DREAM INTERNATIONAL LIMITED

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

2010 INTERIM RESULTS

The Board of Directors (the "Board") of Dream International Limited (the "company") hereby announce the unaudited consolidated results of the company and its subsidiaries (the "group") for the six months ended 30 June 2010 as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2010 — UNAUDITED

		Six months ended 30 June	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Turnover	*4*	**645,530**	382,226
Cost of sales		**(439,128)**	(277,791)
Gross profit		**206,402**	104,435
Other revenue		**4,355**	4,244
Other net income		**2,648**	23,726
Distribution costs		**(58,696)**	(25,384)
Administrative expenses		**(67,692)**	(64,767)
Profit from operations		**87,017**	42,254
Finance costs	*5(a)*	**(491)**	(1,388)
Share of losses of associates		**(194)**	(100)
Profit before taxation	*5*	**86,332**	40,766
Income tax	*7*	**(10,251)**	(2,640)
Profit for the period		**76,081**	38,126
Attributable to:			
Equity holders of the company		**75,717**	38,932
Non-controlling interests		**364**	(806)
		76,081	38,126
Earnings per share	*9*		
Basic and diluted		**HK11.3 cents**	HK5.8 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2010 — UNAUDITED

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Profit for the period	**76,081**	38,126
Other comprehensive income for the period (after tax and reclassification adjustments):		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**(1,234)**	1,270
Available-for-sales securities: net movement in fair value reserve	**186**	40
	(1,048)	1,310
Total comprehensive income for the period	**75,033**	39,436
Attributable to:		
Equity shareholders of the company	**74,573**	40,228
Non-controlling interests	**460**	(792)
Total comprehensive income for the period	**75,033**	39,436

CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2010 — UNAUDITED

	Note	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Non-current assets			
Fixed assets	*11*		
— Interests in leasehold land held for own use under operating leases		**23,627**	16,459
— Other property, plant and equipment		**146,153**	131,880
		169,780	148,339
Long term receivables	*6*	**6,540**	—
Prepayments		**1,995**	9,184
Intangible assets		**14,168**	14,028
Interests in associates		**448**	638
Other financial assets	*10*	**6,108**	6,142
Deferred tax assets		**640**	2,299
		199,679	180,630
Current assets			
Inventories	*12*	**217,259**	149,246
Trade and other receivables	*13*	**166,970**	152,475
Current tax recoverable		**—**	33
Other financial assets	*10*	**14,127**	3,359
Bank deposits		**63,316**	36,801
Cash and cash equivalents		**145,690**	287,761
		607,362	629,675
Current liabilities			
Trade and other payables	*14*	**236,611**	271,793
Bank loans		**29,106**	55,487
Current tax payable		**9,750**	5,988
		275,467	333,268
Net current assets		**331,895**	296,407
Total assets less current liabilities		**531,574**	477,037

CONSOLIDATED BALANCE SHEET *(CONTINUED)*
AT 30 JUNE 2010 — UNAUDITED

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Non-current liabilities		
Net defined benefit retirement obligations	**606**	1,046
NET ASSETS	**530,968**	475,991
CAPITAL AND RESERVES		
Share capital	**52,019**	52,019
Reserves	**467,174**	412,657
Total equity attributable to equity shareholders of the Company	**519,193**	464,676
Non-controlling interests	**11,775**	11,315
TOTAL EQUITY	**530,968**	475,991

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. General information

The principal activities of 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

This 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 authorised for issuance on 27 August 2010.

The interim financial results have been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 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.

This 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 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

3 Changes in accounting policies

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

— HKFRS 3 (revised 2008), *Business combinations*
— Amendments to HKAS 27, *Consolidated and separate financial statements*
— Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations - plan to sell the controlling interest in a subsidiary*
— Improvements to HKFRSs (2009)
— HK(IFRIC) 17, *Distribution of non-cash assets to owners*

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

The developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

— The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 has not yet had a material effect on the group's financial statements as these changes will first be effective as and when the group enters into a relevant transaction (for example, a business combination, a partial disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

— The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

— As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

    — Transaction costs that the group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

— If the group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

— Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

— If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

— In addition to the group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interests' proportionate share of the acquiree's net identifiable assets, in future the group may elect, on a transaction by transaction basis, to measure the non-controlling interests at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

— As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

— If the group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the group treated such transactions as step-up transactions and partial disposals, respectively.

