group had 15, 10150, 43, 6, 8, 2499 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 2007, the Group had net current assets of HK\$169.9 million (31 December 2006: HK\$153.0 million). The Group's total cash and bank deposits as at 30 June 2007 amounted to HK\$132.6 million (31 December 2006: HK\$152.0 million). The total borrowings of the Group as at 30 June 2007 amounted to HK\$94.6 million (31 December 2006: 121.1 million). As a result, the Group's net total cash and bank balance as at 30 June 2007 amounted to HK\$38.0 million (31 December 2006: HK\$30.9 million).

The Group's gearing ratio, calculated on the basis of total borrowings over the total shareholders' equity, was slightly increased to 20.8% (31 December 2006: 27.4%) 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

Bank borrowings are secured on the Group's building, plant and machinery and furniture and fixtures for the value of HK\$94.5 million (31 December 2006: HK\$93.2 million)

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

		Unaudited	
		Six months ended 30 June	
	Note	2007 HK\$'000	2006 HK\$'000
Revenue	4	415,071	445,379
Cost of sales		<u>(341,555)</u>	<u>(380,941)</u>
Gross profit		73,516	64,438
Other gains	5	4,990	3,970
Selling and distribution expenses		(14,343)	(14,354)
Administrative expenses		(64,074)	(71,834)
Other losses – net		<u>(6,995)</u>	<u>(9,162)</u>
Operating loss	6	(6,906)	(26,942)
Finance costs		(3,875)	(3,242)
Share of losses of associates		<u>(22)</u>	<u>(213)</u>
Loss before income tax		(10,803)	(30,397)
Income tax credit/(expense)	7	<u>13,090</u>	<u>(6,451)</u>
Profit/(loss) for the period		<u>2,287</u>	<u>(36,848)</u>
Attributable to:			
– equity holders of the Company		3,161	(36,635)
– minority interests		<u>(874)</u>	<u>(213)</u>
		<u>2,287</u>	<u>(36,848)</u>
Dividend	8	–	–
Earnings/(loss) per share	9		
– Basic		<u>HK0.3 cents</u>	(HK5.5 cents)
– Diluted		<u>HK0.3 cents</u>	(HK5.5 cents)

The notes on pages 10 to 22 form an integral part of this interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2007

	Note	(Unaudited) At 30 June 2007 HK\$'000	(Audited) At 31 December 2006 HK\$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	10	16,233	16,168
Property, plant and equipment	10	195,483	199,878
Intangible assets	10	17,185	17,268
Investments in associates		1,315	1,298
Deferred income tax assets		4,689	3,180
Other financial assets		66,960	71,054
		<u>301,865</u>	<u>308,846</u>
Current assets			
Inventories		188,370	166,123
Trade and other receivables	11	193,800	204,572
Cash and cash equivalents		66,551	82,798
		<u>448,721</u>	<u>453,493</u>
Total assets		<u>750,586</u>	<u>762,339</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		52,019	52,019
Reserves	13	382,670	369,618
		434,689	421,637
Minority interests		20,198	20,474
Total equity		<u>454,887</u>	<u>442,111</u>

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(Continued)

AS AT 30 JUNE 2007

	Note	(Unaudited) At 30 June 2007 HK\$'000	(Audited) At 31 December 2006 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings		2,342	8,684
Deferred income tax liabilities		597	322
Retirement benefit obligations		13,896	10,703
		<u>16,835</u>	<u>19,709</u>
Current liabilities			
Trade and other payables	12	169,274	157,515
Bills payables		14,096	18,393
Current income tax liabilities		3,219	12,214
Borrowings		92,275	112,397
		<u>278,864</u>	<u>300,519</u>
Total liabilities		<u>295,699</u>	<u>320,228</u>
Total equity and liabilities		<u>750,586</u>	<u>762,339</u>
Net current assets		<u>169,857</u>	<u>152,974</u>
Total assets less current liabilities		<u>471,722</u>	<u>461,820</u>

