



DREAM INTERNATIONAL LIMITED

德林國際有限公司

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

2006 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 (collectively the “Group”) for the six months ended 30 June 2006 as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT for the six months ended 30 June 2006

(Expressed in Hong Kong dollar)

	Note	Unaudited	
		Six months ended 30 June 2006 \$'000	2005 \$'000
Sales	3	445,379	430,105
Cost of goods sold		(380,941)	(346,597)
Gross profit		64,438	83,508
Other gains		3,970	3,732
Other net loss		(9,162)	(8,665)
Selling and distribution costs		(14,354)	(16,378)
Administrative expenses		(71,834)	(78,357)
Operating loss	4	(26,942)	(16,160)
Finance costs		(3,242)	(1,154)
Share of profits less losses of associates		(213)	131
Loss before income tax		(30,397)	(17,183)
Income tax (expense)/credit	5	(6,451)	678
Loss for the period		<u>(36,848)</u>	<u>(16,505)</u>
Attributable to:			
– equity holders of the Company		(36,635)	(16,505)
– minority interests		(213)	–
		<u>(36,848)</u>	<u>(16,505)</u>
Dividend	6	–	–
Loss per share	7		
– Basic		<u>(5.5 cents)</u>	<u>(2.5 cents)</u>
– Diluted		<u>(5.5 cents)</u>	<u>(2.5 cents)</u>

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
as at 30 June 2006
(Expressed in Hong Kong dollar)

	As at 30 June 2006 Unaudited \$'000	As at 31 December 2005 Audited \$'000
Non-current assets		
Property, plant and equipment	190,459	147,090
Leasehold land and land use rights	15,872	11,269
Goodwill	100,194	100,154
Interest in associates	1,282	1,483
Other financial assets (<i>Note 8</i>)	63,256	71,670
Intangible assets	16,987	12,505
Deferred income tax assets	2,329	7,460
	<u>390,379</u>	<u>351,631</u>
Current assets		
Inventories	200,740	160,482
Trade and other receivables	210,904	176,541
Cash and cash equivalents	54,309	103,128
	<u>465,953</u>	<u>440,151</u>
Current liabilities		
Trade and other payables	187,867	108,720
Borrowings	96,911	105,568
Current income tax liabilities	7,961	7,986
	<u>292,739</u>	<u>222,274</u>
Net current assets	<u>173,214</u>	<u>217,877</u>
Total assets less current liabilities	<u>563,593</u>	<u>569,508</u>
Non-current liabilities		
Defined benefit retirement obligation	12,379	10,820
Borrowings	15,952	–
Deferred income tax liabilities	1,389	741
	<u>29,720</u>	<u>11,561</u>
Net assets	<u>533,873</u>	<u>557,947</u>
Capital and reserves		
Share capital	52,019	52,019
Reserves	459,968	490,930
Total equity attributable to equity holders of the Company	511,987	542,949
Minority interests	21,886	14,998
Total equity	<u>533,873</u>	<u>557,947</u>

Notes

1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2006 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

2 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005. The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The adoption of the above amendments to standards and interpretations did not have significant financial impact to the Group. The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

HKAS 1 (Amendment)	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

3 Sales 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 comprises two main business segments:

- manufacture and sale of plush stuffed toys; and
- manufacture and sale of steel and plastic toys.

	Plush stuffed toys		Steel and plastic toys		Unallocated		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2006 \$’000	2005 \$’000	2006 \$’000	2005 \$’000	2006 \$’000	2005 \$’000	2006 \$’000	2005 \$’000
Sales from external customers	364,224	409,117	81,155	20,988	–	–	445,379	430,105
Other gains from external customers	318	130	233	13	3,419	3,589	3,970	3,732
Total	364,542	409,247	81,388	21,001	3,419	3,589	449,349	433,837
Segment result	(29,359)	(14,057)	2,417	(2,103)	–	–	(26,942)	(16,160)
Operating loss							(26,942)	(16,160)
Finance costs							(3,242)	(1,154)
Share of profits less losses of associates							(213)	131
Loss before income tax							(30,397)	(17,183)
Income tax (expense)/credit							(6,451)	678
Loss for the period							(36,848)	(16,505)

(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 sales is based on the geographical destination of delivery of goods.

	Sales	
	Six months ended 30 June	
	2006 \$’000	2005 \$’000
North America	171,293	173,516
Japan	129,516	171,642
Europe	112,172	65,355
South Korea	7,806	5,598
Others	24,592	13,994
	445,379	430,105

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.

4 Operating loss

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

	Six months ended 30 June	
	2006 \$'000	2005 \$'000
Cost of inventories (<i>Note</i>)	380,941	346,597
Amortisation of leasehold land and land use rights	296	53
Depreciation of property, plant and equipment	12,674	10,392
Loss on early termination of long-term bank deposit	–	3,700
Change in fair value of financial instruments	8,652	4,106
Staff costs	117,155	125,582
Operating lease charges:		
minimum lease payments – property rentals	<u>14,372</u>	<u>15,542</u>

Note: Cost of inventories includes \$99,115,000 (2005: \$92,478,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

5 Income tax (expense)/credit

Hong Kong and overseas profits tax has been provided at the rate of 17.5% (2005: 17.5%) and at the rates of taxation prevailing in the countries in which the Group operates respectively.