— If the group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the balance sheet date the group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

— In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, *Investments in associates*, and HKAS 31, *Interests in joint ventures*, the following policies will be applied as from 1 January 2010:

  — If the group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  — If the group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

— HK(IFRIC) 17 requires distributions of non-cash assets to owners to be measured at the fair value of the assets distributed. This will result in a gain or loss being recognised in profit or loss to the extent that the fair value of the assets is different from their carrying value. Previously the group measured such distributions at the carrying value of the assets distributed. In accordance with the transitional provisions in HK(IFRIC) 17, this new accounting policy will be applied prospectively to distributions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the group's financial statements are as follows:

— As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

— As a result of the amendment to HKAS 17, *Leases*, arising from the "*Improvements to HKFRSs (2009)*" omnibus standard, the group has re-evaluated the classification of its interests in leasehold land as to whether, in the group's judgement, the leases transfer significantly all the risks and rewards of ownership of the land such that the group is in a position economically similar to that of a purchaser. The group has concluded that the classification of such leases as operating leases continues to be appropriate as the leases do not transfer significantly all the risks and rewards of ownership of the land to the group.

4. Segment reporting

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

— Plush stuffed toys: this segment is involved in the design, development, manufacture and sale of plush stuffed toys. These products are either sourced externally or are manufactured in the group's manufacturing facilities located primarily in the People's Republic of China ("the PRC") and Vietnam.

— Steel and plastic toys: this segment is involved in the design, development, manufacture and sale of steel and plastic toys. These products are manufactured in the PRC and sold to customers mainly located in the PRC and Japan.

(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. Other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

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

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

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	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers and reportable segment revenue	**574,469**	324,314	**71,061**	57,912	**645,530**	382,226
Reportable segment profit (adjusted EBITDA)	**95,724**	55,773	**5,384**	898	**101,108**	56,671
Reportable segment assets	**481,804**	393,772	**133,744**	99,843	**615,548**	493,615
Additions to non-current segment assets during the period	**41,371**	20,338	**1,143**	4,626	**42,514**	24,964
Reportable segment liabilities	**200,479**	232,501	**89,404**	74,031	**289,883**	306,532

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

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Profit		
Reportable segment profit	**101,108**	56,671
Share of losses of associates	**(194)**	(100)
Interest income	**991**	987
Depreciation and amortisation	**(11,352)**	(11,967)
Finance costs	**(491)**	(1,388)
Unallocated head office and corporate expenses	**(3,730)**	(3,437)
Consolidated profit before taxation	**86,332**	40,766

	At 30 June 2010 *HK$'000*	At 31 December 2009 *HK$'000*
Assets		
Reportable segment assets	**615,548**	493,615
Elimination of inter-segment receivables	**(52,666)**	(33,693)
	562,882	459,922
Club memberships	**13,830**	13,350
Interests in associates	**448**	638
Deferred tax assets	**640**	2,299
Current tax recoverable	**—**	33
Other financial assets	**20,235**	9,501
Unallocated head office and corporate assets	**209,006**	324,562
Consolidated total assets	**807,041**	810,305

	At 30 June 2010 *HK$'000*	At 31 December 2009 *HK$'000*
Liabilities		
Reportable segment liabilities	**289,883**	306,532
Elimination of inter-segment payables	**(52,666)**	(33,693)
	237,217	272,839
Current tax payable	**9,750**	5,988
Unallocated head office and corporate liabilities	**29,106**	55,487
Consolidated total liabilities	**276,073**	334,314

5. Profit before taxation

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

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
(a) Finance costs:		
Interest on bank borrowings	**491**	1,388
(b) Other items:		
Amortisation:		
— intangible assets	**338**	362
— land lease premium	**228**	160
Depreciation	**10,786**	11,445
Operating lease charges: minimum lease payments in respect of property rentals	**10,217**	9,842
Inventories write-down and losses	**2,034**	4,173
Reversal of impairment of inventories	**(6,551)**	(4,543)
Bank interest income	**(645)**	(987)
Interest income from other financial assets	**(346)**	—
Net unrealised gain on financial assets designated as fair value through profit or loss	**(709)**	—
Net realised gain on other financial assets	**—**	(3,098)

6 Gain on disposal of interest in subsidiary

On 1 January 2010, the company disposed of a 100% interest in C & H Toys (Shuyang) Co., Ltd. ("CTSY") to the existing factory manager ("the Purchaser") at a consideration of US$1,387,000 (equivalent to HK$10,757,000) realising a net gain on disposal of HK$68,000. The principal activity of the CTSY was the manufacture of plush stuffed toys.

