



DREAM INTERNATIONAL LIMITED

德林國際有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1126)

Results Announcement for the year ended 31 December 2007

The Directors of Dream International Limited (the “Company”) announce that the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007 are as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Turnover	3	946,328	1,084,357
Cost of sales	4	(798,360)	(924,319)
Gross profit		147,968	160,038
Other income		6,357	4,025
Selling and distribution expenses	4	(37,444)	(38,310)
Administrative expenses	4	(134,459)	(137,218)
Goodwill impairment losses		–	(100,194)
Other gains/(losses) – net		2,395	(6,073)
Operating loss		(15,183)	(117,732)
Finance costs – net		(5,016)	(4,842)
Share of loss of associates		(16)	(237)
Loss before income tax		(20,215)	(122,811)
Income tax credit/(expense)	5	11,986	(8,673)
Loss for the year		<u>(8,229)</u>	<u>(131,484)</u>
Attributable to:			
Equity holders of the Company		(4,831)	(129,671)
Minority interests		(3,398)	(1,813)
		<u>(8,229)</u>	<u>(131,484)</u>
Loss per share (expressed in HK\$ per share)			
– basic and diluted	6	<u>(0.007)</u>	<u>(0.194)</u>
Dividend	7	<u>–</u>	<u>–</u>

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Leasehold land and land use rights		15,153	16,168
Property, plant and equipment		182,022	199,878
Intangible assets		16,623	17,268
Investments in associates		1,373	1,298
Deferred income tax assets		3,826	3,180
Other financial assets		76,284	71,054
		<u>295,281</u>	<u>308,846</u>
Current assets			
Inventories		156,637	166,123
Trade and other receivables	8	168,393	204,572
Tax recoverable		591	–
Cash and cash equivalents		107,222	82,798
		<u>432,843</u>	<u>453,493</u>
Total assets		<u>728,124</u>	<u>762,339</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		52,019	52,019
Reserves		379,972	369,618
		<u>431,991</u>	<u>421,637</u>
Minority interests		<u>18,220</u>	<u>20,474</u>
Total equity		<u>450,211</u>	<u>442,111</u>
LIABILITIES			
Non-current liabilities			
Borrowings		780	8,684
Deferred income tax liabilities		248	322
Retirement benefit obligations		10,689	10,703
		<u>11,717</u>	<u>19,709</u>
Current liabilities			
Trade and other payables	9	149,845	157,515
Current income tax liabilities		2,467	12,214
Borrowings		113,884	130,790
		<u>266,196</u>	<u>300,519</u>
Total liabilities		<u>277,913</u>	<u>320,228</u>
Total equity and liabilities		<u>728,124</u>	<u>762,339</u>
Net current assets		<u>166,647</u>	<u>152,974</u>
Total assets less current liabilities		<u>461,928</u>	<u>461,820</u>

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements of Dream International Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through income statement, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

2. THE ADOPTION OF NEW/REVISED HKFRS

The following new standards, amendments to standards and interpretations are effective for the year ended 31 December 2007:

HKAS 1 (Amendment)	Presentation of Financial Statements - Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the above standards, amendments to standards and interpretations did not have significant impact to the Group’s accounting policy except that there were additional disclosures required by HKAS 1 (Amendment) and HKFRS 7.

The following new/revised standards and interpretations are not yet effective and have not been early adopted by the Group:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

3. SEGMENT REPORTING

(a) Primary reporting format – business segments

The Group comprises two main business segments:

- plush stuffed toys
- steel and plastic toys

	Plush stuffed toys		Steel and plastic toys		Unallocated		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	801,339	903,920	144,989	180,437	–	–	946,328	1,084,357
Other income	3,681	1,434	1,017	30	1,659	2,561	6,357	4,025
Total	805,020	905,354	146,006	180,467	1,659	2,561	952,685	1,088,382
Segment result	(7,571)	(13,359)	(7,612)	(4,179)	–	–	(15,183)	(17,538)
Goodwill impairment losses	–	(99,532)	–	(662)	–	–	–	(100,194)
Operating loss							(15,183)	(117,732)
Finance costs – net							(5,016)	(4,842)
Share of loss of associates							(16)	(237)
Loss before income tax							(20,215)	(122,811)
Income tax credit/(expense)							11,986	(8,673)
Loss for the year							(8,229)	(131,484)

