

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Significant accounting policies

(a) Basis of presentation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”). KPMG’s independent review report to the Board of Directors is included on page 24.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (“SEHK”), including compliance with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2001 are available from the Company’s registered office or website www.dream-i.com.hk. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 April 2002.

The same accounting policies adopted in the 2001 annual financial statements have been applied to the interim financial report except as disclosed under note 1(b).

The notes on the interim financial report 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 2001 annual financial statements.

(b) Adoption of new accounting standards in Hong Kong

The following new SSAPs issued by the HKSA, which became effective for accounting period beginning on or after 1 January 2002, were adopted for preparation of the Group’s financial statements for the six months ended 30 June 2002:

- SSAP 15 (revised) “Cash flow statements”.
 - SSAP 1 (revised) “Presentation of financial statements”.
- (i) Adoption of SSAP 15 (revised) “Cash flow statements”

The format of the condensed consolidated cash flow statement has been revised to follow the new requirements of SSAP 15 (revised).

- (ii) Adoption of SSAP 1 (revised) “Presentation of financial statements”

In order to comply with the revised requirement of SSAP 1 (revised), the Group adopts the new statement “Consolidated statement of changes in equity” which replaces the “Consolidated statement of recognised gains and losses” included in previous financial statements. The new statement reconciles the movements of key components of the shareholders’ funds, including share capital, reserves and retained earnings, from the beginning to end of a period.

1 Significant accounting policies (continued)

(c) Group reorganisation and basis of consolidation

Pursuant to a group reorganisation, which was completed on 31 December 2001 to rationalise the group structure in preparation of a listing of the Company's shares on the SEHK, the Company became the holding company of the companies now comprising the Group by acquiring the entire share capital of C & H Toy of America, Inc. and J. Y. Toys Co., Limited from the ultimate holding company. These consolidated financial statements have been prepared using the acquisition method of accounting and accordingly the results and assets and liabilities of C & H Toy of America, Inc. and J. Y. Toys Co., Limited were excluded from the consolidated financial statements for the six months ended 30 June 2001.

2 Segment reporting

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.

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		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June	
	2002	2001	2002	2001	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	312,316	301,787	27,710	-	-	-	340,026	301,787
Other revenue from external customers	2,913	1,998	79	-	1,780	2,105	4,772	4,103
Total	315,229	303,785	27,789	-	1,780	2,105	344,798	305,890
Segment result	48,838	48,571	5,491	-	-	-	54,329	48,571
Contribution from operations							54,329	48,571
Finance cost							-	(230)
Taxation							(4,522)	(3,091)
Profit attributable to shareholders							49,807	45,250

There were no comparative figures for the steel and plastic toys segment as J.Y. Toys Co., Limited, the subsidiary which is engaged in the manufacture and sale of steel and plastic toys, was acquired by the Company on 31 December 2001.

2 Segment reporting (continued)

Geographical segments

The Group participates in four principal economic environments.

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

	Turnover	
	Six months ended 30 June	
	2002	2001
	\$'000	\$'000
United States	126,141	153,299
Japan	149,950	109,706
South East Asia (other than Japan)	40,371	14,325
Europe	19,067	20,541
Others	4,497	3,916
	340,026	301,787

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

3 Other revenue and net loss

	Six months ended 30 June	
	2002	2001
	\$'000	\$'000
Other revenue		
Interest income from bank deposits	1,780	2,105
Sundry income	2,992	1,998
	4,772	4,103
Other net loss		
Net loss on sale of fixed assets	(16)	(114)
Net exchange gain	13	67
	(3)	(47)

4 Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2002	2001
	\$'000	\$'000
Cost of inventories #	246,599	228,067
Staff costs (including retirement costs of \$987,000 (2001: \$1,073,000)) #	73,907	67,591
Depreciation #	7,875	5,700
Operating lease charges: minimum lease payments #		
– property rentals	11,116	9,692
Commission expenses	2,151	3,882
Amortisation of positive goodwill	44	–
Amortisation of negative goodwill	(795)	(772)

Cost of inventories includes \$76,300,000 (2001: \$73,776,000) 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 Taxation

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2002	2001
	\$'000	\$'000
Provision for Hong Kong Profits Tax for the period	3,390	2,900
Deferred taxation	–	191
PRC taxation	1,132	–
	4,522	3,091

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the six months ended 30 June 2002.

