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## DREAM INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1126)

### 2009 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 (the “Group”) for the six months ended 30 June 2009 as follows:

#### CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2009 — UNAUDITED

		<b>Six months ended 30 June</b>	
		<b>2009</b>	<b>2008</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>	4	<b>382,226</b>	340,002
Cost of sales		<u>(277,791)</u>	<u>(296,536)</u>
<b>Gross profit</b>		<b>104,435</b>	43,466
Other revenue		4,244	8,436
Other net income		23,726	3,603
Distribution costs		(25,384)	(22,151)
Administrative expenses		(64,767)	(74,940)
Impairment losses on fixed assets		—	(5,837)
<b>Profit/(loss) from operations</b>		<b>42,254</b>	(47,423)
Finance costs	5(a)	(1,388)	(3,812)
Share of losses of associates		<u>(100)</u>	<u>(164)</u>
<b>Profit/(loss) before taxation</b>	5	<b>40,766</b>	(51,399)
Income tax	6	(2,640)	(5,218)
<b>Profit/(loss) for the period</b>		<b><u>38,126</u></b>	<b><u>(56,617)</u></b>
<b>Attributable to:</b>			
Equity shareholders of the Company		38,932	(51,034)
Minority interests		<u>(806)</u>	<u>(5,583)</u>
		<b><u>38,126</u></b>	<b><u>(56,617)</u></b>
<b>Earnings/(loss) per share</b>	9		
Basic		<b><u>HK5.8 cents</u></b>	<b><u>(HK7.6 cents)</u></b>
Diluted		<b><u>HK5.8 cents</u></b>	<b><u>(HK7.6 cents)</u></b>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009 — UNAUDITED**

		<b>Six months ended 30 June</b>	
		<b>2009</b>	<b>2008</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit/(loss) for the period</b>		<b>38,126</b>	(56,617)
<b>Other comprehensive income for the period</b>			
<b>(after tax and reclassification adjustments):</b>			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		1,270	7,690
Available-for-sales securities: net movement in fair value reserve	7	<u>40</u>	<u>—</u>
		<u>1,310</u>	<u>7,690</u>
<b>Total comprehensive income/(loss) for the period</b>		<b><u>39,436</u></b>	<b><u>(48,927)</u></b>
<b>Attributable to:</b>			
Equity shareholders of the Company		40,228	(39,408)
Minority interests		<u>(792)</u>	<u>(9,519)</u>
<b>Total comprehensive income/(loss) for the period</b>		<b><u>39,436</u></b>	<b><u>(48,927)</u></b>

**CONSOLIDATED BALANCE SHEET**  
**AT 30 JUNE 2009 — UNAUDITED**

		At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
	<i>Note</i>		
<b>Non-current assets</b>			
Fixed assets			
— Interests in leasehold land held for own use under operating leases		16,710	21,396
— Other property, plant and equipment		<u>130,301</u>	<u>171,933</u>
		<b>147,011</b>	193,329
Intangible assets			
Investments in associates		12,037	12,516
Other financial assets		858	950
Deferred tax assets		5,551	—
		<u>1,267</u>	<u>503</u>
		<u>166,724</u>	<u>207,298</u>
<b>Current assets</b>			
Inventories		156,073	132,909
Trade and other receivables	10	118,439	199,889
Current tax recoverable		355	255
Other financial assets		—	73,954
Cash and cash equivalents		<u>203,198</u>	<u>122,370</u>
		<u>478,065</u>	<u>529,377</u>
<b>Current liabilities</b>			
Trade and other payables	11	166,503	198,332
Bank loans		51,018	145,692
Current tax payable		<u>4,910</u>	<u>6,976</u>
		<u>222,431</u>	<u>351,000</u>
<b>Net current assets</b>		<u>255,634</u>	<u>178,377</u>
<b>Total assets less current liabilities</b>		<u>422,358</u>	<u>385,675</u>

