

## NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

### 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 HK City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The interim financial report was approved for issue on 20 September 2006.

### 2 Basis of preparation

This interim financial report 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 financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

### 3 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.

## NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

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

### 4 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 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
<b>Total</b>	<b>364,542</b>	<b>409,247</b>	<b>81,388</b>	<b>21,001</b>	<b>3,419</b>	<b>3,589</b>	<b>449,349</b>	<b>433,837</b>
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
<b>Loss for the period</b>							<b>(36,848)</b>	<b>(16,505)</b>

## NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

(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.

	<b>Unaudited Sales</b>	
	<b>Six months ended 30 June</b>	
	<b>2006 \$'000</b>	2005 \$'000
North America	<b>171,293</b>	173,516
Japan	<b>129,516</b>	171,642
Europe	<b>112,172</b>	65,355
South Korea	<b>7,806</b>	5,598
Others	<b>24,592</b>	13,994
	<b>445,379</b>	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.

### 5 Other gains

#### Other gains

Interest income from bank deposits  
(including related option premium  
income on dual currency option deposits)

Sundry income

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006 \$'000</b>	2005 \$'000
	<b>3,419</b>	3,589
	<b>551</b>	143
	<b>3,970</b>	3,732

## NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

### 6 Operating Loss

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

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

*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.

### 7 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.

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

In accordance with the relevant regulations and the Enterprise Income Tax Law applicable in the People's Republic of China (the "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 2006, two PRC subsidiaries (2005: one) were subject to Enterprise Income Tax at standard tax rate, no PRC subsidiary (2005: one) was subject to Enterprise Income Tax at 50% of the standard tax rate, and the remaining five PRC subsidiaries (2005: one) were loss making and had not commenced its first profit making year.

## NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

### 8 Dividend

Unaudited  
Six months ended 30 June

	2006 \$'000	2005 \$'000
<b>Dividend paid</b>		
2004 final dividend of \$0.060 per share approved and paid in 2005	—	40,111
	<u>—</u>	<u>40,111</u>
<b>Dividend declared</b>		
Interim dividend declared after the balance sheet date	—	—
	<u>—</u>	<u>—</u>

### 9 Loss per share

(a) *Basic loss per share*

The calculation of basic loss per share is based on the loss attributable to shareholders 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 shares outstanding during the period were anti-dilutive. The anti-dilutive situation was the same for the comparative diluted loss per share for the six months period ended 30 June 2005.

## NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

### 10 Capital expenditure

	Property, plant and equipment \$'000	Intangible assets \$'000	Leasehold land and land use rights \$'000	Total \$'000
<b>Six months ended</b>				
<b>30 June 2006</b>				
Opening net book amount				
at 1 January 2006	147,090	12,505	11,269	170,864
Additions	54,975	4,616	4,795	64,386
Disposals	(458)	(437)	–	(895)
Depreciation and amortisation	(12,674)	(354)	(296)	(13,324)
Exchange difference	1,526	657	104	2,287
	<u>190,459</u>	<u>16,987</u>	<u>15,872</u>	<u>223,318</u>
Closing net book amount				
at 30 June 2006	<u>190,459</u>	<u>16,987</u>	<u>15,872</u>	<u>223,318</u>

### 11 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.

## NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

### 12 Trade and other receivables

	As at	
	30 June 2006 Unaudited \$'000	31 December 2005 Audited \$'000
Trade debtors, deposits and prepayments	194,723	173,680
Amount due from ultimate holding company	14,766	1,254
Amounts due from fellow subsidiaries	515	101
Amounts due from associates	900	1,506
	<u>210,904</u>	<u>176,541</u>

At 30 June 2006 and 31 December 2005, the ageing analysis of the trade receivables (net of specific allowances for bad and doubtful debts) based on invoice date is as follows:

	As at	
	30 June 2006 Unaudited \$'000	31 December 2005 Audited \$'000
Current	99,719	76,745
1 to 3 months	31,074	18,483
More than 3 months but less than 1 year	3,003	3,783
More than 1 year	80	233
	<u>133,876</u>	<u>99,244</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.

