



DREAM INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1126)

2008 INTERIM RESULTS

The board of directors (the “Board”) of Dream International Limited (the “Company”) hereby announce the unaudited consolidated result of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2008 as follows:

CONSOLIDATED INCOME STATEMENT — UNAUDITED FOR THE SIX MONTHS ENDED 30 JUNE 2008

		Six months ended 30 June	
		2008	2007
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	340,002	415,071
Cost of sales		<u>(296,536)</u>	<u>(341,555)</u>
Gross profit		43,466	73,516
Other revenue		8,436	4,990
Selling and distribution expenses		(22,151)	(14,343)
Administrative expenses		(74,777)	(64,074)
Impairment losses on fixed and intangible assets		(6,000)	—
Other net gain/(loss)		3,603	(6,995)
Operating loss		(47,423)	(6,906)
Interest expense		(3,812)	(3,875)
Share of losses of associates		(164)	(22)
Loss before taxation	4	(51,399)	(10,803)
Income tax (expense)/credit	5	(5,218)	13,090
(Loss)/profit for the period		<u>(56,617)</u>	<u>2,287</u>
Attributable to:			
— equity holders of the Company		(51,034)	3,161
— minority interests		(5,583)	(874)
		<u>(56,617)</u>	<u>2,287</u>
Dividend	6	<u>—</u>	<u>—</u>
(Loss)/earnings per share	7		
— Basic		<u>(HK7.6 cents)</u>	<u>HK0.5 cents</u>
— Diluted		<u>(HK7.6 cents)</u>	<u>HK0.5 cents</u>

CONSOLIDATED BALANCE SHEET — UNAUDITED
AS AT 30 JUNE 2008

		As at 30 June 2008 <i>HK\$'000</i>	As at 31 December 2007 <i>HK\$'000</i>
	<i>Note</i>		
Non-current assets			
Fixed assets			
— Leasehold land and land use rights		15,635	15,153
— Property, plant and equipment		194,161	182,022
Intangible assets		15,045	16,623
Investments in associates		1,308	1,373
Deferred tax assets		235	3,826
Other financial assets		77,609	76,284
		<u>303,993</u>	<u>295,281</u>
Current assets			
Inventories		212,801	156,637
Trade and other receivables	8	130,257	168,393
Tax recoverable		524	591
Cash and cash equivalents		65,010	107,222
		<u>408,592</u>	<u>432,843</u>
Current liabilities			
Trade and other payables		172,437	149,845
Bank loans		126,404	113,884
Current tax liabilities		1,675	2,467
		<u>300,516</u>	<u>266,196</u>
Net current assets		<u>108,076</u>	<u>166,647</u>
Total assets less current liabilities		<u>412,069</u>	<u>461,928</u>

CONSOLIDATED BALANCE SHEET — UNAUDITED (CONTINUED)

AS AT 30 JUNE 2008

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Non-current liabilities		
Bank loans	—	780
Deferred tax liabilities	96	248
Retirement benefit obligations	10,689	10,689
	<u>10,785</u>	<u>11,717</u>
NET ASSETS	<u>401,284</u>	<u>450,211</u>
CAPITAL AND RESERVES		
Share capital	52,019	52,019
Reserves	340,564	379,972
Total equity attributable to equity shareholders of the Company	392,583	431,991
Minority interests	8,701	18,220
TOTAL EQUITY	<u>401,284</u>	<u>450,211</u>

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 is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

2. Basis of preparation

These interim financial results are unaudited, but has been reviewed by the Audit Committee of the Company and by the auditors, KPMG, in accordance with Hong Kong Standards 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 (“HKICPA”).

The interim financial results have been prepared in accordance with the applicable requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 34 “Interim financial reporting” (“HKAS 34”) issued by the HKICPA. It was authorised for issuance on 24 September 2008.

The accounting policies and methods of computation adopted in the 2007 annual financial statements have been applied consistently to these interim financial results.

The Hong Kong Financial Reporting Standards (HKFRSs, which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA) that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of these interim financial results. Therefore the accounting policies that will be applied in the Group’s financial statements for that period cannot be determined with certainty at the date of issuance of these interim financial results.

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 as well as the related disclosures. Actual results may differ from these estimates.

In preparing these interim financial results, the Group reviews its property, plant and equipment and intangible assets for indications of impairment according to the relevant accounting policies. In assessing potential impairment identified, the Group uses projections of future cash flow generated from those assets based on management’s assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to these assets. In addition to the estimation involved in assessing the impairment losses of the above mentioned assets, other significant judgements made by management in applying the Group’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2007.

These interim financial results 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 Group since the 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereto do not include all of the information required for a full set of financial statements prepared in accordance with the HKFRSs.

