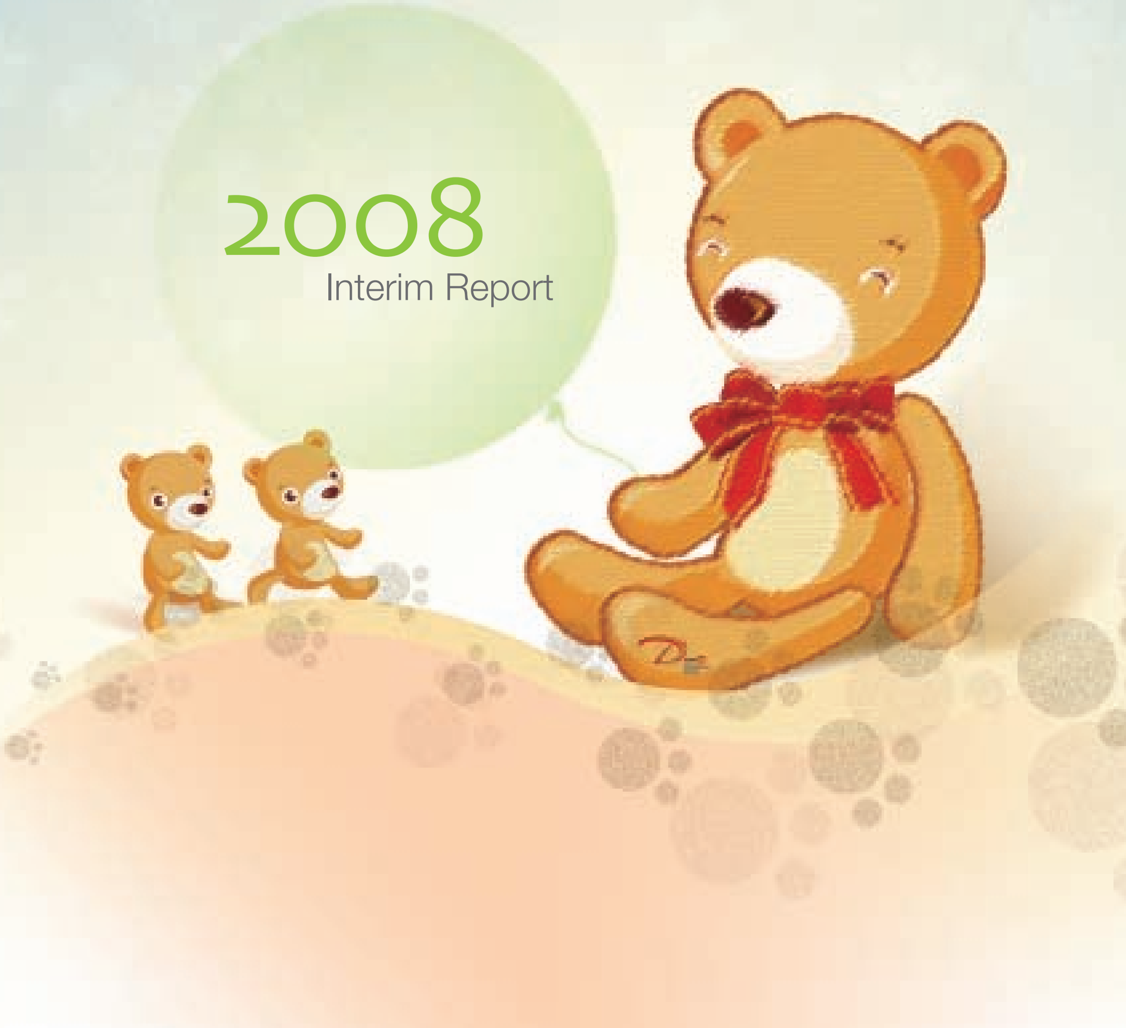
DREAM INTERNATIONAL LIMITED

德 林 國 際 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Stock Code : 1126

2008 Interim Report



CONTENTS

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

In the first half of 2008, manufacturers, particularly those with production facilities in China faced possibly the most severe cost pressure ever. Inevitably, the performance of Dream International Limited (the "Company") and its subsidiaries (collectively the "Group") was affected.