**CONSOLIDATED BALANCE SHEET (CONTINUED)**  
**AT 30 JUNE 2009 — UNAUDITED**

	<b>At 30 June 2009 HK\$'000</b>	<b>At 31 December 2008 HK\$'000</b>
<b>Non-current liabilities</b>		
Net defined benefit retirement obligation	<u>4,225</u>	<u>6,978</u>
<b>NET ASSETS</b>	<u><b>418,133</b></u>	<u><b>378,697</b></u>
<b>CAPITAL AND RESERVES</b>		
Share capital	52,019	52,019
Reserves	<u>360,422</u>	<u>322,123</u>
<b>Total equity attributable to equity shareholders of the Company</b>	<b>412,441</b>	374,142
<b>Minority interests</b>	<u><b>5,692</b></u>	<u>4,555</u>
<b>TOTAL EQUITY</b>	<u><b>418,133</b></u>	<u><b>378,697</b></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 the 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 have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “*Interim financial reporting*” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was approved by the Board of Directors and authorised for issuance on 25 September 2009.

The interim financial results have been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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

These interim financial results contain 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 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with the HKFRSs.

### 3 Changes in accounting policies

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

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to HKFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*
- HKAS 23 (revised 2007), *Borrowing costs*
- Amendments to HKFRS 2, *Share-based payment — vesting conditions and cancellations*

The amendments to HKAS 23 and HKFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial results. The impact of the remainder of these developments on the interim financial results is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, but has not resulted in additional reportable segments being identified and presented (see note 4). As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanation has been included in the interim financial results which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.
- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in these interim financial results and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The “Improvements to HKFRSs (2008)” comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendment has resulted in changes to the Group’s accounting policies:
  - As a result of amendments to HKAS 28, *Investments in associates*, impairment losses recognised in respect of the associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.
- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the Company’s profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

#### 4. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. On first-time adoption of HKFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group’s most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Plush stuffed toys: this segment is involved in the design, development, manufacture and sale of plush stuffed toys. These products are either sourced externally or are manufactured in the Group’s manufacturing facilities located primarily in The People’s Republic of China (“the PRC”) and Vietnam.
- Steel and plastic toys: this segment is involved in the design, development, manufacture and sale of steel and plastic toys. These products are manufactured in the PRC and sold to customers mainly located in the United States and Europe.

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

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

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

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

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

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

For the six months ended 30 June	Plush stuffed toys		Steel and plastic toys		Total	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Revenue from external customers	<b>324,314</b>	272,842	<b>57,912</b>	67,160	<b>382,226</b>	340,002
Inter-segment revenue	—	—	—	24	—	24
<b>Reportable segment revenue</b>	<b><u>324,314</u></b>	<u>272,842</u>	<b><u>57,912</u></b>	<u>67,184</u>	<b><u>382,226</u></b>	<u>340,026</u>
<b>Reportable segment profit/(loss) (adjusted EBITDA)</b>	<b>55,773</b>	(18,280)	<b>898</b>	(10,821)	<b>56,671</b>	(29,101)
<b>Impairment of</b>						
— plant and machinery	—	—	—	(5,837)	—	(5,837)
— intangible assets	—	—	—	(163)	—	(163)
<b>Reportable segment assets</b>	<b>366,935</b>	454,496	<b>108,579</b>	116,378	<b>475,514</b>	570,874
<b>Additions to non-current segment assets during the period</b>	<b>5,738</b>	24,818	<b>289</b>	1,318	<b>6,027</b>	26,136
<b>Reportable segment liabilities</b>	<b>133,894</b>	154,237	<b>89,968</b>	94,629	<b>223,862</b>	248,866

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

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
<b>Revenue</b>		
Reportable segment revenue	<b>382,226</b>	340,026
Elimination of inter-segment revenue	—	(24)
Consolidated turnover	<b><u>382,226</u></b>	<u>340,002</u>