	HK$'000
Assets and liabilities (other than cash or cash equivalents) disposed of:	
Fixed assets	**9,763**
Inventories	**43**
Debtors, bills receivable, deposits and prepayments	**1,429**
Creditors and accrued charges	**(6,358)**
	4,877
Disposal proceeds	**(10,757)**
Cash and cash equivalents disposed of	**5,812**
Gain on disposal of interest in subsidiary	**(68)**
Net inflow of cash and cash equivalents in respect of the disposal of interest in subsidiary	**4,945**

In accordance with the sales and purchase agreement, the outstanding consideration as at 30 June 2010 is receivable as follows:

	As at 30 June 2010 *HK$'000*
Within 1 year	**935**
After 1 year but within 5 years	**6,540**
	7,475

Property and land use rights of CTSY with a carrying value of RMB7,866,000 (equivalent to HK$8,968,000) as at 31 December 2009 were pledged to a subsidiary of the company to secure the amount due from the Purchaser.

7. Income tax

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Current tax— Hong Kong Profits Tax	**2,699**	888
Current tax— Outside Hong Kong	**5,908**	2,514
Deferred taxation	**1,644**	(762)
	10,251	2,640

8. Dividends

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

	As at 30 June 2010	As at 31 December 2009
	HK$'000	*HK$'000*
Interim dividend declared and paid after the interim period of 2 cents per share (2009: nil)	**13,371**	—

The interim dividend has not been recognised as a liability at the balance sheet date.

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

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 3 cents per share (six months ended 30 June 2009: nil)	**20,056**	—

9. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the company of HK$75,717,000 (six months ended 30 June 2009: HK$38,932,000) and the weighted average number of ordinary shares of 668,529,000 shares (six months ended 30 June 2009: 668,529,000 shares).

(b) Diluted earnings per share

The company did not have dilutive potential ordinary shares outstanding during the six months ended 30 June 2010 and 2009. Accordingly, the diluted earnings per share is the same as the basic earnings per share for both periods.

10. Other financial assets

	As at 30 June 2010 *HK$'000*	As at 31 December 2009 *HK$'000*
Non-current		
Available-for-sale debt securities – unlisted	**6,108**	6,142
Current		
Equity-linked deposits	**14,127**	—
Held-to-maturity debt securities – unlisted	**—**	3,359
	14,127	3,359
	20,235	9,501

Equity-linked deposits represent 12 month deposits placed with a bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200.

11 Fixed assets

During the six months ended 30 June 2010, the group acquired items of fixed assets with a cost of HK$42,514,000 (six months ended 30 June 2009: HK$6,027,000). Items of fixed assets with a net book value of HK$544,000 were disposed of during the six months ended 30 June 2010 (six months ended 30 June 2009: HK$41,496,000), resulting in a gain on disposal of HK$287,000 (six months ended 30 June 2009: a gain on disposal of HK$21,589,000). In addition, during the period ended 30 June 2010, the group disposed of fixed assets with a net book value of HK$9,763,000 through the disposal of an interest in a subsidiary (six months ended 30 June 2009: HK$ nil) (see note 6).

12 Inventories

During the six months ended 30 June 2010, an amount of HK$6,551,000 (2009: HK$4,543,000) has been recognised as a reversal of impairment of inventories. The reversal of impairment of inventories arose due to an increase in the estimated net realisable value as a result of aged inventories.

13. 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 2010	As at 31 December 2009
	HK$'000	*HK$'000*
Current	**106,288**	93,533
Less than 1 month past due	**1,771**	10,967
1 to 3 months past due	**1,064**	601
More than 3 months but less than 12 months past due	**1,660**	598
More than 12 months past due	**109**	7
Trade debtors and bills receivable, net of allowance for doubtful debts	**110,892**	105,706
Other receivables and prepayments	**48,363**	41,429
Amount due from ultimate holding company	**4,748**	4,070
Amount due from a fellow subsidiary	**2,967**	1,270
	166,970	152,475