For the six months ended 30 June 2008, turnover of the Group dropped to HK$340,002,000 (2007: HK$415,071,000), mainly because the Group shifted its focus on to higher margin products and stopped taking small quantity orders. During the period, cost of sales increased substantially as a result of continuous appreciation of the Renminbi ("RMB"), rising labour cost partly caused by the new labour law taking effect and climbing material costs alongside rising oil price. Thus, the gross profit of the Group saw a drop to HK$43,466,000 (2007: HK$73,516,000). Selling and distribution expenses and administrative expenses were also amplified by appreciation of the RMB and the Group also had to pay one-off compensations to workers affected by it closing some production facilities. The Group recorded loss attributable to equity holders of HK$51,034,000 for the period, against a profit of HK$3,161,000 in the last corresponding period in which a HK$12.9 million write-back of over-provision for tax was booked.

Contingent liabilities

During the period ended 30 June 2008, a United States company commenced a lawsuit in the State of Texas against the Company on the grounds that the Company infringed their patent by selling, offering for sale, distributing and importing infringing goods (the "Litigation"). The plaintiff seeks an award of damages, no less than a reasonable royalty, attorney's fee, costs and expenses incurred in the Litigation.

Having considered the Litigation with the Company's various legal counsels, the management and the board of directors believe that the Company's opposition to the plaintiffs' complaint, as well as the Company's defenses and appeal rights, continue to be meritorious. As such, the Company intends to continue to vigorously defend the Litigation. In accordance with paragraph 92 of Hong Kong Accounting Standard 37 ("HKAS 37"), Provisions, Contingent Liabilities and Contingent Assets, it would be against the interests of the Company to make further disclosure of the information required by HKAS 37.

Business Review

Product Analysis

During the period, sales of plush stuffed toys amounted to HK$272.8 million, accounting for 80.2% of the Group's total turnover. Original Equipment Manufacturing ("OEM") business remained the core business of the Group, contributing 83.8% of the sales of the plush stuffed toy segment. With a strong track record as a preferred manufacturing partner of character owners and licensors, in 2008, the Group secured a new customer which is a renowned entertainment company and started manufacturing plush stuffed toys for the customer's North American markets.

Original Design Manufacturing ("ODM") business accounted for 16.2% of the sales of the plush stuffed toy segment. Focusing on higher margins products, the Group expanded business with a US retailer and provided more interactive educational electronic plush stuffed toys under the "CALTOY" brand to the retailer. The toys have been well-received in the market since they were launched in 2006. In addition, the Group also started business with another US retailer and will manufacture plush stuffed toy also under the "CALTOY" brand for the customer. The Group will maintain relationship with existing profitable customers and seek to secure more orders from them in the future.

In the first half of 2008, the Group signed a licence agreement with Disney, which it saw as a significant business achievement. The Group is licensed to design and manufacture plush and soft toys of various popular Disney characters, such as Mickey Mouse, Winnie the Pooh, Sleeping Beauty, Peter Pan, as well as characters in the film properties, etc. of the entertainment giant. The Group can also sell the finished products to mass retail chains such as Kmart, Target and Wal-Mart, and specialty toy stores, book chains, drug stores, grocery stores and wholesale club stores in the US. This licence has given the Group flexibility to decide the different aspects of a product from the drawing board to the shelf in the store, allowing it to realize the full potential of the products.

The steel and plastic toy segment recorded sales of HK$67.2 million, accounting for 19.8% of the Group's total turnover, a bigger share than in the same period last year. During the period, the Group secured additional orders from a marketing company that distributes toys to major US retailers. Apart from scooters, tricycles and other ride-on toys, this customer placed new orders for a high-end tricycle with electronic sound mechanism on the handle bar. The Group also strengthened presence in the China market thanks to another character licence from Disney for manufacturing scooters and ride-on products and the expanded sales network for scooters and inline skates under its own "Great" and "Far Great" brands.

Market Analysis

For the six months ended 30 June 2008, North America remained the Group's largest market. Benefited from the increasing orders for steel and plastic toys from a new customer secured in the second half of 2007, contribution from this market rose to 45.0% of the Group's total turnover. Japan was the second largest market and its turnover contribution maintained at 29.9% of the total turnover, while another major market, Europe, accounted for 20.8%. During the period, contribution from the China market represented 0.6% of the Group's total turnover.