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit/(loss)</b>		
Reportable segment profit/(loss)	56,671	(29,101)
Share of losses of associates	(100)	(164)
Interest income	987	1,882
Depreciation and amortisation	(11,967)	(15,160)
Finance costs	(1,388)	(3,812)
Unallocated head office and corporate expenses	(3,437)	(5,044)
	<hr/>	<hr/>
Consolidated profit/(loss) before taxation	<b>40,766</b>	(51,399)
	<hr/> <hr/>	<hr/> <hr/>
	<b>At 30 June</b>	At 31 December
	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Assets</b>		
Reportable segment assets	475,514	570,874
Elimination of inter-segment receivables	(53,134)	(43,556)
	<hr/>	<hr/>
	422,380	527,318
Club memberships	11,180	11,325
Investments in associates	858	950
Other financial assets	5,551	73,954
Deferred tax assets	1,267	503
Current tax recoverable	355	255
Unallocated head office and corporate assets	203,198	122,370
	<hr/>	<hr/>
Consolidated total assets	<b>644,789</b>	736,675
	<hr/> <hr/>	<hr/> <hr/>
	<b>At 30 June</b>	At 31 December
	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Liabilities</b>		
Reportable segment liabilities	223,862	248,866
Elimination of inter-segment payables	(53,134)	(43,556)
	<hr/>	<hr/>
	170,728	205,310
Current tax payable	4,910	6,976
Unallocated head office and corporate liabilities	51,018	145,692
	<hr/>	<hr/>
Consolidated total liabilities	<b>226,656</b>	357,978
	<hr/> <hr/>	<hr/> <hr/>

## 5. Profit/(loss) before taxation

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

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
<b>(a) Finance costs:</b>		
Interest on borrowings	<u>1,388</u>	<u>3,812</u>
<b>(b) Other items:</b>		
Amortisation:		
— intangible assets	362	343
— leasehold land and land use right	160	184
Depreciation	11,445	14,633
Operating leases charges in respect of land and buildings	9,842	11,397
(Reversal of write-down)/write-down inventories, net	(370)	6,498
Interest income	(987)	(1,882)
(Gain)/loss on disposal of fixed assets	<u>(21,589)</u>	<u>700</u>

## 6. Income tax

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Current tax— Hong Kong Profits Tax	888	570
Current tax— Outside Hong Kong	2,514	1,091
Deferred taxation	<u>(762)</u>	<u>3,557</u>
	<u>2,640</u>	<u>5,218</u>

## 7. Other comprehensive income

*Available-for-sale securities*

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Changes in fair value recognised during the period in other comprehensive income	<u>40</u>	<u>—</u>

## 8. Dividend

No dividend was paid or declared by the Company during the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

## 9. Earnings/(loss) per share

### (a) Basic

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity holders of the Company of HK\$38,932,000 (six months ended 30 June 2008: loss of HK\$:51,034,000) and the weighted average number of ordinary shares of 668,529,000 shares (six months ended 30 June 2008: 668,529,000 shares).

### (b) Diluted

The Company did not have dilutive potential ordinary shares outstanding during the six months ended 30 June 2008 and 2009. Accordingly, the diluted earnings/(loss) per share is the same as the basic earnings/(loss) per share for both periods.

## 10. Trade and other receivables

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

	As at 30 June 2009 HK\$'000	As at 31 December 2008 HK\$'000
Current	45,070	135,716
Less than 1 month past due	12,115	5,373
1 to 3 months past due	2,571	6,378
More than 3 months but less than 12 months past due	1,139	1,468
More than 12 months past due	—	25
	<hr/>	<hr/>
Trade debtors and bills receivable, net of allowance for doubtful debts	60,895	148,960
Other receivables and prepayments	51,201	43,763
Amount due from ultimate holding company	5,201	6,115
Amount due from a fellow subsidiary	1,112	1,000
Amount due from an associate	30	51
	<hr/>	<hr/>
	<b>118,439</b>	<b>199,889</b>

Trade debtors and bills receivable are due within thirty to sixty days from the date of billing. However, debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted.

## 11. Trade and other payables

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

	As at 30 June 2009 <i>HK\$'000</i>	As at 31 December 2008 <i>HK\$'000</i>
Due within 1 month or on demand	41,825	59,984
Due after 1 month but within 3 months	31,201	31,484
Due after 3 months but within 6 months	690	—
Due after 6 months but within 1 year	—	—
Due after 1 year	—	110
	<hr/>	<hr/>
Total creditors and bills payable	73,716	91,578
Accrued charges and other payables	86,335	95,822
Amount due to ultimate holding company	1,311	—
Amounts due to fellow subsidiaries	4,129	9,079
Amount due to an associate	1,012	1,853
	<hr/>	<hr/>
	<b>166,503</b>	<b>198,332</b>

## MANAGEMENT DISCUSSION & ANALYSIS

### Financial Review

In the first half of 2009, the global financial crisis continued to affect economies worldwide resulting in poor market sentiment especially in the US that hit the toy industry. However, with an established customer base and an improved operational structure, Dream International Limited (the “Company”) and its subsidiaries (collectively the “Group”) were able to achieve satisfactory results amid the challenging market environment.