In accordance with the relevant regulations and the Enterprise Income Tax Law applicable in the People's Republic of China ("PRC"), the PRC subsidiaries are exempted from Enterprise Income Tax for two years starting from its first profit-making year and thereafter subject to Enterprise Income Tax at 50% of the standard tax rate for the following three years. As at 30 June 2002, one of the PRC subsidiaries is exempted from Enterprise Income Tax and another PRC subsidiary is subject to Enterprise Income Tax at 50% of the standard tax rate.

6 Dividends

	Six months ended 30 June	
	2002 \$'000	2001 \$'000
Dividend paid 650,000,000 shares of US\$0.01 each		
2001 final dividend of \$0.048 (2000: Nil) per share approved and paid in 2002	31,200	–
Dividend declared 1,400,000 shares of US\$1 each Interim dividend declared and paid of \$5.507 per share (<i>note (i)</i>)	–	7,710
650,000,000 shares of US\$0.01 each Interim dividend declared after the balance sheet date of \$0.024 per share (<i>note (ii)</i>)	15,600	–
	15,600	7,710

notes:

- (i) The 2001 interim dividend was paid to the then shareholders of the Company prior to the subdivision of the Company's shares in December 2001 and listing of the Company's share on the SEHK in February 2002.
- (ii) The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

7 Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$49,807,000 (2001: \$45,250,000) and the weighted average number of 616,781,768 ordinary shares (2001: 487,500,000 ordinary shares) in issue during the period.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the profit attributable to shareholders of \$49,807,000 and the weighted average number of 621,601,933 ordinary shares outstanding during the period, adjusted for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in existence during 2001.

7 Earnings per share (continued)

(c) Reconciliations

	Six months ended 30 June	
	2002 Number of shares	2001 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	616,781,768	487,500,000
Deemed issue of ordinary shares for no consideration	4,820,165	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	621,601,933	487,500,000

8 Fixed assets

Land and buildings of the Group were revalued by professional valuers at 30 November 2001. The Directors of the Company, who are not qualified valuers, have reviewed the carrying value of the land and buildings as at 30 June 2002 with reference to the relevant market indices. In their opinion, there have been no significant changes in the value of land and buildings since 31 December 2001.

9 Inventories

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Raw materials	55,129	43,794
Work in progress	33,221	15,051
Finished goods	14,359	21,108
	102,709	79,953

Raw materials included in inventories are stated net of a general provision of \$3,146,000 (31 December 2001: \$3,146,000), made in order to state these inventories at the lower of their cost and estimated net realisable value.

10 Trade and other receivables

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Amount due from ultimate holding company	42,215	310
Amounts due from fellow subsidiaries	4,396	7,747
Trade debtors, bills receivable, deposits and prepayments	68,735	103,140
	115,346	111,197

Included in trade and other receivables are trade debtors and bills receivable (net of specific allowances for bad and doubtful debts) with the following ageing analysis.

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Current	34,277	35,802
1 to 3 months	12,063	36,718
More than 3 months but less than 12 months	4,300	5,997
	50,640	78,517

Trade receivables, which generally have terms of 14 to 90 days, are recognised and carried in the balance sheet at original invoice amounts less provisions for overdue debts which are considered by the Directors to be doubtful.

11 Pledged bank deposits

As at 30 June 2002, the Group's deposits in the total amount of \$35,232,000 (31 December 2001: \$Nil) were pledged to secure credit, import and foreign exchange facilities granted by certain banks.

12 Cash and cash equivalents

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Deposits with banks and other financial institutions	177,783	55,552
Cash at bank and in hand	28,218	70,574
	206,001	126,126

13 Trade and other payables

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Creditors and accrued charges	87,509	87,865
Amount due to ultimate holding company	1,415	7,491
Amounts due to fellow subsidiaries	8,413	6,258
	97,337	101,614

Included in creditors and accrued charges are trade creditors and bills payable with the following ageing analysis:

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Within 1 month	25,348	41,049
After 1 month but within 3 months	8,285	7,014
After 3 months but within 6 months	90	740
After 6 months but within 1 year	919	643
	34,642	49,446