Operational Analysis

As at 30 June 2008, the Group operated 12 plants in total, of which nine were in China and three in Vietnam, running at an average utilization rate of 86.4%. During the period, the Group continued to restructure its production regime to improve production efficiency and cost-effectiveness. To alleviate pressure from rising labour cost in coastal areas in China, the Group reduced production of a plant near Shanghai and another in Shenzhen and concentrated on production activities in inland China. Furthermore, the Group expanded the production base in Vietnam to enjoy the lower labour cost in the country. Preparatory work on two new plants started in the first half of 2008 and around US$2 million had been invested in the new facilities.

Prospects

The effects of rapid appreciation of the RMB, surging labour cost and raw material cost combined had led to the setback of the Group's results in the first half of 2008. These challenges together with the global economic downturn have sped up consolidation of the toy industry ousting many smaller players. However, for market leaders like Dream International Limited, who have scalable production capacity and capable of delivering quality products, they enjoy growing power on price determination of their products in the consolidating market. In addition, seeing signs of certain macroeconomic factors improving, such as appreciation of the RMB slowing down and oil price becoming stable, the Group remains cautiously optimistic about the market environment in the second half of 2008.

The Group will continue to restructure production with lowering in manufacturing costs as the goal. The complete closure of the two plants near Shanghai and in Shenzhen by the end of the year will result in significant saving in labour and administrative costs, and stepping up production in inland China will help to enhance facility utilization and production efficiency of the plants there. By expanding the production base in Vietnam, the Group has alleviated part of the cost pressure stemming from the new labour law in China taking effect during the review period. With a new fabric factory and a plush toy plant equipped with 1,000 sewing machines scheduled to commence operation in the fourth quarter of the year, the Group will enjoy better economies of scale and higher operational efficiency in Vietnam.

Furthermore, the Group expects licensed production to become a growth driver of its business in the future. Given flexibility to design and manufacture Disney products, the Group can provide products with higher profit margins and play a more active role in capturing opportunities in the market to enhance profitability and broaden its revenue stream. To make sure it is equipped for tapping the lucrative market, the Group will inject more resources into research and development of more innovative and high quality products that can meet the ever-changing demands of consumers.

Number and Remuneration of Employees

At 30 June 2008, the Group had 16, 6,433, 45, 13, 7 and 2,783 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 2008, the Group had net current assets of HK$108.1 million (31 December 2007: HK$166.6 million). The Group's total cash and cash equivalents as at 30 June 2008 amounted to HK$65.0 million (31 December 2007: HK$107.2 million). The total borrowings of the Group as at 30 June 2008 amounted to HK$126.4 million (31 December 2007: 114.7 million).

The Group's gearing ratio, calculated on the basis of total borrowings over the total shareholders' equity, was increased to 31.5% (31 December 2007: 25.5%) to fund the expansion of the production plants in Vietnam.

Pledge on Group Assets

Bank borrowings are secured on the Group's building, plant and machinery and land use rights for the value of HK$60.9 million (31 December 2007: HK$97.9 million).

KPMG

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF DREAM INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 8 to 27, which comprises the consolidated balance sheet of Dream International Limited ("the Company") as at 30 June 2008 and the consolidated income statement, the consolidated statement of changes in equity, and the consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2008 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants
8th Floor, Prince Building
10 Chater Road
Central, Hong Kong

24 September 2008

CONSOLIDATED INCOME STATEMENT — UNAUDITED

For the six months ended 30 June 2008

	Note	2008 HK$'000	2007 HK$'000
		Six months ended 30 June	
Turnover	3	**340,002**	415,071
Cost of sales		**(296,536)**	(341,555)
Gross profit		**43,466**	73,516
Other revenue	4	**8,436**	4,990
Selling and distribution expenses		**(22,151)**	(14,343)
Administrative expenses		**(74,777)**	(64,074)
Impairment losses on fixed and intangible assets		**(6,000)**	—
Other net gain/(loss)	5	**3,603**	(6,995)
Operating loss		**(47,423)**	(6,906)
Interest expenses		**(3,812)**	(3,875)
Share of losses of associates		**(164)**	(22)
Loss before taxation	6	**(51,399)**	(10,803)
Income tax (expense)/credit	7	**(5,218)**	13,090
(Loss)/profit for the period		**(56,617)**	2,287
Attributable to:			
— equity holders of the Company		**(51,034)**	3,161
— minority interests		**(5,583)**	(874)
		(56,617)	2,287
Dividend	8	**—**	—
(Loss)/earnings per share	9		
— Basic		**(HK7.6 cents)**	HK0.5 cents
— Diluted		**(HK7.6 cents)**	HK0.5 cents