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

14. 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 2010	As at 31 December 2009
	HK$'000	*HK$'000*
Due within 1 month or on demand	**101,285**	56,969
Due after 1 month but within 3 months	**3,592**	28,489
Due after 3 months but within 6 months	**32**	18
Due after 6 months but within 1 year	**893**	—
Total creditors and bills payable	**105,802**	85,476
Accrued charges and other payables	**105,757**	161,872
Loan from minority shareholder	**15,512**	15,512
Amount due to ultimate holding company	**712**	1,627
Amounts due to fellow subsidiaries	**4,225**	5,657
Amount due to an associate	**4,262**	1,076
	236,270	271,220
Derivative financial instruments	**341**	573
	236,611	271,793

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

In the first half of 2010, the global economy continued its revival from the global financial crisis, a positive development for the toy industry. In this favourable global environment, Dream International Limited (the "company") and its subsidiaries (collectively the "group") sustained growth momentum in the past year and achieved satisfactory results during the period under review.

For the six months ended 30 June 2010, driven by the growing sales from the plush stuffed toys segment facilitated by the gradual economic recovery, the group's turnover increased by 68.9% year-on-year to HK$645.5 million (2009: HK$382.2 million). Thanks to successful business restructuring, the group benefited from enhanced production efficiency in Vietnam and lower labour cost in China's interior relative to that in the country's coastal cities. Thus its gross profit has doubled to HK$206.4 million (2009: HK$104.4 million), with gross profit margin up to 32.0% (2009: 27.3%). Accordingly, the group achieved 105.9% growth in operating profit to HK$87.0 million (2009: HK$42.3 million) and 94.5% growth in profit attributable to equity holders to HK$75.7 million (2009: HK$38.9 million). Operating margin and net margin rose to 13.5% (2009: 11.1%) and 11.8% (2009: 10.0%) respectively, demonstrating an improvement in the group's profitability.

The group maintained a strong financial position with cash and bank deposits of HK$209.0 million (31 December 2009: HK$324.6 million) as at 30 June 2010.

Business Review

Product Analysis

Plush stuffed toy segment

During the period, sales of plush stuffed toys jumped by 77.1% to HK$574.5 million, accounting for 89.0% of the group's total turnover. Original Equipment Manufacturing ("OEM") and licensing business remained the core business of the group, representing 72.2% of the sales of the plush stuffed toy segment. For the OEM business, the group's strategy is to nurture closer cooperation with existing customers which are famous character owners and licensors. During the period, the group received a large order from a Japanese customer to produce a new character to pair up with an existing popular character launched in 2009, which together became collectible items for consumers. These new products were well received in the markets and drove the sales of this segment significantly.

In licensing, leveraging the movie "Toy Story 3" launched during the summer of 2010, the group's *Toy Story* product series enjoyed a highly favourable market response. The "Pook-A-Looz" and "Princess" series also gained popularity in the market and further drove the business growth. The group plans to further enrich its production mix by launching a new infant series in the second half of 2010.

Original Design Manufacturing ("ODM") business accounted for 27.8% of the sales of the plush stuffed toy segment. The remarkable increase in its proportion to the total turnover was mainly attributable to a large order received from a globally famous Brazilian consumer brand to manufacture premium gifts for its promotion campaign, which has been booked in the first half of 2010. During the period, the group continued to attract more orders on higher-margin products to improve overall profitability. Apart from renowned mass US retailers, the group is also looking into opportunities to tailor products under its "CALTOY" brand for upmarket department stores.

Steel and plastic toy segment

Sales in the steel and plastic toy segment accounted for 11.0% of the group's total turnover. During the period, the group further eliminated low-margin products and increased the proportion of products having higher selling prices and profit margins within the product mix.

A modified high-end tricycle with an electronic sound mechanism on the handle bar produced for a US marketing company continued to receive an encouraging market response, exceeding the group's expectation. The group's product co-development efforts with customers also saw progress. While sales of the scooters co-developed with a customer increased steadily in the European markets during the period, the group was in the final stage of developing a new concept scooter which would be launched in the US and European markets in the coming months as well as in the Korean market in the future. After restructuring the sales network to strengthen the presence of "Great" and "Far Great" brands in China, sales of the branded scooters and inline skates improved steadily in the market.

During the period, the group developed bicycle and tricycle products associated with a Japanese cartoon character very popular in China. The new products received positive market response since the character continues to gain in popularity as the cartoon series is broadcast in China.