	Plush stuffed toys		Steel and plastic toys		Total			
	2007	2006	2007	2006	2007	2006		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Segment assets			497,640	548,418	148,410	138,390	646,050	686,808
Investments in associates			1,373	1,298	–	–	1,373	1,298
Unallocated assets							80,701	74,233
Total assets							728,124	762,339
Segment liabilities			105,222	144,833	55,312	41,778	160,534	186,611
Unallocated liabilities							117,379	133,617
Total liabilities							277,913	320,228
Capital expenditure			11,536	19,769	2,992	60,438	14,528	80,207
Depreciation of property, plant and equipment			23,398	21,943	6,707	4,127	30,105	26,070
Amortisation of leasehold land and land use rights and patent			337	217	779	756	1,116	973

(b) Secondary reporting format – geographical segments

	Turnover		Segment assets		Capital expenditure	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
North America	419,357	534,694	1,743	2,017	65	137
Japan	283,074	271,226	4,182	4,297	-	-
Europe	170,576	187,552	-	-	-	-
South Korea	5,272	14,350	70,219	91,267	630	140
PRC and Hong Kong	65,363	67,200	507,258	538,328	11,996	70,738
Vietnam	185	539	62,648	50,899	1,837	9,192
Others	2,501	8,796	-	-	-	-
	<u>946,328</u>	<u>1,084,357</u>	<u>646,050</u>	<u>686,808</u>	<u>14,528</u>	<u>80,207</u>

The analysis of turnover by geographical segment is based on the destination of shipments of goods. No analysis of the contribution by geographical segment has been presented as the ratios of profit to turnover achieved for the above geographical segments are not substantially out of line with the Group's overall ratio of profit to turnover.

4. EXPENSES BY NATURE

	2007	2006
	HK\$'000	HK\$'000
Changes in inventories of finished goods and work in progress	1,332	(6,728)
Raw materials and consumables used	515,021	640,040
Water and electricity	16,834	17,743
Freight and transportation	21,809	20,169
Depreciation	30,105	26,070
Amortisation of prepaid operating lease payments	440	297
Operating lease payments	22,684	27,363
Auditors' remuneration	3,922	3,823
Commission charges	9,572	10,946
Provision for inventories	1,132	3,459
Provision/(write back) for trade receivables	2,701	(1,526)
Telephone and communications	5,748	6,049
Postage and courier charges	3,749	5,206
Employee benefit expenses	229,699	249,206
Others	105,515	97,730
Total cost of sales, selling and distribution expenses and administrative expenses	<u>970,263</u>	<u>1,099,847</u>

5. INCOME TAX CREDIT/(EXPENSE)

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

Taxation on PRC and overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC and other countries in which the Group operates.

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	(1,140)	(1,056)
– PRC and overseas taxation	(337)	(3,680)
– Over-provision of Hong Kong profits tax in the prior years	12,942	–
Deferred income tax credit/(charge)	<u>521</u>	<u>(3,937)</u>
	<u>11,986</u>	<u>(8,673)</u>

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law standardises the corporate income tax rate to 25% with effect from 1 January 2008.

6. LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Loss attributable to equity holders of the Company	<u>(4,831)</u>	<u>(129,671)</u>
Weighted average number of ordinary shares in issue (thousands)	<u>668,529</u>	<u>668,529</u>
Basic loss per share (HK\$ per share)	<u>(0.007)</u>	<u>(0.194)</u>

(b) Diluted

Diluted loss per share for the years ended 31 December 2007 and 2006 is the same as the basic loss per share as the potential ordinary shares outstanding during the years were anti-dilutive.

7. DIVIDEND

The Board of Directors do not declare or propose any dividend for the years ended 31 December 2007 and 2006.

8. TRADE AND OTHER RECEIVABLES

At 31 December 2007 and 2006, the ageing analysis of the trade receivables was (net of provision for impairment) as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current	85,718	102,395
1 to 3 months	16,239	17,470
More than 3 months but less than 1 year	5,711	19,125
Over 1 year	799	778
	<u>108,467</u>	<u>139,768</u>

9. TRADE AND OTHER PAYABLES

At 31 December 2007 and 2006, the ageing analysis of the trade payables was as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within 1 month	42,216	51,357
After 1 month but within 3 months	17,726	23,897
After 3 month but within 6 months	8,718	5,641
After 6 month but within 1 year	713	2,988
Over 1 year	903	1,164
	<u>70,276</u>	<u>85,047</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Toy manufacturers in China continued to face challenges in 2007. To cope with the difficult times, the Group implemented a series of measures to restructure its business. For the year ended 31 December 2007, the Group strategically eliminated small quantity orders and focused on serving larger scale and higher margin customers, hence its turnover decreased by 12.7% to HK\$946.3 million (2006: HK\$1,084.4 million). Its operations in inland China and Vietnam were on smooth track, with gross profit down only by 7.5% to HK\$148.0 million (2006: HK\$160.0 million), in spite of heavier cost burden from rising labour costs in China and high material costs, as well as appreciation of the Renminbi. As for the Group's gross profit margin, it improved from 14.8% to 15.6%.