The financial information relating to the year ended 31 December 2007 that are included in these interim financial results 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 2007 are available from the Company's registered office. The previous auditors, PricewaterhouseCoopers have expressed an unqualified opinion on those financial statements in their report dated 18 April 2008.

3. 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.

(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.

	Plush stuffed toys		Steel and plastic toys		Total	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>272,842</u>	<u>345,382</u>	<u>67,160</u>	<u>69,689</u>	<u>340,002</u>	<u>415,071</u>
Segment results	<u>(25,936)</u>	<u>(5,271)</u>	<u>(21,487)</u>	<u>(1,635)</u>	<u>(47,423)</u>	<u>(6,906)</u>
Interest expense					(3,812)	(3,875)
Share of losses of associates	(164)	(22)	—	—	(164)	(22)
Loss before taxation					(51,399)	(10,803)
Income tax (expense)/credit					(5,218)	13,090
(Loss)/profit for the period					<u>(56,617)</u>	<u>2,287</u>
Capital expenditure	<u>24,818</u>	<u>4,891</u>	<u>1,318</u>	<u>3,459</u>	<u>26,136</u>	<u>8,350</u>
Impairment losses on						
— property, plant and equipment	—	—	5,837	—	5,837	—
— intangible assets	—	—	163	—	163	—
Depreciation of property, plant and equipment	10,988	12,451	3,645	3,364	14,633	15,815
Amortisation of						
— leasehold land and land use rights	134	196	50	84	184	280
— intangible assets	—	—	343	343	343	343

	Plush stuffed toys		Steel and plastic toys		Total	
	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Segment assets	486,899	497,640	146,534	148,410	633,433	646,050
Investments in associates	1,308	1,373	—	—	1,308	1,373
Unallocated assets					77,844	80,701
Total assets					<u>712,585</u>	<u>728,124</u>
Segment liabilities	128,510	105,222	54,616	55,312	183,126	160,534
Unallocated liabilities					128,175	117,379
Total liabilities					<u>311,301</u>	<u>277,913</u>

(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.

	Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
North America	152,881	172,982
Japan	101,726	126,943
Europe	70,735	84,525
South Korea	431	3,686
Others	14,229	26,935
	<u>340,002</u>	<u>415,071</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. Income tax (expense)/credit

	Six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
— Hong Kong profits tax	(503)	(565)
— The People's Republic of China ("PRC") and overseas taxation	(1,091)	(261)
— (Under)/over-provision of Hong Kong profits tax in the prior years (<i>Note</i>)	(67)	12,942
Deferred tax assets written off	(3,557)	974
	<u>(5,218)</u>	<u>13,090</u>

Note: The Company's long-standing tax dispute with the Hong Kong Inland Revenue Department ("IRD") has been settled in 2007. In April 2007, the Company reached an agreement with the IRD on the tax filing basis of the Company's offshore claim's for the years of assessment 1998/99 to 2005/06. Under this settlement basis, the IRD agreed that 75% of the offshore profit (which was originally claimed as 100% offshore) were not subject to Hong Kong profits tax, which resulted in a tax refund of approximately \$10 millions and an over-provision of tax from prior years of approximately \$13 millions.

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the period.

On 16 March 2007, the fifth Plenary session of the Tenth National People's Congress passed the new Corporate Income Tax ("CIT") Law of the PRC ("new tax law") which has taken effect on 1 January 2008. Generally, all PRC companies will be subject to CIT at the statutory rate of 25% under the new tax law, unless they are entitled to any preferential tax treatments.

The State Council of the PRC promulgated a grandfathering rule on 26 December 2007, which sets out the details of how certain preferential tax treatments under the Foreign Enterprise Income Tax ("FEIT") Law (effective prior to 1 January 2008) would be grandfathered under the new tax law. According to the grandfathering rule, certain PRC subsidiaries of the Group which have unutilised "2-year FEIT exemption, 3-year 50% FEIT rate reduction" holiday ("Tax Holiday") by 31 December 2007, will continue to enjoy the remaining Tax Holiday. For certain PRC subsidiaries which have not yet kicked off the Tax Holiday by 31 December 2007 (due to the tax losses arising in prior years), under the grandfathering rule, the Tax Holiday is deemed to commence from 1 January 2008 and end at 31 December 2012.

Under the new tax law, dividends received by foreign investor from its investment in foreign-invested enterprises in the PRC are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax treaty between the PRC and Hong Kong, investment holding companies established in Hong Kong are subject to a reduced withholding tax rate of 5% on dividends they receive from their PRC subsidiaries. Pursuant to the grandfathering treatments of the new tax law, dividends receivable by the Group from its PRC subsidiaries in respect of its undistributed profits prior to 31 December 2007 are exempted from the withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 will be subject to the withholding tax.

