



## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

### 1 Significant accounting policy

#### *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 Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the board of directors is included on page 6. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

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 HKICPA.

The financial information relating to the financial year ended 31 December 2003 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 2003 are available from the Company's registered office or website [www.dream-i.com.hk](http://www.dream-i.com.hk). The auditors have expressed an unqualified opinion on those financial statements in their report dated 7 April 2004.

The same accounting policies adopted in the 2003 annual financial statements have been applied to the interim financial report.

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 2003 annual financial statements.

### 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:

- plush stuffed toys
- steel and plastic toys

	Plush stuffed toys Six months ended 30 June		Steel and plastic toys Six months ended 30 June		Unallocated Six months ended 30 June		Consolidated Six months ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	<b>480,732</b>	366,854	<b>18,825</b>	21,772	-	-	<b>499,557</b>	388,626
Other revenue from external customers	<b>998</b>	982	<b>4</b>	-	<b>6,328</b>	7,053	<b>7,330</b>	8,035
<b>Total</b>	<b>481,730</b>	367,836	<b>18,829</b>	21,772	<b>6,328</b>	7,053	<b>506,887</b>	396,661
Segment result	<b>57,496</b>	61,167	<b>1,522</b>	3,384	-	-	<b>59,018</b>	64,551
Contribution from operations							<b>59,018</b>	64,551
Finance costs							<b>(139)</b>	(34)
Share of losses of associates							<b>(154)</b>	(579)
Taxation							<b>(9,099)</b>	(5,544)
Profit attributable to shareholders							<b>49,626</b>	58,394

Dream Inko Co., Ltd was acquired in September 2003 and its results for the six months ended 30 June 2004 were consolidated in the Group's interim financial report.

*Geographical segments*

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

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

	<b>Turnover</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
North America	<b>207,111</b>	130,532
Japan	<b>222,074</b>	199,237
South Korea	<b>4,715</b>	5,827
Europe	<b>48,401</b>	43,491
Others	<b>17,256</b>	9,539
	<b>499,557</b>	388,626

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**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
<i>Other revenue</i>		
Interest income from bank deposits (including related option premium income on dual currency option deposits)	<b>6,328</b>	7,053
Commission income	-	331
Sales of scrap materials	<b>154</b>	192
Sundry income	<b>848</b>	459
	<b>7,330</b>	8,035
<i>Other net loss</i>		
Net gain on sale of fixed assets	<b>289</b>	201
Net exchange (loss)/gain	<b>(2,533)</b>	333
Others	-	(921)
	<b>(2,244)</b>	(387)

#### 4 Profit from ordinary activities before taxation

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

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
<i>(a) Finance costs:</i>		
Interest on bank advances and other borrowings wholly repayable within five years	<u><b>139</b></u>	<u>34</u>
<i>(b) Other items:</i>		
Auditors' remuneration	<b>1,600</b>	1,542
Cost of inventories <i>(note (i))</i>	<b>356,754</b>	283,751
Staff costs (including retirement costs of \$7,170,000 (2003: \$3,915,000)) <i>(note (i))</i>	<b>112,656</b>	77,924
Depreciation <i>(note (i))</i>	<b>8,029</b>	8,551
Operating lease charges: minimum lease payments <i>(note (i))</i> – property rentals	<b>14,192</b>	10,348
Commission expenses	<b>3,660</b>	4,597
Amortisation of positive goodwill on acquisition of:		
– subsidiary	<b>3,664</b>	44
– associate <i>(note (ii))</i>	<b>-</b>	358
Amortisation of negative goodwill	<u><b>(795)</b></u>	<u>(795)</u>

#### Notes:

- (i) Cost of inventories includes \$85,000,000 (2003: \$77,390,000) 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.
- (ii) Amortisation of positive goodwill in respect of associate is included in the share of losses of associates for the period.



## 5 Taxation

Income tax for the period comprises current and deferred taxes.

Taxation in the consolidated income statement represents:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Provision for Hong Kong Profits Tax for the period	<b>3,915</b>	4,714
Deferred tax expense relating to the origination and reversal of temporary differences	<b>(556)</b>	575
Effect of increase in tax rate on deferred tax balances at 1 January	-	(407)
Taxation outside Hong Kong	<b>5,740</b>	662
	<b><u>9,099</u></b>	<u>5,544</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the six months ended 30 June 2004. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

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 the first profit-making year and thereafter subject to Enterprise Income Tax at 50% of the standard tax rate for the following three years. During the period ended 30 June 2004, the PRC subsidiaries are subject to Enterprise Income Tax at 50% (2003: 50%) of the standard tax rate.

## 6 Dividends

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
<i>Dividend paid</i>		
2002 final dividend of \$0.064 per share approved and paid in 2003	-	41,885
2003 final dividend of \$0.060 per share approved and paid in 2004	<b>40,053</b>	-
	<u><b>40,053</b></u>	<u>41,885</u>
<i>Dividend declared</i>		
Interim dividend declared after the balance sheet date of \$0.030 (2003: \$0.030) per share ( <i>note</i> )	<b>20,026</b>	19,755
	<u><b>20,026</b></u>	<u>19,755</u>

*Note:* The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. The calculation of 2004 interim dividend is based on the number of ordinary shares outstanding at the date of this report.