The notes on pages 10 to 22 form an integral part of this interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Unaudited				
	Attributable to equity holders of the Company				
	Share capital HK\$'000	Reserves (Note 13) HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
Balance as at 1 January 2006	52,019	490,930	542,949	14,998	557,947
Currency translation differences	–	5,224	5,224	81	5,305
Loss for the period	–	(36,635)	(36,635)	(213)	(36,848)
Equity settled share-based transactions	–	449	449	–	449
Capital contributions received from minority shareholders	–	–	–	7,020	7,020
Balance as at 30 June 2006	52,019	459,968	511,987	21,886	533,873
Balance as at 1 January 2007	52,019	369,618	421,637	20,474	442,111
Currency translation differences	–	9,891	9,891	598	10,489
Profit/(loss) for the period	–	3,161	3,161	(874)	2,287
Balance as at 30 June 2007	52,019	382,670	434,689	20,198	454,887

The notes on pages 10 to 22 form an integral part of this interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Unaudited Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Cash flows from operating activities	18,716	479
Cash flows from investing activities	(5,880)	(60,380)
Cash flows from financing activities	<u>(31,831)</u>	<u>10,718</u>
Net decrease in cash and cash equivalents	(18,995)	(49,183)
Cash and cash equivalents at 1 January	82,798	103,128
Exchange gains on cash and cash equivalents	<u>2,748</u>	<u>364</u>
Cash and cash equivalents at 30 June	<u>66,551</u>	<u>54,309</u>

The notes on pages 10 to 22 form an integral part of this interim financial information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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 Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited.

The interim financial information was approved for issue on 21 September 2007.

2 Basis of preparation

This interim financial information for the six months ended 30 June 2007 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

The following new standard, amendment to standard and interpretations (collectively referred to "new HKFRS") are mandatory for the financial year ending 31 December 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

3 Accounting policies *(Continued)*

The Directors are of the opinion that the adoption of the above new HKFRS does not have significant financial impact to the Group other than the disclosure impacts on the consolidated financial statements for the year ending 31 December 2007.

The Group has not early adopted new HKFRS that have been issued but not yet effective for the accounting period ending 31 December 2007.

4 Revenue 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 in design, development, manufacturing and sale of plush stuffed toys and steel and plastic toys.



4 Revenue and segment information (Continued)

(a) Primary reporting format – business segments

The Group is organised into two main business segments:

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

	Unaudited						Total	
	Plush stuffed toys		Steel and plastic toys		Unallocated			
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		30 June	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	345,382	364,224	69,689	81,155	-	-	415,071	445,379
Segment results	(5,271)	(29,359)	(1,635)	2,417	-	-	(6,906)	(26,942)
Finance costs							(3,875)	(3,242)
Share of losses of associates							(22)	(213)
Loss before income tax							(10,803)	(30,397)
Income tax credit/(expense)							13,090	(6,451)
Profit/(loss) for the period							2,287	(36,848)
Capital expenditure	4,891	15,295	3,459	49,091	-	-	8,350	64,386
Depreciation of property, plant and equipment	12,451	10,993	3,364	1,681	-	-	15,815	12,674
Amortisation of leasehold land and land use rights and intangible assets	710	219	389	431	-	-	1,099	650

4 Revenue and segment information (Continued)

(a) Primary reporting format – business segments (Continued)

	Unaudited		Audited		Unaudited		Audited	
	Plush stuffed toys		Steel and plastic toys		Total			
	As at	As at	As at	As at	As at	As at	As at	
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	526,409	548,418	151,213	138,390	677,622	686,808		
Investments in associates	1,315	1,298	–	–	1,315	1,298		
Unallocated assets					71,649	74,233		
Total assets					750,586	762,339		
Segment liabilities	148,439	144,833	48,827	41,778	197,266	186,611		
Unallocated liabilities					98,433	133,617		
Total liabilities					295,699	320,228		



4 Revenue and segment information (Continued)

(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 revenue is based on the geographical destination of delivery of goods.