Taxation on profit from other overseas subsidiaries has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

6. Dividend

No dividend was paid or declared by the Company during the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

7. (Loss)/earnings per share

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the loss attributable to equity holders of HK\$51,034,000 (2007: profit of HK\$3,161,000) by the number of ordinary shares in issue of 668,529,000 shares (six months ended 30 June 2007: 668,529,000 shares) during the period.

(b) Diluted

Diluted (loss)/earnings per share for the six months ended 30 June 2008 and 2007 is the same as the basic (loss)/earnings per share as the potential ordinary shares outstanding during the periods were anti-dilutive.

8. Trade and other receivables

	As at 30 June 2008 <i>HK\$'000</i>	As at 31 December 2007 <i>HK\$'000</i>
Trade receivables	84,982	111,422
Less: Allowance for doubtful debts	<u>(9,737)</u>	<u>(2,955)</u>
	75,245	108,467
Deposits, prepayments and other receivables	47,485	42,402
Amount due from ultimate holding company	7,397	8,194
Amount due from fellow subsidiaries	—	419
Amount due from associates	130	283
Amounts due from related companies	—	328
Loan to a fellow subsidiary	<u>—</u>	<u>8,300</u>
	<u><u>130,257</u></u>	<u><u>168,393</u></u>

At 30 June 2008, the Group's trade debtors were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowance for doubtful debts of \$6,782,000 (2007: \$3,149,000) was recognised.

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

In the first half of 2008, manufacturers particularly those with production facilities in China faced possibly the most severe cost pressure ever. Inevitably, the performance of Dream International Limited (the “Company”) and its subsidiaries (collectively the “Group”) was affected.

For the six months ended 30 June 2008, turnover of the Group dropped to HK\$340,002,000 (2007: HK\$415,071,000), mainly because the Group shifted its focus on to higher margin products and stopped taking small quantity orders. During the period, cost of sales increased substantially as a result of continuous appreciation of the Renminbi (RMB), rising labour cost partly caused by the new labour law taking effect and climbing material costs alongside rising oil price. Thus, the gross profit of the Group saw a drop to HK\$43,466,000 (2007: HK\$73,516,000). Selling and distribution expenses and administrative expenses were also amplified by appreciation of the RMB and the Group also had to pay one-off compensations to workers affected by it closing some production facilities. The Group recorded a loss attributable to equity holders of HK\$51,034,000 for the period, against a profit of HK\$3,161,000 in the last corresponding period in which a HK\$12.9 million write-back of over-provision for tax was booked.

Contingent liabilities

During the period ended 30 June 2008, a United States company commenced a lawsuit in the State of Texas against the Company on the grounds that the Company infringed their patent by selling, offering for sale, distributing and importing infringing goods (the “Litigation”). The plaintiff seeks an award of damages, no less than a reasonable royalty, attorney’s fee, costs and expenses incurred in the Litigation.

Having considered the Litigation with the Company’s various legal counsels, the management and the board of directors believe that the Company’s opposition to the plaintiffs’ complaint, as well as the Company’s defenses and appeal rights, continue to be meritorious. As such, the Company intends to continue to vigorously defend the Litigation. In accordance with paragraph 92 of Hong Kong Accounting Standard 37 (“HKAS 37”), Provisions, Contingent Liabilities and Contingent Assets, it would be against the interests of the Company to make further disclosure of the information required by HKAS 37.

Business Review

Product Analysis

During the period, sales of plush stuffed toys amounted to HK\$272.8 million, accounting for 80.2% of the Group’s total turnover. Original Equipment Manufacturing (“OEM”) business remained the core business of the Group, contributing 83.8% of the sales of the plush stuffed toy segment. With a strong track record as a preferred manufacturing partner of character owners and licensors, in 2008, the Group secured a new customer which is a renowned entertainment company and started manufacturing plush stuffed toys for the customer’s North American markets.

Original Design Manufacturing (“ODM”) business accounted for 16.2% of the sales of the plush stuffed toy segment. Focusing on higher margins products, the Group expanded business with a US retailer and provided more interactive educational electronic plush toys under the “CALTOY” brand to the retailer. The toys have been well-received in the market since they were launched in 2006. In addition, the Group also started business with another US retailer and will manufacture plush stuffed toy also under the “CALTOY” brand for the customer. The Group will maintain relationship with existing profitable customers and seek to secure more orders from them in the future.

In the first half of 2008, the Group signed a licence agreement with Disney, which it saw as a significant business achievement. The Group is licensed to design and manufacture plush and soft toys of various popular Disney characters, such as Mickey Mouse, Winnie the Pooh, Sleeping Beauty, Peter Pan, as well as characters in the film properties, etc. of the entertainment giant. The Group can also sell the finished products to mass retail chains such as Kmart, Target and Wal-Mart, and specialty toy stores, book chains, drug stores, grocery stores and wholesale club stores in the US. This licence has given the Group flexibility to decide the different aspects of a product from the drawing board to the shelf in the store, allowing it to realize the full potential of the products.