## 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 \$49,626,000 (2003: \$58,394,000) and the weighted average number of 665,156,740 (2003: 651,280,178) 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 \$49,626,000 (2003: \$58,394,000) and the weighted average number of 672,771,235 (2003: 656,662,167) ordinary shares outstanding during the period, adjusted for the effects of all dilutive potential ordinary shares.

*(c) Reconciliations*

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2004</b>	2003
	<b>Number</b>	Number
	<b>of shares</b>	of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>665,156,740</b>	651,280,178
Deemed issue of ordinary shares for no consideration	<b><u>7,614,495</u></b>	<u>5,381,989</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b><u><u>672,771,235</u></u></b>	<u><u>656,662,167</u></u>

**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 2004 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 2003.

**9 Pledged bank deposits**

As at 30 June 2004, the Group's long-term bank deposits of \$78,000,000 (31 December 2003: \$62,104,000) were pledged to the extent of 141% (31 December 2003: 141%) of the outstanding long-term bank loans which amounted to \$36,121,000 at that date (31 December 2003: \$36,524,000).

**10 Inventories**

	<b>At 30 June</b>	At 31 December
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Raw materials	<b>99,770</b>	70,525
Work in progress	<b>30,905</b>	23,292
Finished goods	<b>30,815</b>	33,800
	<b><u><u>161,490</u></u></b>	<u><u>127,617</u></u>

Raw materials included in inventories are stated net of a general provision of \$3,146,000 (31 December 2003: \$3,146,000), made in order to state these inventories at the lower of their cost and estimated net realisable value.

## 11 Trade and other receivables

	<b>At 30 June</b>	At 31 December
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Trade debtors, bills receivable, deposits and prepayments	<b>176,262</b>	133,503
Amount due from ultimate holding company	-	22
Amounts due from fellow subsidiaries	<b>6,269</b>	9,502
Amounts due from associates	<b>2,818</b>	5,868
	<b><u>185,349</u></b>	<u>148,895</u>

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.

	<b>At 30 June</b>	At 31 December
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Current	<b>70,754</b>	65,051
1 to 3 months	<b>30,640</b>	12,851
More than 3 months but less than 1 year	<b>21,518</b>	8,440
More than 1 year	<b>1,288</b>	15
	<b><u>124,200</u></b>	<u>86,357</u>

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.

## 12 Cash and cash equivalents

	<b>At 30 June</b>	At 31 December
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Deposits with banks and other financial institutions	<b>137,569</b>	141,129
Cash at bank and in hand	<b>53,248</b>	64,056
	<b><u>190,817</u></b>	<u>205,185</u>





During the period, the Company entered into dual currency option deposit contracts with certain banks and consequently was exposed to foreign exchange risk to the extent of the amount invested for such deposits. As at 30 June 2004, the Company had placed deposits under such contracts in the amounts of US\$10,473,539 (equivalent to HK\$81,693,604) and JPY721,637,581 (equivalent to HK\$51,813,577) (31 December 2003: US\$4,549,000 (equivalent to \$35,316,000)) with banks.

In the opinion of the directors, these dual currency option deposits were placed to enhance the return on the Company's surplus cash while the exchange risk in relation to the deposits was within an acceptable level.

### 13 Trade and other payables

	<b>At 30 June</b>	At 31 December
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Creditors and accrued charges	<b>123,287</b>	94,067
Amount due to ultimate holding company	<b>436</b>	480
Amounts due to fellow subsidiaries	<b>1,547</b>	1,563
Amount due to associate	<b>2,407</b>	3,720
	<b><u>127,677</u></b>	<u>99,830</u>

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

	<b>At 30 June</b>	At 31 December
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Within 1 month	<b>52,055</b>	37,344
After 1 month but within 3 months	<b>13,048</b>	5,585
After 3 months but within 6 months	<b>1,143</b>	1,798
After 6 months but within 1 year	<b>903</b>	24
Over 1 year	<b>951</b>	918
	<b><u>68,100</u></b>	<u>45,669</u>

## 14 Share capital

	<b>No. of shares</b>	<b>Amount</b>
	<i>'000</i>	<i>\$'000</i>
<i>Authorised:</i>		
Ordinary shares of US\$0.01	<u>5,000,000</u>	<u>390,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2003	650,000	50,574
Shares issued under share option scheme	<u>8,480</u>	<u>661</u>
At 31 December 2003	658,480	51,235
Shares issued under share option scheme	<u>9,069</u>	<u>707</u>
At 30 June 2004	<u>667,549</u>	<u>51,942</u>