For the six months ended 30 June 2009, driven by the growing sales of the plush stuffed toys segment, the Group’s turnover increased by 12.4% year-on-year to HK\$382.2 million (2008: HK\$340.0 million). At the efforts of the Group in the past few years to restructure and relocate production bases to inland China and Vietnam, the Group managed to lower labour cost and enhance production efficiency leading to a 6.3% drop in cost of sales to HK\$277.8 million during the review period (2008: HK\$296.5 million) and a 1.4 times surge in gross profit to HK\$104.4 million (2008: HK\$43.5 million). Administrative expenses were also slashed by 13.5% to HK\$64.8 million (2008: HK\$74.9 million). Fixed assets were disposed with a gain of about HK\$21.6 million (2008: Loss on disposal of fixed assets: HK\$0.7 million). The Group turned around its business during the period with profit attributable to shareholders amounting to HK\$38.9 million, a significant improvement from loss of HK\$51.0 million in the last corresponding period.

The Group maintained a strong financial position with cash and cash equivalents of HK\$203.2 million as at 30 June 2009 (31 December 2008: HK\$122.4 million).

## **Business Review**

### ***Product Analysis***

#### *Plush stuffed toys segment*

During the period, sales of plush stuffed toys surged by 18.9% to HK\$324.3 million, accounting for 84.8% of the Group's total turnover. Original Equipment Manufacturing ("OEM") and licensing business remained the core business of the Group, representing 91.1% of the sales of the segment. For the OEM business, the Group's strategy is to nurture closer cooperation with existing customers who are famous character owners and licensors. During the period, the Group received a large order from a Japanese customer for a series of new products under a new character, which gave growth impetus to the business. Those new products were well received in the market and more orders are expected from the customer in the future. Furthermore, orders from other OEM customers including a renowned US entertainment company secured last year remained stable during the period.

The licensing business covering design and manufacture of plush and soft toys of various popular Disney characters which are sold to major US retailers continued to grow. In addition to the popular teenager items under the High School Musical and Hanna Montana brands, the Group expanded the product mix of the business to infant plush toys featuring other Disney characters during the period and received encouraging market response. Enjoying flexibility in deciding the different aspects of a product, the Group will adjust expansion pace and tailor new products to match market demands in the future.

Original Design Manufacturing ("ODM") business accounted for 8.9% of the sales of the plush stuffed toys segment. In the face of the economic downturn, the Group stopped taking small volume orders and mounted rounds of promotional sales to attract larger orders from renowned US retailers. To boost sales of higher-margin products, the Group continued to launch and promote interactive toys carrying the "CALTOY" brand, such as interactive educational electronic plush stuffed toys. The Group will continue to launch more interactive toy products and capture more market opportunities with self-developed innovative products.

#### *Steel and plastic toys segment*

Sales of the steel and plastic toys segment amounted to HK\$57.9 million, accounting for 15.2% of the Group's total turnover. During the period, the Group trimmed down production of low-margin items and increased the proportion of products with higher selling price and better profit margins in the product mix. High-end products like tricycles with electronic sound mechanism on the handle bar, which the Group produces for a US marketing company, remained popular, and a new series of scooters also brought increasing orders from the US and European markets. The Group is currently co-developing new scooters with customers and new models will be launched in the two markets in the coming months. Furthermore, the Group restructured the sales network of its own "Great" and "Far Great" brands in China by focusing on metropolitan areas reporting high sales volumes, thereby strengthened its presence in the market.

During the period, the Group developed bicycle and tricycle products associated with a Japanese character very popular in China, and it will cooperate with a Tianjin bicycle company to launch the new products in the market in the second half year of 2009. Besides, having secured another character license from Disney for manufacturing scooters and ride-on products, the Group will accelerate its penetration in the China market.