The steel and plastic toy segment recorded sales of HK\$67.2 million, accounting for 19.8% of the Group's total turnover, a bigger share than in the same period last year. During the period, the Group secured additional orders from a marketing company that distributes toys to major US retailers. Apart from scooters, tricycles and other ride-on toys, this customer placed new orders for a high-end tricycle with electronic sound mechanism on the handle bar. The Group also strengthened presence in the China market thanks to another character licence from Disney for manufacturing scooters and ride-on products and the expanded sales network for scooters and inline skates under its own "Great" and "Far Great" brands.

Market Analysis

For the six months ended 30 June 2008, North America remained the Group's largest market. Benefited from the increasing orders for steel and plastic toys from a new customer secured in the second half of 2007, contribution from this market rose to 45.0% of the Group's total turnover. Japan was the second largest market and its turnover contribution maintained at 29.9% of the total turnover, while another major market, Europe, accounted for 20.8%. During the period, contribution from the China market represented 0.6% of the Group's total turnover.

Operational Analysis

As at 30 June 2008, the Group operated 12 plants in total, of which nine were in China and three in Vietnam, running at an average utilization rate of 86.4%. During the period, the Group continued to restructure its production regime to improve production efficiency and cost-effectiveness. To alleviate pressure from rising labour cost in coastal areas in China, the Group reduced production of a plant near Shanghai and another in Shenzhen and concentrated on production activities in inland China. Furthermore, the Group expanded the production base in Vietnam to enjoy the lower labour cost in the country. Preparatory work on two new plants started in the first half of 2008 and around US\$2 million had been invested in the new facilities.

Prospects

The effects of rapid appreciation of the RMB, surging labour cost and raw material cost combined had led to the setback of the Group's results in the first half of 2008. These challenges together with the global economic downturn have sped up consolidation of the toy industry ousting many smaller players. However, for market leaders like Dream International Limited, who have scalable production capacity and capable of delivering quality products, they enjoy growing power on price determination of their products in the consolidating market. In addition, seeing signs of certain macroeconomic factors improving, such as appreciation of the RMB slowing down and oil price becoming stable, the Group remains cautiously optimistic about the market environment in the second half of 2008.

The Group will continue to restructure production with lowering manufacturing costs as the goal. The complete closure of the two plants near Shanghai and in Shenzhen by the end of the year will result in significant saving in labour and administrative costs, and stepping up production in inland China will help to enhance facility utilization and production efficiency of the plants there. By expanding the production base in Vietnam, the Group has alleviated part of the cost pressure stemming from the new labour law in China taking effect during the review period. With a new fabric factory and a plush toy plant equipped with 1,000 sewing machines scheduled to commence operation in the fourth quarter of the year, the Group will enjoy better economies of scale and higher operational efficiency in Vietnam.

Furthermore, the Group expects licensed production to become a growth driver of its business in the future. Given flexibility to design and manufacture Disney products, the Group can provide products with higher profit margins and play a more active role in capturing opportunities in the market to enhance profitability and broaden its revenue stream. To make sure it is equipped for tapping the lucrative market, the Group will inject more resources into research and development of more innovative and high quality products that can meet the ever-changing demands of consumers.

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2008, the Group had 16, 6433, 45, 13, 7 and 2783 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 2008, the Group had net current assets of HK\$108.1 million (31 December 2007: HK\$166.6 million). The Group's total cash and cash equivalent as at 30 June 2008 amounted to HK\$65.0 million (31 December 2007: HK\$107.2 million). The total borrowings of the Group as at 30 June 2008 amounted to HK\$126.4 million (31 December 2007: HK\$114.7 million).

The Group's gearing ratio, calculated on the basis of total borrowings over the total shareholders' equity, was increased to 31.5% (31 December 2007: 25.5%) to fund the expansion of the production plants in Vietnam.

PLEDGE ON GROUP ASSETS

Bank borrowings are secured on the Group's building, plant and machinery and land use rights for the value of HK\$60.9 million (31 December 2007: HK\$97.9 million)

INTERIM DIVIDEND

The Board of Directors did not recommend the payment of interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

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

During the six-month period ended 30 June 2008, 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 2008, the Company has fully complied with the Code on Corporate Governance Practice as set out in Appendix 4 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 2008.

By order of the Board
Young M. LEE
Director

Hong Kong, 24 September 2008

The Directors of the Company as at the date of this announcement are as follows:

Executive Directors

Mr. Kyoo Yoon Choi (*Chairman*)
Mr. Young M. Lee
Mr. James Wang
Mr. Jung Kuk Lee
Mr. Hyun Ho Kim

Independent Non-Executive Directors

Professor Cheong Heon Yi
Dr. Chan Yoo
Professor Byong Hun Ahn
Mr. Oliver, Shing Kay Wong