	Unaudited	
	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
North America	172,982	171,293
Japan	126,943	129,516
Europe	84,525	112,172
South Korea	3,686	7,806
Others	26,935	24,592
	<u>415,071</u>	<u>445,379</u>

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

	Unaudited	
	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Interest income from bank deposits	1,888	3,419
Sundry income	3,102	551
	<u>4,990</u>	<u>3,970</u>

6 Operating loss

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

	Unaudited Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Crediting		
Changes in inventories of finished goods and work in progress	10,587	30,578
Write-back of provision for obsolete inventories	1,231	321
Gain on disposal of property, plant and equipment	–	200
Charging		
Raw materials and consumables used	170,540	224,471
Amortisation of intangible assets	840	354
Amortisation of prepaid operating lease payments	259	296
Depreciation of property, plant and equipment	15,815	12,674
Loss on disposal of property, plant and equipment	204	–
Change in fair value of financial instruments	3,633	8,652
Employee benefit expense	111,575	117,155
Operating lease rental in respect of land and buildings	12,047	14,372

7 Income tax credit/(expense)

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period.

Taxation on The People's Republic of China (the "PRC") and overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC and other countries in which the Group operates.

In accordance with the relevant regulations and the Enterprise Income Tax Law applicable in the PRC, several 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% at the standard tax rate for the following three years.

7 Income tax credit/(expense) (Continued)

	Unaudited	
	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	(565)	(461)
– PRC and overseas taxation	(261)	–
– Over-provision of Hong Kong profits tax in the prior years (Note a)	12,942	–
Deferred income tax credit/(charge)	974	(5,990)
	<u>13,090</u>	<u>(6,451)</u>

Note a:

The Company's long-standing tax dispute with the Hong Kong Inland Revenue Department ("IRD") has been settled in current period.

In April 2007, the Company reached an agreement with the IRD on the tax filing basis of the Company's offshore claims for the years of assessment 1998/99 to 2005/06. Under this settlement basis, the IRD agreed that 75% of the offshore profits (which was originally claimed as 100% offshore) are not subject to Hong Kong profits tax, which resulted in a tax refund of around HK\$10 million and an overprovision of tax from prior years for around HK\$13 million.

8 Dividend

No dividend was paid or declared by the Company during the period (2006: Nil).



9 Earnings/(loss) per share

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the earnings/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issued during the period.

	Unaudited Six months ended 30 June	
	2007	2006
Earnings/(loss) attributable to equity holders of the Company (HK\$'000)	<u>2,287</u>	<u>(36,635)</u>
Weighted average number of ordinary shares in issue (thousands)	<u>668,529</u>	<u>668,529</u>
Basic earnings/(loss) per share (HK cents per share)	<u>0.3</u>	<u>(5.5)</u>

(b) Diluted

Diluted earnings/(loss) per share for the six months ended 30 June 2007 and 2006 is the same as the basic earnings/(loss) per share as the potential ordinary shares outstanding during the periods were anti-dilutive.



10 Capital expenditure

	Unaudited			
	Leasehold land and land use rights	Intangible assets	Property, plant and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended				
30 June 2006				
Opening net book amount as at 1 January 2006	11,269	12,505	147,090	170,864
Additions	4,795	4,616	54,975	64,386
Disposals	–	(437)	(458)	(895)
Depreciation and amortisation	(296)	(354)	(12,674)	(13,324)
Exchange difference	104	657	1,526	2,287
	<u>15,872</u>	<u>16,987</u>	<u>190,459</u>	<u>223,318</u>
Closing net book amount as at 30 June 2006	<u>15,872</u>	<u>16,987</u>	<u>190,459</u>	<u>223,318</u>
Six months ended				
30 June 2007				
Opening net book amount as at 1 January 2007	16,168	17,268	199,878	233,314
Additions	–	742	7,608	8,350
Disposals	–	–	(786)	(786)
Depreciation and amortisation	(259)	(840)	(15,815)	(16,914)
Exchange difference	324	15	4,598	4,937
	<u>16,233</u>	<u>17,185</u>	<u>195,483</u>	<u>228,901</u>
Closing net book amount as at 30 June 2007	<u>16,233</u>	<u>17,185</u>	<u>195,483</u>	<u>228,901</u>