The restructuring of Dream INKO allowed the Group to cut administrative expenses by 25.3% to HK\$33.0 million and narrowed operating loss to HK\$15.2 million, a significant recovery when compared to last year's loss of HK\$117.8 million. With operating performance improved and the write-back of over-provision for Hong Kong profits tax booked in the first half of this year, loss attributable to equity holders for the entire year shrank by almost 96.3% to HK\$4.8 million (2006: loss of HK\$129.7 million). Excluding one-off goodwill impairment losses incurred in 2006, the Group's loss still had a 83.6% slash.

The Group maintained a healthy financial position with cash and bank deposits (excluding long-term structured deposits) of HK\$107.2 million (31 December 2006: HK\$82.8 million) as at 31 December 2007.

Business Review

During the year under review, the Group continued to strengthen its foundation by restructuring its business. In terms of cost control, the Group shifted a larger portion of its production to inland China where labour costs are relatively lower. The Group also expanded its production capacity in Vietnam to alleviate pressure from the appreciating Renminbi. With a streamlined workforce and corporate structure, the Group was able to save on administrative expenses and improve operational efficiency. To expand its revenue source, the Group secured quality customers for existing products and enriched its product mix. It focused on higher margin customers and products to enhance profitability.

Product Analysis

Plush stuffed toys recorded revenue of HK\$801.3 million, representing 84.7% of the Group's total turnover. Original Equipment Manufacturing ("OEM") business continued to be the Group's core business and accounted for 83.1% of the revenue of the plush stuffed toy segment. The Group maintained close cooperation with renowned character owners and licensors as well as a famous international fast food chain that became the Group's customer in the second half of 2006. In the first quarter of 2008, the Group secured a renowned entertainment company as a new customer and has begun manufacturing plush toys for the customer's North American markets.

Revenue from Original Design Manufacturing ("ODM") business amounted to HK\$135.6 million during the year, accounting for 16.9% of the turnover of the plush stuffed toy segment. Since interactive educational electronic plush toys were launched in 2006, they have been well received in the market and attracting regular orders from a retail chain store. Sales contributions from these featured products are expected to increase in 2008.

Steel and plastic toys accounted for the remaining 15.3% of the Group's total turnover. During the year, the Group secured new customers, a US retail chain store giant and a marketing company that distributes toys to major US retailers, and accordingly diversified the channels for it to penetrate the US market. Encouraged by the success of a scooter product it jointly developed with the Group, the marketing firm has placed orders for tricycles and other ride-on products in 2008. In May 2007, the Group secured a character license from Disney to manufacture scooters and ride-on products for Disney's China market and the first shipment was made in August 2007. At the same time, the Group also expanded the China market with scooters and inline skates under the "Great" and "Far Great" brands. Building on positive market responses to its products, the Group will continue to explore more business opportunities in the US and China markets.

Market Analysis

For the year ended 31 December 2007, North America remained as the Group's largest market and accounted for 44.3% of the Group's total turnover, attributable mainly to the securing of new customers by the steel and plastic toys segment. Japan was the second largest market of the Group and its turnover contribution grew to 29.9%. Contribution from this market increased because the Group retained relatively more Japanese customers who offer higher profit margins. Another major market Europe brought in 18.0% of the Group's turnover which was similar to last year, while the proportion from the China market increased slightly to 6.9%.

Operational Analysis

The Group had 10 plants in operation during the year, of which nine were in China and one in Vietnam, running at an average utilisation rate of 85.4%. It closed a plush toy plant near Shanghai in the fourth quarter in 2007 to cope with rising labour costs in urban areas in China and focused its attention on operating the four plants in inland cities, namely Shuyang in Jiangsu Province, Beiliu in Guangxi Province, as well as Mingguang and Chaohu in Anhui Province.