**15 Reserves**

	<b>Share premium</b>	<b>General reserve fund</b>	<b>Exchange reserve</b>	<b>Revaluation reserve – Land use rights and buildings</b>	<b>Retained profits</b>	<b>Total</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
At 1 January 2003						
– as previously reported	156,278	11,962	–	664	301,947	470,851
– prior period adjustment in respect of deferred tax ( <i>note</i> )	–	–	–	–	4,417	4,417
– as restated	156,278	11,962	–	664	306,364	475,268
Dividends approved in respect of the previous year ( <i>note 6</i> )	–	–	–	–	(41,885)	(41,885)
Transfer between reserves	–	2,523	–	–	(2,523)	–
Premium on exercise of share options	9,346	–	–	–	–	9,346
Realisation of revaluation reserve	–	–	–	(37)	37	–
Profit for the year	–	–	–	–	120,952	120,952
Dividends declared in respect of the current year ( <i>note 6</i> )	–	–	–	–	(19,755)	(19,755)
Exchange differences on translation of financial statements of foreign entities	–	–	116	–	–	116
At 31 December 2003	<u>165,624</u>	<u>14,485</u>	<u>116</u>	<u>627</u>	<u>363,190</u>	<u>544,042</u>
<b>At 1 January 2004</b>	<b>165,624</b>	<b>14,485</b>	<b>116</b>	<b>627</b>	<b>363,190</b>	<b>544,042</b>
<b>Dividends approved in respect of the previous year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(40,053)</b>	<b>(40,053)</b>
<b>Transfer between reserves</b>	<b>–</b>	<b>501</b>	<b>–</b>	<b>–</b>	<b>(501)</b>	<b>–</b>
<b>Realisation of revaluation reserve</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(18)</b>	<b>18</b>	<b>–</b>
<b>Premium on exercise of share options</b>	<b>10,189</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>10,189</b>
<b>Profit for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>49,626</b>	<b>49,626</b>
<b>Exchange differences on translation of financial statements of foreign entities</b>	<b>–</b>	<b>–</b>	<b>814</b>	<b>–</b>	<b>–</b>	<b>814</b>
<b>At 30 June 2004</b>	<b><u>175,813</u></b>	<b><u>14,986</u></b>	<b><u>930</u></b>	<b><u>609</u></b>	<b><u>372,280</u></b>	<b><u>564,618</u></b>

*Note:* With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Institute of Certified Public Accountants, the Group adopted a new policy for deferred tax. As a result of the adoption of this accounting policy, the Group's net assets as at 31 December 2002 were increased by \$4,417,000.

## 16 Commitments

- (i) Capital commitments outstanding at 30 June 2004 not provided for in the Group's financial statements:

	<b>At 30 June 2004 \$'000</b>	At 31 December 2003 \$'000
Contracted for	<b><u>38,754</u></b>	<u>4,694</u>

- (ii) During the period, the Company entered into a long-term structured deposit contract with a bank and committed to place a total of US\$15,000,000 (equivalent to \$117,000,000) over a period of 3 years to July 2005. At 30 June 2004, an aggregate amount of US\$10,000,000 (equivalent to \$78,000,000) was placed with the bank (31 December 2003: \$62,104,000).

## 17 Material related party transactions

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

	<b>Six months ended 30 June</b>	
	<b>2004 \$'000</b>	2003 \$'000
(i) Sales to:		
The ultimate holding company:		
– C & H Co., Ltd.	–	213,560
Fellow subsidiaries:		
– Jung Yoon Textiles (Private) Ltd	<b>150</b>	–
– Gina World Co., Ltd.	<b><u>4,582</u></b>	<u>5,720</u>
	<b><u>4,732</u></b>	<u>219,280</u>
Associates:		
– Sung Won Industries Inc.	<b>8,630</b>	15,903
– Yuan Lin Toys (Suzhou) Co., Ltd.	<b><u>997</u></b>	<u>–</u>
	<b><u>9,627</u></b>	<u>15,903</u>



	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
(ii) Purchases from:		
The ultimate holding company:		
– C & H Co., Ltd.	<u>          –</u>	<u>          36,602</u>
Associates:		
– Sung Won Industries Inc.	<u>          –</u>	<u>          1,070</u>
– Yuan Lin Toys (Suzhou) Co., Ltd.	<u>      <b>10,886</b></u>	<u>          –</u>
	<u>      <b>10,886</b></u>	<u>          1,070</u>
(iii) Sales commission paid/payable to:		
Ultimate holding company:		
– C & H Co., Ltd.	<u>          –</u>	<u>          2,348</u>
(iv) Sales commission received/receivable from ultimate holding company		
– C & H Co., Ltd.	<u>          –</u>	<u>          330</u>
(v) Rentals paid/payable to:		
The ultimate holding company:		
– C & H Co., Ltd.	<u>      <b>2,399</b></u>	<u>          –</u>
(vi) Processing fee paid/payable to:		
Associate:		
– Yuan Lin Toys (Suzhou) Co., Ltd.	<u>      <b>4,895</b></u>	<u>          4,065</u>

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**

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 2004 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 15 September 2004.