The notes on pages 13 to 27 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET — UNAUDITED

As at 30 June 2008

	Note	At 30 June 2008 HK$'000	At 31 December 2007 HK$'000
Non-current assets			
Fixed assets			
- Leasehold land and land use rights	10	**15,635**	15,153
- Property, plant and equipment	10	**194,161**	182,022
Intangible assets	10	**15,045**	16,623
Investments in associates		**1,308**	1,373
Deferred tax assets		**235**	3,826
Other financial assets		**77,609**	76,284
		303,993	295,281
Current assets			
Inventories	11	**212,801**	156,637
Trade and other receivables	12	**130,257**	168,393
Tax recoverable		**524**	591
Cash and cash equivalents		**65,010**	107,222
		408,592	432,843
Current liabilities			
Trade and other payables	13	**172,437**	149,845
Bank loans		**126,404**	113,884
Current tax liabilities		**1,675**	2,467
		300,516	266,196
Net current assets		**108,076**	166,647
Total assets less current liabilities		**412,069**	461,928

CONSOLIDATED BALANCE SHEET — UNAUDITED *(Continued)*

As at 30 June 2008

	Note	At 30 June 2008 HK$'000	At 31 December 2007 HK$'000
Non-current liabilities			
Bank loans		—	780
Deferred tax liabilities		96	248
Retirement benefit obligations		10,689	10,689
		10,785	11,717
NET ASSETS		401,284	450,211
CAPITAL AND RESERVES			
Share capital		52,019	52,019
Reserves		340,564	379,972
Total equity attributable to equity shareholders of the Company		392,583	431,991
Minority interests		8,701	18,220
TOTAL EQUITY		401,284	450,211

The notes on pages 13 to 27 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

For the six months ended 30 June 2008

	Attributable to equity holder of the Company								
		Reserves							
	Share capital $'000	Share premium $'000	Capital reserve $'000	General reserve fund $'000	Exchange reserve $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
Balance as at 1 January 2007	52,019	176,893	6,829	15,045	15,892	154,959	421,637	20,474	442,111
Exchange differences on translation of financial statements of entities outside Hong Kong	—	—	—	—	9,891	—	9,891	598	10,489
Profit/(loss) for the period	—	—	—	—	—	3,161	3,161	(874)	2,287
	—	—	—	—	9,891	3,161	13,052	(276)	12,776
Balance as at 30 June 2007	52,019	176,893	6,829	15,045	25,783	158,120	434,689	20,198	454,887
Balance as at 1 January 2008	52,019	176,893	6,829	18,427	31,077	146,746	431,991	18,220	450,211
Exchange differences on translation of financial statements of entities outside Hong Kong	—	—	—	—	11,626	—	11,626	(3,936)	7,690
Lapse of share option	—	—	(2,876)	—	—	2,876	—	—	—
Loss for the period	—	—	—	—	—	(51,034)	(51,034)	(5,583)	(56,617)
	—	—	(2,876)	—	11,626	(48,158)	(39,408)	(9,519)	(48,927)
Balance as at 30 June 2008	52,019	176,893	3,953	18,427	42,703	98,588	392,583	8,701	401,284

The notes on pages 13 to 27 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT — UNAUDITED

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Net cash (used in)/generated from operating activities	**(36,159)**	18,716
Net cash used in investing activities	**(13,095)**	(5,880)
Net cash generated from/(used in) financing activities	**6,198**	(31,831)
Net decrease in cash and cash equivalents	**(43,056)**	(18,995)
Cash and cash equivalents at 1 January	**107,222**	82,798
Effect of foreign exchange rate changes	**844**	2,748
Cash and cash equivalents at 30 June	**65,010**	66,551

The notes on pages 13 to 27 form part of this interim financial report.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 General information

The principal activities of Dream International Limited (the "Company") and its subsidiaries (collectively 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 is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

2 Basis of preparation

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company and by the auditors, KPMG, in accordance with Hong Kong Standards on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the HKICPA. KPMG's independent review report to the board of directors is included on pages 6 to 7.

The interim financial report has been prepared in accordance with the applicable requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 24 September 2008.

The accounting policies and methods of computation adopted in the 2007 annual financial statements have been applied consistently to this interim financial report.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA) that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2008. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2008, on the basis of HKFRSs currently in use. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies applied in these financial statements for the periods presented.