### 13 Trade and other payables

	As at	
	30 June 2006 Unaudited \$'000	31 December 2005 Audited \$'000
Creditors and accrued charges	181,427	98,421
Amounts due to ultimate holding company	36	–
Amounts due to fellow subsidiaries	6,404	4,389
Amounts due to associates	–	5,910
	<u>187,867</u>	<u>108,720</u>

## NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

At 30 June 2006 and 31 December 2005, the ageing analysis of the trade payables based on invoice date is as follows:

	As at	
	30 June 2006 Unaudited \$'000	31 December 2005 Audited \$'000
Within 1 month	75,163	39,589
After 1 month but within 3 months	27,962	7,870
After 3 months but within 6 months	6,047	1,311
After 6 months but within 1 year	304	911
Over 1 year	1,012	1,260
	<u>110,488</u>	<u>50,941</u>

### 14 Share capital

	No. of shares (thousands)	Amount \$'000
<b>Authorised:</b>		
Ordinary shares of US\$0.01	<u>5,000,000</u>	<u>390,000</u>
<b>Issued and fully paid:</b>		
At 1 January 2005	667,549	51,942
Shares issued under share option scheme	<u>980</u>	<u>77</u>
At 31 December 2005 and 30 June 2006	<u>668,529</u>	<u>52,019</u>



## NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

## 15 Reserves

	Share premium \$'000	Capital reserve \$'000	General reserve fund \$'000	Exchange reserve \$'000	Retained profits \$'000	Total \$'000
At 1 January 2005	175,813	4,054	15,045	5,641	369,363	569,916
Dividends approved in respect of the previous year	-	-	-	-	(40,111)	(40,111)
Transfer between reserves	-	-	128	-	(128)	-
Premium on exercise of share options	1,080	-	-	-	-	1,080
Equity settled share-based transactions	-	978	-	-	-	978
Exchange differences on translation of financial statements of foreign entities	-	-	-	(149)	-	(149)
Loss for the period	-	-	-	-	(16,505)	(16,505)
At 30 June 2005	<u>176,893</u>	<u>5,032</u>	<u>15,173</u>	<u>5,492</u>	<u>312,619</u>	<u>515,209</u>
At 1 Jan 2006	176,893	5,969	15,045	8,393	284,630	490,930
Equity settled share-based transactions	-	449	-	-	-	449
Exchange differences on translation of financial statements of foreign entities	-	-	-	5,224	-	5,224
Loss for the period	-	-	-	-	(36,635)	(36,635)
At 30 June 2006	<u>176,893</u>	<u>6,418</u>	<u>15,045</u>	<u>13,617</u>	<u>247,995</u>	<u>459,968</u>

## 16 Commitments

Capital commitments outstanding at 30 June 2006 not provided for in the Group's interim financial report:

	As at	
	30 June 2006 Unaudited \$'000	31 December 2005 Audited \$'000
Contracted but not provided for	<u>6,680</u>	<u>26,313</u>

## NOTES TO THE INTERIM FINANCIAL REPORT

(All amounts in HK dollar unless otherwise stated)

### 17 Material related party transactions

- (a) During the period, the Group entered into the following transactions with its related parties:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>\$'000</b>	\$'000
(i) Sales to:		
Fellow subsidiaries:		
– Jung Yoon Textiles (Private) Ltd.	502	585
– Gina World Co., Ltd.	–	5,719
	<b>502</b>	<b>6,304</b>
Associates:		
– Sung Won Industries Inc.	–	–
– Yuan Lin Toys (Suzhou) Co., Ltd.	654	1,623
	<b>654</b>	<b>1,623</b>
(ii) Purchases from:		
Associate:		
– Yuan Lin Toys (Suzhou) Co., Ltd.	4,028	20,118
(iii) Rentals paid/payable to:		
The ultimate holding company:		
– C & H Co., Ltd.	2,736	3,491
(iv) Processing fee paid/payable to:		
Associate:		
– Yuan Lin Toys (Suzhou) Co., Ltd.	4,266	2,125
(b) Key management compensation:		

### Unaudited Six months ended 30 June

	<b>2006</b>	2005
	<b>\$'000</b>	\$'000
Salaries and other short-term benefits	7,327	8,974
Share-based payments	151	78
	<b>7,478</b>	<b>9,052</b>