14 Share capital

		2002	
	Note	No. of shares '000	Amount \$'000
<i>Authorised:</i>			
Ordinary shares of US\$0.01	(i)	5,000,000	390,000
<i>Issued and fully paid:</i>			
At 1 January	(i)	140,000	10,794
New issue on public offer	(ii)	162,500	12,675
Capitalisation issue	(iii)	347,500	27,105
At 30 June		650,000	50,574

14 Share capital (continued)

Notes:

- (i) Pursuant to a written resolution passed by the shareholders on 22 January 2002, the authorised share capital of the Company was increased from US\$1,400,000 to US\$50,000,000 by creating a further 4,860,000,000 ordinary shares of US\$0.01 each.
- (ii) In February 2002, 162,500,000 ordinary shares were issued at an issue price of \$1.20 each upon the listing of the Company's shares on the SEHK.
- (iii) Pursuant to a written resolution passed by the shareholders on 22 January 2002, US\$3,475,000 standing to the credit of the share premium account (after taking into account the share premium arising from the new issue and placing of the Company's shares pursuant to the listing of the Company's shares on the SEHK) was applied in paying up in full at par 347,500,000 shares of US\$0.01 each for allotment and issue to the shareholders in proportion to their then holdings.
- (iv) The Company has a share option scheme which was adopted on 22 January 2002 whereby the Directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company.

During the period, none of the options were exercised. At 30 June 2002, the outstanding options were:

Date option granted	Period during which options are exercisable	Exercise price	Number of options outstanding
7 February 2002	7 February 2003 to 7 February 2012	\$1.18	30,550,000

15 Reserves

	Share premium \$'000	General reserve fund \$'000	Revaluation reserve – Land use rights and buildings \$'000	Retained profits \$'000	Total \$'000
At 1 January 2001	20,817	–	–	178,857	199,674
Transfer between reserves	–	8,204	–	(8,204)	–
Revaluation surplus	–	–	701	–	701
Profit for the year	–	–	–	98,854	98,854
Dividends declared in respect of the current year	–	–	–	(30,930)	(30,930)
At 31 December 2001	20,817	8,204	701	238,577	268,299
At 1 January 2002	20,817	8,204	701	238,577	268,299
Dividend approved in respect of the previous year	–	–	–	(31,200)	(31,200)
Transfer between reserves	–	879	–	(879)	–
Premium on shares issued under public offer	182,325	–	–	–	182,325
Public offer expenses	(19,759)	–	–	–	(19,759)
Capitalisation issue	(27,105)	–	–	–	(27,105)
Profit for the period	–	–	–	49,807	49,807
At 30 June 2002	156,278	9,083	701	256,305	422,367

16 Commitments

Capital commitments outstanding at 30 June 2002 not provided for in the Group's financial statements were as follows:

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Contracted for	221	1,692

17 Material related party transactions

During the year, the Group entered into the following transactions with its related parties:

	Six months ended 30 June	
	2002	2001
	\$'000	\$'000
(i) Sales to:		
The ultimate holding company:		
– C & H Co., Ltd.	190,955	170,004
Fellow subsidiaries:		
– C & H Lanka (P.V.T.) Ltd.	1,388	3,896
– Gina World Co., Ltd.	9,524	12,660
	201,867	186,560
(ii) Purchases from:		
The ultimate holding company:		
– C & H Co., Ltd.	34,249	15,034
Fellow subsidiaries:		
– C & H Lanka (P.V.T.) Ltd.	986	1,790
– JY Textile Co., Ltd.	1,455	3,683
	36,690	20,507
(iii) Sales commission paid/payable to:		
Ultimate holding company:		
– C & H Co., Ltd.	576	1,723
(iv) Sales commission received/receivable from ultimate holding company		
– C & H Co., Ltd.	747	–

The Directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business on normal commercial terms.

18 Post balance sheet events

- (i) Subsequent to 30 June 2002, the Group acquired a 60% equity interest of a limited company, which is engaged in the marketing and trading of soft toys, from an independent third party for a consideration of US\$1 million.
- (ii) After the balance sheet date, the Directors proposed an interim dividend. Further details are disclosed in note 6.

19 Ultimate holding company

The Directors consider the ultimate holding company at 30 June 2002 to be C & H Co., Ltd., which is incorporated in Republic of Korea.

20 Approval of interim financial report

The interim financial report was approved by the Board of Directors on 16 September 2002.