2 Basis of preparation *(Continued)*

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim report. Therefore the accounting policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses as well as the related disclosures. Actual results may differ from these estimates.

In preparing this interim financial report, the Group reviews its property, plant and equipment and intangible assets for indications of impairment according to the relevant accounting policies. In assessing potential impairment identified, the Group uses projections of future cash flow generated from these assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to these assets. In addition to the estimation involved in assessing the impairment losses of the above mentioned assets, other significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2007.

This interim financial report contains consolidated financial statements and selected explanatory notes. The notes 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 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereto do not include all of the information required for a full set of financial statements prepared in accordance with the HKFRSs.

The financial information relating to the year ended 31 December 2007 that are 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 2007 are available from the Company's registered office. The previous auditors, PricewaterhouseCoopers, have expressed an unqualified opinion on those financial statements in their report dated 18 April 2008.

3 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.

3 Segment information *(Continued)*

(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.

	Plush stuffed toys Six months ended 30 June		Steel and plastic toys Six months ended 30 June		Total Six months ended 30 June	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Turnover	**272,842**	345,382	**67,160**	69,689	**340,002**	415,071
Segment results	**(25,936)**	(5,271)	**(21,487)**	(1,635)	**(47,423)**	(6,906)
Interest expenses					**(3,812)**	(3,875)
Share of losses of associates	**(164)**	(22)	**—**	—	**(164)**	(22)
Loss before taxation					**(51,399)**	(10,803)
Income tax (expense)/credit					**(5,218)**	13,090
(Loss)/profit for the period					**(56,617)**	2,287
Capital expenditure	**24,818**	4,891	**1,318**	3,459	**26,136**	8,350
Impairment losses on						
— property, plant and equipment	**—**	—	**5,837**	—	**5,837**	—
— intangible assets	**—**	—	**163**	—	**163**	—
Depreciation of property, plant and equipment	**10,988**	12,451	**3,645**	3,364	**14,633**	15,815
Amortisation of						
— leasehold land and land use rights	**134**	196	**50**	84	**184**	280
— intangible assets	**—**	—	**343**	343	**343**	343

3 Segment information *(Continued)*

(a) Primary reporting format — business segments *(Continued)*

	Plush stuffed toys		Steel and plastic toys		Total	
	As at 30 June 2008 HK$'000	As at 31 December 2007 HK$'000	**As at 30 June 2008 HK$'000**	As at 31 December 2007 HK$'000	**As at 30 June 2008 HK$'000**	As at 31 December 2007 HK$'000
Segment assets	**486,899**	497,640	**146,534**	148,410	**633,433**	646,050
Investments in associates	**1,308**	1,373	**–**	–	**1,308**	1,373
Unallocated assets					**77,844**	80,701
Total assets					**712,585**	728,124
Segment liabilities	**128,510**	105,222	**54,616**	55,312	**183,126**	160,534
Unallocated liabilities					**128,175**	117,379
Total liabilities					**311,301**	277,913

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

	Six months ended 30 June	
	2008 HK$'000	2007 HK$'000
North America	**152,881**	172,982
Japan	**101,726**	126,943
Europe	**70,735**	84,525
South Korea	**431**	3,686
Others	**14,229**	26,935
	340,002	415,071

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 Other revenue

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Interest income from bank deposits	**1,736**	1,114
Interest income on long term structured deposits	**2,306**	774
Sundry income	**4,394**	3,102
	8,436	4,990

5 Other net gain/(loss)

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Gain/(loss) on valuation of long term structured deposits	**1,338**	(3,633)
Gain/(loss) on foreign exchange, net	**3,014**	(2,993)
Loss on disposal of fixed assets	**(699)**	(204)
Sundry loss	**(50)**	(165)
	3,603	(6,995)

6 Loss before taxation

Loss before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
(a) Staff costs		
Contributions to defined contribution plan	**4,343**	2,112
Expenses recognised in respect of defined benefit plan	**3,030**	2,782
Salaries, wages and other benefits	**96,815**	104,173
	104,188	109,067
(b) Other items		
Cost of inventories	**288,038**	342,786
Amortisation of intangible assets	**343**	343
Amortisation of leasehold land and land use right	**184**	280
Depreciation of property, plant and equipment	**14,633**	15,815
Operating leases charges in respect of land and buildings	**11,397**	12,047
Provision for/(write-back of) obsolete inventories	**6,498**	(1,231)
Raw materials and consumables used	**151,350**	170,540

\# Cost of inventories includes $89,552,000 (six months ended 30 June 2007: $97,161,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respectively total amounts disclosed separately above or in note 6(a) for each of these types of expenses.

