



DREAM INTERNATIONAL LIMITED

德林國際有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 1126)

2007 INTERIM RESULTS

The board of directors (the “Board”) of Dream International Limited (the “Company”) hereby announce the unaudited consolidated result of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2007 as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007

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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2007

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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2007 (CONTINUED)

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. General information

The principal activities of Dream International Limited (the “Company”) and its subsidiaries (together, the “Group”) are design, development, manufacturing and sale of plush stuffed toys and steel and plastic toys.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 8th Floor, Tower 5, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

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

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

2. Basis of preparation

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

3. Accounting policies

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

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

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

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

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

4. Revenue and segment information

Segment information is presented in respect of the Group’s business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group’s internal financial reporting. The Group is principally engaged in design, development, manufacturing and sale of plush stuffed toys and steel and plastic toys.

(a) Primary reporting format – business segments

The Group is organised into two main business segments:

Manufacture and sale of

- plush stuffed toys; and
- steel and plastic toys.

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

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

(b) Secondary reporting format – geographical segments

The Group participates in several principal economic environments as set out below.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical destination of delivery of goods.

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

There is no major disparity in the ratios between sales and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

5. Other gains

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

6. Operating loss

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

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

7. Income tax credit/(expense)

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

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

In accordance with the relevant regulations and the Enterprise Income Tax Law applicable in the PRC, several PRC subsidiaries are exempted from Enterprise Income Tax for two years starting from the first profit making year and thereafter subject to Enterprise Income tax at 50% at the standard tax rate for the following three years.

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

Note a:

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

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

8. Dividend

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

9. Earnings/(loss) per share

(a) Basic

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

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

(b) Diluted

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

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

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

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

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

Business Review

Product Analysis

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

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

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

Market Analysis

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

Operational Analysis

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

Prospects

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

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

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

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2007, the Group had 15, 10150, 43, 6, 8, 2499 employees in Hong Kong, Mainland China, South Korea, US, Japan and Vietnam respectively. The Group values its human resources and recognizes the importance of attracting and retaining quality staff for its continuing success. Staff bonuses and share options are awarded based on individual performance.

LIQUIDITY AND FINANCIAL RESOURCES AND GEARING

The Group continued to maintain a reasonable liquidity position. As at 30 June 2007, the Group had net current assets of 169.9 million (31 December 2006: HK\$153.0 million). The Group’s total cash and bank deposits as at 30 June 2007 amounted to HK\$132.6 million (31 December 2006: HK\$ 152.0 million). The total borrowings of the Group as at 30 June 2007 amounted to HK\$94.6 million (31 December 2006: 121.1 million). As a result, the Group’s net total cash and bank balance as at 30 June 2007 amounted to HK\$38.0 million (31 December 2006: HK\$ 30.9 million).

The Group’s gearing ratio, calculated on the basis of total borrowings over the total shareholders’ equity, was slightly increased to 20.8% (31 December 2006: 27.4%) to fund the expansion of the production plants in Vietnam and establishments of various satellite production plants in further inland area of Anhui and Jiangsu provinces of PRC.

PLEDGE ON GROUP ASSETS

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

INTERIM DIVIDEND

The Board of Directors did not recommend the payment of interim dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

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

During the six-month period ended 30 June 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six-month period ended 30 June 2007, the Company has fully complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the SEHK.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules regarding the Model Code. Based on the specific enquires of the Company's directors, the Directors have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters of the interim results for the six-month period ended 30 June 2007.

By order of the Board

Young M. LEE

Director

Hong Kong, 21 September 2007

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

Executive Directors

Mr. Kyoo Yoon Choi (*Chairman*)

Mr. Young M. Lee

Mr. James Wang

Mr. Jung Kuk Lee

Mr. Hyun Ho Kim

Independent Non-Executive Directors

Mr. Kin Piu Cheung, Valiant

Professor Cheong Heon Yi

Dr. Chan Yoo