To mitigate the increasing manufacturing costs in China, the Group expanded its production base in Vietnam and invested US\$450,000 in the construction of a fabric plant in the second half of 2007. The new plant will be equipped with facilities for fabric dyeing and a polyester line relocated from Shanghai and has capacity to produce 200,000 yards of fabric per month. It is scheduled to commence trial production in the first half of 2008 and mass production in the second half year. With the support of its own material and processing lines, the Group will be able to boost production efficiency in Vietnam notably.

Prospects

Looking ahead, with the Renminbi appreciating continuously and raw material and labour costs climbing, and the Chinese government cutting export value-added tax refund and introducing new labour laws, the operational environment in the country is expected to remain stern in the coming year. This, together with the downturn of the US economy affecting consumption sentiment worldwide, will create testing times for the toy industry. However, as more and more small manufacturers are ousted by the tough market environment, sizeable players like Dream International Limited will benefit. The fact that the Group has been able to transfer certain rising costs to customers is a clear sign of its growing bargaining power in the market. With the overall industry trend taken into consideration, the Group is prudently optimistic about its business in the future.

While China will continue to be the main production base, the Group will also be shifting part of its operations to Vietnam to take advantage of the lower labour costs there. In addition to the new fabric plant currently being built, the Group will set up one more plush toy plant with 1,000 sewing machines in Vietnam in 2008 to boost economies of scale and cost-effectiveness. For the operation in China, the Group is in the process of reducing production of a plush toy plant near Shanghai to concentrate production activities in inland China. The Group expects to see the utilisation rates of its production facilities and profit margins to increase after its production bases are restructured.

To sharpen its competitive edges, the Group will inject more resources into R&D of higher margin products and explore new alliances with potential customers who are looking for quality and reliable manufacturing partners. Boasting advantages in production capacity, quality control and design ability, the Group believes it will be a preferred partner to major multi-national customers and the resultant business will brace its position as the largest plush stuffed toy manufacturer in the world.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

The Group's liquidity and financial resources position remained healthy. The Group's cash and bank deposits as at 31 December 2007 amounted to HK\$182.6 million (2006: HK\$152.0 million). This amount included the long-term structured deposit of US\$12 million at a major bank with a carrying amount of HK\$75.4 million as at 31 December 2007 (2006: HK\$69.2 million) which has been accounted for as a derivative financial instrument.

As at 31 December 2007, the ratio of current assets to current liabilities was 1.6 times (2006: 1.5 times). The total borrowings of the Group as at 31 December 2007 amounted to HK\$114.7 million (2006: HK\$139.5 million). As a result, the Group's net cash and bank position as at 31 December 2007 was maintained at an healthy level of HK\$67.9 million (2006: HK\$12.5 million).

The Group's gearing ratio, calculated on the basis of total borrowings over the total shareholders' equity, was decreased to 25.4% (2006: 31.6%). This is mainly due to the refund of Hong Kong profits tax of HK\$12.9 million during the year ended 31 December 2007.

PLEDGE ON GROUP ASSETS AND BANK COVENANTS

As at 31 December 2007, the banking facilities of certain subsidiaries were secured by mortgages over their land use rights, buildings and deposit with an aggregate carrying value of HK\$97.9 million (2006: HK\$109.8 million). Such banking facilities were utilised to the extent of HK\$51.6 million (2006: HK\$101.8 million).

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2007, the Group had 15, 7191, 2275, 41, 10 and 8 employees in Hong Kong, Mainland China, Vietnam, South Korea, US and Japan respectively. The Group treasures 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 and job nature.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors do not recommend a dividend for the year ended 31 December 2007 (2006: Nil). The Transfer Books and Register of Members will be closed from 26 May 2008 to 30 May 2008, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the right to vote for and/or attend the forthcoming annual general meeting scheduled on 30 May 2008, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m on 23 May 2008.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

AUDIT COMMITTEE

The audit committee has reviewed with the management and the Company's auditor, PricewaterhouseCoopers, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters of the draft final results for year ended 31 December 2007.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2007, the Company has fully complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES

The Company has adopted a code of conduct regarding securities transactions by Directors as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries of all Directors and all Directors have confirmed that they complied with the required standard of dealings set out therein during the year.

By order of the Board
Kyoo Yoon Choi
Chairman

Hong Kong, 18 April 2008

At the date of this announcement, the directors of the Company are:

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:

Mr. Valiant, Kin Piu Cheung
Professor Cheong Heon Yi
Dr. Chan Yoo