	Six months ended 30 June	
	2006 \$'000	2005 \$'000
Current income tax		
– Hong Kong profits tax	(461)	(1,794)
– Overseas taxation	–	(34)
Deferred income tax	<u>(5,990)</u>	<u>2,506</u>
Income tax (expense)/credit	<u>(6,451)</u>	<u>678</u>

6 Dividend

	Six months ended 30 June	
	2006 \$'000	2005 \$'000
<i>Dividend paid</i>		
2004 final dividend of \$0.060 per share approved and paid in 2005	<u>–</u>	<u>40,111</u>
<i>Dividend declared</i>		
Interim dividend declared after the balance sheet date	<u>–</u>	<u>–</u>

7 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of \$36,635,000 (2005: \$16,505,000) and the weighted average number of 668,529,000 (2005: 668,078,200) ordinary shares in issue during the period.

(b) Diluted loss per share

The diluted loss per share for the six months period ended 30 June 2006 is the same as their respective basic loss per share as the potential ordinary share outstanding during the period were anti-dilutive. This anti-dilutive situation was the same for the comparative diluted loss per share for the six months period ended 30 June 2005.

8 Other financial assets

The long-term structured deposit is a hybrid instrument that includes a non-derivative host contract and an embedded derivative. Upon inception this financial instrument was designated as at fair value with changes in fair value recognised in profit and loss. The carrying amount of the long-term structured deposit of HK\$61,363,000 was presented as other financial assets at 30 June 2006, and the loss for the period of HK\$8,652,000 has been recognised as other net loss. Comparative figures have been reclassified to conform to current period's presentation.

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

The business environment remained difficult in the first half of 2006 for all plush stuffed toy manufacturers with material costs escalating, labour shortage persisting and competition mounting. The adverse market conditions inevitably affected the profitability of the Group. The Group reported a slightly increase in turnover of HK\$445.4 million (2005: HK\$430.1 million), and its gross profit decreased to HK\$64.4 million (2005: HK\$83.5 million). As a result, it recorded loss attributable to equity holders of HK\$36.6 million (2005: HK\$16.5 million).

Nevertheless, the Group maintained its leadership in the industry and implemented various strategies to address the different market challenges. The Group pursued manufacturing automation and relentless efforts were made to improve workflow and rationalize the workforce to enhance production efficiency. During the period, its steel and plastic business managed deeper market penetration and made inroads into the scooter and inline skate market.

BUSINESS REVIEW

Product Analysis

For the six months ended 30 June 2006, sales of plush stuffed toys amounted to HK\$364.2 million, representing 81.8% of the Group's total turnover. The Original Equipment Manufacturing ("OEM") business remained the Group's core business and contributed 94.5% of the turnover from the plush stuffed toy segment. Adding to its solid client base comprising renowned international brand and character licensors, the Group secured a new customer, Old Navy, a well-known clothing brand that also carries plush toys in its stores, and broadened its revenue stream at the same time.

The Original Design Manufacturing ("ODM") business accounted for the remaining 5.5% of this segment's turnover. The Group launched its new bedding and infant products in the US this year and this new product line received positive market response. Encouraged by this good start, the Group is striving to market this product line to more major US retailers.

The Group's steel and plastic toys business accounted for 18.2% of its total turnover, and the performance of this segment was encouraging during the review period. In October 2005, the Group set up a joint venture ("JV") to invest in C&H HK Corp., Ltd. and J.Y. Plasteel (Suzhou) Co., Ltd. ("J.Y. Plasteel") with the aim of expanding its steel and plastic toy segment. Construction of the new plant under J.Y. Plasteel in Taicang, Jiangsu province was completed during the period and it commenced full operation in August 2006. The new plant has allowed the Group to enrich its steel and plastic product mix and achieve a more balanced product portfolio, and in turn broaden exposure of its products in the international toy market. Moreover, the demand for bicycles and steel and plastic toys is rising in China. To capture the growing demand, the Group invested a further US\$2,500,000 in the JV. This raised the Company's shareholding up to 66.5% in the JV with paid up registered capital of US\$8,500,000.

Market Analysis

For the six months ended 30 June 2006, the North American market accounted for 38.5% of the Group's total turnover, followed by Japan at 29.1%. Europe became another major market and its contribution to the Group's turnover increased to 25.2%, which was mainly driven by the acquired distribution channel of the well-known "Great" and "Far Great" brands in this market. Supported by the distribution channels acquired by the JV, the Group successfully tapped the China market.