## ***Market Analysis***

For the six months ended 30 June 2009, appreciation of the Japanese Yen and a large order for new plush products from a Japanese customer made Japan the largest market of the Group, accounting for 39.7% of the Group's total turnover. The weakened US market took the second place with share of contribution down to 32.1% of the total turnover. Sales from another major market Europe was fairly stable at 19.2%. To develop a more balanced market portfolio, the Group stepped up expansion in the China market which accounted for 3.7% of the total turnover for the period.

## ***Operational Analysis***

As at 30 June 2009, the Group operated eight plants in all, six of which were in China and two in Vietnam, running at an average utilisation rate of around 78%. The Group, through restructuring and relocation of its plants to either inland China or Vietnam, was able to enjoy better production efficiency and cost-effectiveness at markedly reduced direct labour costs and administrative expenses during the period. The production plant of the Group in Vietnam has gradually gone on smooth track and another factory for fabric manufacturing in the country also commenced operation in the first half of 2009 as scheduled.

## **Prospects**

The global economy is recovering slowly. The US, which is the largest toy market in the world, though still reporting discouraging economic figures, such as high employment rate, the Group sees some factors favourable for its development in the near future.

Consolidation of the toy industry, which began a few years ago as the operational environment got tougher and tougher and hastened by the economic downturn which started last year, has ousted many toy manufacturers. The decreasing overall manufacturing capacity for plush toys is favourable to the Group as the world's largest plush toy manufacturer, since it is well-positioned to claim a bigger market share and stronger bargaining power in pricing. Moreover, tightening safety and testing requirements on toys manufactured in China and rising production costs in the country are also going to give advantage to well-established industry players like Dream International Limited which has scalable production capacity, solid customer base, strong R&D capability and sound financial position for producing quality products.

Apart from focusing on higher-margin products, the Group will continue to tighten cost control to maintain profitability. Apart from enjoying relatively lower labour costs in inland China, with the new fabric plant in Vietnam already in full operation, the Group has established a vertically integrated production line that boasts lower production costs there. The Group is planning next to ramp up production capacities of the production base in Vietnam to reap greater economies of scale and it expects this production base to take up more orders and contribute more revenue in the future.

## **NUMBER AND REMUNERATION OF EMPLOYEES**

At 30 June 2009, the Group had 7,998 employees (31 December 2008: 8,706) in Hong Kong, Mainland China, South Korea, US, Japan and Vietnam. 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 2009, the Group had net current assets of HK\$255.6 million (31 December 2008: HK\$178.4 million). The Group's total cash and cash equivalents as at 30 June 2009 amounted to HK\$203.2 million (31 December 2008: HK\$122.4 million). The total borrowings of the Group as at 30 June 2009 amounted to HK\$51.0 million (31 December 2008: HK\$145.7 million).

The Group's gearing ratio, calculated on the basis of total bank borrowings over the total shareholders' equity, decreased significantly from 38.5% at 31 December 2008 to 12.2% at 30 June 2009. The decrease was mainly due to early redemption of long-term structured deposit of about HK\$78 million, the proceeds received on disposal of plant in Jiangsu of about HK\$46 million and repayment of bank borrowings of about HK\$95 million.

Being another step of our strategies to restructure the business operations, we invested about US\$1 million in Vietnam to establish a new plant in Mekong Delta of Vietnam in the first half of 2009 in order to balance the production level with China. The Group expects to spend another US\$5 million to the plant to increase production capacity and it will be financed with the Group's internal resources.

## **PLEDGE ON GROUP ASSETS**

Bank borrowings are secured on the Group's buildings, plant and machinery, land use rights and time deposit with a net book value as at 30 June 2009 of HK\$52.2 million (31 December 2008: HK\$134.4 million)

## **INTERIM DIVIDEND**

The Board of Directors did not recommend the payment of interim dividend for the six months ended 30 June 2009 (30 June 2008: Nil).

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

During the six-month period ended 30 June 2009, 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 2009, 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 specific enquires of The Company's directors, the directors have complied with the required standard set out in Model Code.

## AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters of the interim results for the six months ended 30 June 2009.

By order of the Board  
**Young M. LEE**  
*Director*

Hong Kong, 25 September 2009

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. Hyun Ho Kim

*Independent Non-Executive Directors*

Professor Cheong Heon Yi

Professor Byong Hun Ahn

Mr. Oliver, Shing Kay Wong