11 Trade and other receivables

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2007	2006
	HK\$'000	HK\$'000
Trade receivables, deposits and prepayments	170,676	186,145
Amount due from ultimate holding company	13,879	13,961
Amounts due from fellow subsidiaries	8,589	4,014
Amounts due from associates	403	213
Amounts due from related companies	253	239
	<hr/> 193,800	<hr/> 204,572

As at 30 June 2007 and 31 December 2006, the ageing analysis of the trade receivables (net of provision for impairment) is as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2007	2006
	HK\$'000	HK\$'000
Current	75,564	102,253
1 to 3 months	28,989	17,373
More than 3 months but less than 1 year	17,228	19,125
More than 1 year	824	778
	<hr/> 122,605	<hr/> 139,529

The Group generally grants a credit period of 30 days to 60 days to its customers.

12 Trade and other payables

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2007	2006
	HK\$'000	HK\$'000
Trade payables and accrued charges	153,113	153,011
Amounts due to ultimate holding company	36	36
Amounts due to fellow subsidiaries	16,125	4,425
Amounts due to associates	—	43
	<u>169,274</u>	<u>157,515</u>

As at 30 June 2007 and 31 December 2006, the ageing analysis of the trade payables is as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2007	2006
	HK\$'000	HK\$'000
Within 1 month	48,372	51,357
After 1 month but within 3 months	28,371	23,897
After 3 months but within 6 months	6,202	5,641
After 6 months but within 1 year	826	2,988
Over 1 year	1,425	1,164
	<u>85,196</u>	<u>85,047</u>

13 Reserves

	Unaudited					
	Share premium	Capital reserve	General		Retained profits	Total
			reserve fund	Exchange reserve		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 1 January 2006	176,893	5,969	15,045	8,393	284,630	490,930
Currency translation differences	-	-	-	5,224	-	5,224
Loss for the period	-	-	-	-	(36,635)	(36,635)
Equity settled share-based transactions	-	449	-	-	-	449
As 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>
As at 1 January 2007	176,893	6,829	15,045	15,892	154,959	369,618
Currency translation differences	-	-	-	9,891	-	9,891
Profit for the period	-	-	-	-	3,161	3,161
As at 30 June 2007	<u>176,893</u>	<u>6,829</u>	<u>15,045</u>	<u>25,783</u>	<u>158,120</u>	<u>382,670</u>

14 Commitments

Capital commitments outstanding as at 30 June 2007 not provided for in the Group's interim financial information:

	Unaudited As at 30 June 2007 HK\$'000	Audited As at 31 December 2006 HK\$'000
Contracted but not provided for	-	310

15 Related party transactions

During the period, the Group entered into the following transactions with its related parties:

		Unaudited	
		Six months ended 30 June	
		2007	2006
		HK\$'000	HK\$'000
(i)	Sales of goods and services to:		
	Fellow subsidiaries	526	502
	An associated company	590	654
	A related company	<u>1,057</u>	<u>6,892</u>
(ii)	Purchases of goods and services from:		
	A fellow subsidiary	8,978	–
	An associated company	<u>–</u>	<u>4,028</u>
(iii)	Rentals paid/payable to:		
	Ultimate holding company	<u>1,678</u>	<u>2,736</u>
(iv)	Processing fee paid/payable to:		
	An associated company	<u>5,894</u>	<u>4,266</u>
(v)	Key management compensation:		
	Salaries and other short-term benefits	5,306	7,327
	Share-based payments	<u>230</u>	<u>151</u>
		<u>5,536</u>	<u>7,478</u>