Operational Analysis

The Group operated ten plants in China and two in Vietnam with the average utilization rate of the Group's production facilities maintained at above 90% level during the period. In China, the plants in Shuyang and Beiliu became fully operational during the review period. Thanks to the automated manufacturing processes, the new plant in Taicang had less reliance on labour. Together with the higher margin of steel and plastic products, the JV's business managed to achieve the breakeven point in the first half of 2006.

PROSPECTS

With persistently high raw material costs and lingering labour shortage in China, the toy industry will continue to face challenges ahead. The increasing minimum wage in Shenzhen and the eastern coastal areas of China will pose pressure on many manufacturers, especially the smaller ones. The Group expects consolidation of the toy industry to continue with only the well-established players surviving in the long run.

To combat labour shortages and rising wages in coastal areas of China, the Group will continue to relocate and invest in production facilities inland. Besides the Group's new plants in Shuyang and Beiliu, two other new plants in Mingguang and Chaohu of Anhui province commenced operation early this year. With its inland factories in full operation in the second half of this year, the Group expects to see its production capacity boosted by 30%.

Plush stuffed toy will remain as the Group's core products. The Group will continue to inject resources into its OEM and ODM businesses and strive to enhance its ability to provide innovative product designs to existing clients, as well as look for ways to develop new designs and functions that agree with market trends. To improve its overall performance, the Group will concentrate on major customers and discontinue non-profitable accounts. It will also expand its ODM product lines and strive to extend their reach to other major US retailers.

On the other hand, the Group will also step up development of its steel and plastic toy segment. Since the performance of this segment was better than expected during the first half of the year, we are confident it will deliver strong performance for the whole year, especially in its peak season in the second half. Capitalizing on the well-established distribution network of the "Great" and "Far Great" brands acquired in 2005, the Group will seek to expand both the domestic and overseas markets and explore business opportunities with character licensors and increase exposure of its products by participating in international toy fairs.

The Group started to restructure its business in 2005. The benefits of this exercise are expected to be reflected in the second half of this year. To expand its markets in the future, the Group is studying the possibility of selling its products to South America and Russia. It is believed that such endeavors will help to strengthen the Group's position as the largest plush stuffed toy manufacturer in the world.

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2006, the Group had 10, 11187, 95, 8, 6 and 2240 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 2006, the Group had net current assets of HK\$173.2 million (31 December 2005: HK\$217.9 million). The Group's total cash and bank deposits as at 30 June 2006 amounted to HK\$115.7 million (31 December 2005: HK\$173.0 million). The total borrowings of the Group as at 30 June 2006 amounted to HK\$112.8 million (31 December 2005: 105.6 million). As a result, the Group's net total cash and bank balance as at 30 June 2006 amounted to HK\$2.8 million (31 December 2005: HK\$67.4 million).

The Group has consistently adhered to its prudent treasury policy. Most of the Group's liquid fund is placed in principal guaranteed short-term dual currencies deposits in various banks to enhance return from the liquid assets of the Group within the controllable risk level.

The Group's gearing ratio, calculated on the basis of total borrowings over the total shareholders' equity, was slightly increased to 21.1% (31 December 2005: 18.9%) 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

As at 30 June 2006, the banking facilities of the Group were secured by mortgages over their land use rights, buildings and bank deposit with aggregate carrying value of HK\$4.2 million (31 December 2005: HK\$4.3 million), HK\$35.4 million (31 December 2005: HK\$36.2 million) and HK\$61.4 million (31 December 2005: HK\$69.8 million) respectively. Such pledged banking facilities were utilised to the extent of HK\$88.8 million (31 December 2005: HK\$42.3 million).

INTERIM DIVIDEND

The Board of Directors did not recommend the payment of interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

PURCHASE, SALES AND REDEMPTION OF THE COMPANY'S LISTED SHARES

During the six months period ended 30 June 2006, 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 months period ended 30 June 2006, 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 ("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 for Securities Transactions by Directors of Listed Issuers (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 throughout the accounting period under review.

AUDIT COMMITTEE

The audit committee has reviewed with the management and the Company's auditors, PricewaterhouseCoopers, 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 2006. The comparative figures for the six months ended 30 June 2005 were reviewed by the Company's audit committee and outgoing auditors, KPMG, and the comparative figures as of 31 December 2005 were audited by KPMG.

PUBLICATION OF RESULTS ON THE SEHK'S WEBSITE

The Company's interim report containing all the information required the Listing Rules of SEHK will be published on the SEHK's website (<http://www.hkex.com.hk>) and dispatched to the shareholders in due course.

By order of the Board
Young M. LEE
Director

Hong Kong, 20 September 2006

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

Executive directors:

Mr. Kyoo Yoon Choi (*Chairman*)
Mrs. Shin Hee Cha
Mr. Tae Sub Choi
Mr. Young M. Lee
Mr. James Wang

Independent non-executive directors:

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

Please also refer to the published version of this announcement in International Herald Tribune.