Market Analysis

For the six months ended 30 June 2010, sales of the group in most major regions recorded growth. Riding on a large order for a new plush toy product from a Japanese customer, Japan became the largest market of the group contributing approximately 35.8% of the group's total turnover. North America, as a traditionally strong toy market, was second, with 28.0% of the group's total turnover. South America accounted for 21.7% of the total turnover mainly because shipments for a large order received from a Brazilian consumer were made during the period. The European market and the China market took up 9.5% and 4.0% of the total turnover respectively.

Operational Analysis

As at 30 June 2010, the group operated eight plants in total, five of which were in China and three in Vietnam, running at an average utilisation rate of over 80%. To enjoy better production efficiency and cost-effectiveness as reflected in the sharply reduced direct labour costs and administrative expenses, the group further expanded its production within Vietnam during the period. While one factory building was completed for the new main plant in Vietnam and is starting operations in August, another three factory buildings in the same complex are also to start full operation by end of 2010 as scheduled.

Prospects

The global economy is on the road to recovery. With the rising Asian economy and increasing orders from other major markets, revenue for the entire toy manufacturing industry is expanding. The group's customers in all major regions are noticeably more confident as observed by their gradual expansion of their order size. However, the toy industry is still being challenged by the uncertain financial prospects and anxiety about employment in the US and Europe, which in turn may affect customers' demands for toy products. Moreover, the rising material costs and labour cost in China and the Renminbi's gradual appreciation present challenges to most of the toy manufacturers in the country.

As the market consolidation caused by the difficult operational environment has forced a substantial number of toy manufacturers out of the industry in the past few years, the overall manufacturing capacity of plush toys keeps decreasing. Thus, large-scale toy manufacturers such as Dream International should enjoy an increasing volume of orders from the market. With customers depending on its sizeable and reliable manufacturing capability to meet their strict quality requirements, the group is currently facing a new challenge - shortage in production capacity to meet the abundant market demand for top-tier toy manufacturing services.

In view of opportunities and challenges ahead, Dream International, as the world's largest plush toy manufacturer, is still well-positioned to ride the tide and to continue to grow its business. With a priority to boost the production capacity to capture the rising order volume, the group is expanding the production base in Vietnam further to enjoy greater economies of scale and lower production costs. Its objective is to raise the contribution of the Vietnam production base to 30% of the group's total production capacity, which is expected to be accomplished by the first quarter of 2011. Besides, the group will continue to outsource production of low-margin products or small volume orders to reliable sub-contractors, enabling the group to have a higher flexibility in adjusting production capacity to meet the market demand.

Enjoying a sound reputation, a healthy financial position and strong competitive advantages in the industry, the group will keep a close eye in the market to capture the opportunities as they emerge to continue to grow and to maximise returns to shareholders.

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2010, the group had 10,269 employees (31 December 2009: 8,773) in Hong Kong, Mainland China, South Korea, US, Japan and Vietnam. The group values its human resources and recognises the importance of attracting and retaining quality staff for its continuing success. Staff bonuses and share options are awarded based on individual performance.

LIQUIDITY AND FINANCIAL RESOURCES AND GEARING

The group continued to maintain a reasonable liquidity position. As at 30 June 2010, the group had net current assets of HK$331.9 million (31 December 2009: HK$296.4 million). The group's total cash and cash equivalents as at 30 June 2010 amounted to HK$145.7 million (31 December 2009: HK$287.8 million). The total borrowings of the group as at 30 June 2010 amounted to HK$29.1 million (31 December 2009: HK$55.5 million).

The group's gearing ratio, calculated on the basis of total bank borrowings over the total shareholders' equity, further decreased from 11.7% at 31 December 2009 to 5.5% at 30 June 2010.

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 2010 of HK$53.4 million (31 December 2009: HK$96.6 million)

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

During the six-month period ended 30 June 2010, 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 2010, 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.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors declared an interim dividend of HK2 cents per share (2009: nil) for the period ended 30 June 2010. This interim dividend which totals HK$13,371,000 (2009: nil) will be paid on 30 September 2010 to shareholders registered at the close of business on the record date, 15 September 2010.

The register of members will be closed from 13 September 2010 to 15 September 2010, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the company's share registrars, Tricor Abacus Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 10 September 2010.

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 2010.

By order of the Board
Young M. LEE
Vice President

Hong Kong, 27 August 2010

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 Chuan Yung Wang
Mr. Hyun Ho Kim

Independent Non-Executive Directors
Professor Cheong Heon Yi
Professor Byong Hun Ahn
Mr. Tae Woong Kang