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

	Number of ordinary shares held				Percentage of issued share capital of the Company
	Personal interests <i>(Note 1)</i>	Family interests	Corporate interests	Total	
The Company					
Kyoo Yoon Choi	–	–	455,000,000 <i>(Note 2)</i>	455,000,000	68.06%
Young M. Lee	1,740,000	–	–	1,740,000	0.26%
Jung Kuk Lee (appointed on 31 May 2007)	170,000	–	–	170,000	0.03%
Tae Sub Choi (resigned on 31 May 2007)	585,000	–	–	585,000	0.09%
C & H Co., Ltd.					
Kyoo Yoon Choi	189,917	124,073 <i>(Note 3)</i>	–	313,990	61.03%
Shin Hee Cha (resigned on 31 May 2007)	21,319	–	–	21,319	4.14%
Tae Sub Choi (resigned on 31 May 2007)	5,685	–	–	5,685	1.10%

(i) Long positions 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 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.

Same 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.

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 2007 was 46,471,000 shares (including options for 16,211,000 shares that have been granted but not yet lapsed or exercised) which represented 6.95% of the issued share capital of the Company at 30 June 2007. 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 2007, 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 ordinary share of the Company of par value US\$0.01 each.

Number of options

	Date granted	Period during which options exercisable (Note 1)	Exercise price per share	Balance at 1 January 2007	Lapsed during the period (Note 2)	Balance at 30 June 2007
Directors						
Shin Hee Cha (resigned on 31 May 2007)	2 January 2004	2 January 2005 to 2 January 2014	HK\$1.87	3,500,000	–	3,500,000
Young M. Lee	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	1,360,000	–	1,360,000
Tae Sub Choi (resigned on 31 May 2007)	15 April 2003	15 April 2004 to 15 April 2013	HK\$1.43	1,365,000	–	1,365,000
James Wang	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	520,000	–	520,000
Jung Kuk Lee (appointed on 31 May 2007)	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	520,000	–	520,000
Employees in aggregate						
	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	4,161,000	520,000 (Note 3)	3,641,000
	15 April 2003	15 April 2004 to 15 April 2013	HK\$1.43	455,000	–	455,000
	2 January 2004	2 January 2005 to 2 January 2014	HK\$1.87	5,350,000	500,000 (Note 3)	4,850,000
				<u>17,231,000</u>	<u>1,020,000</u>	<u>16,211,000</u>

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 employee will lapse three months after the employee ceases employment relationship with the Company.
3. This 1,020,000 share options related to various employees who left the Group on or before 31 March 2007. These outstanding share options were lapsed by 30 June 2007.

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.

Same 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 director 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 corporation required to be disclosed pursuant to the SFO or otherwise notified to the Company and the SEHK pursuant to the Model Code.



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 2007, 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	57.27%
Uni-Link Technology Limited <i>(Note)</i>	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.

Same as disclosed above, as at 30 June 2007, 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-month period ended 30 June 2007, 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-month period ended 30 June 2007, 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 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 the 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-month period ended 30 June 2007.

By order of the Board

Young M. LEE

Director

Hong Kong, 21 September 2007



CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Kyoo Yoon CHOI (*Chairman and Executive Director*)

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

Mr. James WANG

Mr. Jung Kuk LEE (appointed on 31 May 2007)

Mr. Hyun Ho KIM (appointed on 31 May 2007)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Valiant, Kin Piu CHEUNG

Professor Cheong Heon YI

Dr. Chan YOO

AUDIT COMMITTEE

Professor Cheong Heon YI

Mr. Valiant, Kin Piu CHEUNG

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

Tsimshatui Kowloon

Hong Kong

COMPANY SECRETARY

Mr. Wai Fung NGAI



AUDITORS

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

AUTHORISED REPRESENTATIVES

Mr. Young M. LEE
Mr. Wai Fung NGAI

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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