7 Income tax (expense)/credit

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Current income tax		
— Hong Kong profits tax	**(503)**	(565)
— The People's Republic of China ("PRC") and overseas taxation	**(1,091)**	(261)
— (Under)/over-provision of Hong Kong profits tax in the prior years (Note)	**(67)**	12,942
Deferred tax assets written off	**(3,557)**	974
	(5,218)	13,090

Note: The Company's long-standing tax dispute with the Hong Kong Inland Revenue Department ("IRD") has been settled in 2007. In April 2007, the Company reached an agreement with the IRD on the tax filing basis of the Company's offshore claim for the years of assessment 1998/99 to 2005/06. Under this settlement basis, the IRD agreed that 75% of the offshore profit (which was originally claimed as 100% offshore) were not subject to Hong Kong profits tax, which resulted in a tax refund of approximately $10 millions and an over-provision of tax from prior years of approximately $13 millions.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2007: 17.5%) on the estimated assessable profit for the period.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax ("CIT") Law of the PRC ("new tax law") which has taken effect on 1 January 2008. Generally, all PRC companies will be subject to CIT at the statutory rate of 25% under the new tax law, unless they are entitled to any preferential tax treatments.

The State Council of the PRC promulgated a grandfathering rule on 26 December 2007, which sets out the details of how certain preferential tax treatments under the Foreign Enterprise Income Tax ("FEIT") Law (effective prior to 1 January 2008) would be grandfathered under the new tax law. According to the grandfathering rule, certain PRC subsidiaries of the Group which have unutilised "2-year FEIT exemption, 3-year 50% FEIT rate reduction" holiday ("Tax Holiday") by 31 December 2007, will continue to enjoy the remaining Tax Holiday. For certain PRC subsidiaries which have not yet kicked off the Tax Holiday by 31 December 2007 (due to the tax losses arising in prior years), under the grandfathering rule, the Tax Holiday is deemed to commence from 1 January 2008 and end at 31 December 2012.

7 Income tax (expense)/credit *(Continued)*

Under the new tax law, dividends received by foreign investors from its investment in foreign-invested enterprises in the PRC are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to a tax treaty between the PRC and Hong Kong, investment holding companies established in Hong Kong are subject to a reduced withholding tax rate of 5% on dividends they receive from their PRC subsidiaries. Pursuant to the grandfathering treatments of the new tax law, dividends receivable by the Group from its PRC subsidiaries in respect of its undistributed profits prior to 31 December 2007 are exempted from the withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 will be subject to the withholding tax.

Taxation on profit from other overseas subsidiaries has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

8 Dividend

No dividend was paid or declared by the Company during the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

9 (Loss)/earnings per share

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the loss attributable to equity holders of HK$51,034,000 (six months ended 30 June 2007: profit of HK$3,161,000) by the weighted average number of ordinary shares in issue of 668,529,000 shares (six months ended 30 June 2007: 668,529,000 shares) during the period.

(b) Diluted

Diluted (loss)/earnings per share for the six months ended 30 June 2008 and 2007 is the same as the basic (loss)/earnings per share as the potential ordinary shares outstanding during the periods were anti-dilutive.

10 Capital expenditure

	Leasehold land and land use rights HK$'000	Property, plant and equipment HK$'000	Intangible assets HK$'000	Total HK$'000
Six months ended 30 June 2007				
Opening net book value as at 1 January 2007	16,168	199,878	17,268	233,314
Additions	—	7,608	742	8,350
Disposals	—	(786)	—	(786)
Depreciation and amortisation	(280)	(15,815)	(343)	(16,438)
Exchange difference	345	4,598	(482)	4,461
Closing net book value as at 30 June 2007	16,233	195,483	17,185	228,901
Six months ended 30 June 2008				
Opening net book value as at 1 January 2008	**15,153**	**182,022**	**16,623**	**213,798**
Additions	**—**	**26,136**	**—**	**26,136**
Disposals	**—**	**(2,098)**	**—**	**(2,098)**
Depreciation and amortisation	**(184)**	**(14,633)**	**(343)**	**(15,160)**
Impairment losses (Note)	**—**	**(5,837)**	**(163)**	**(6,000)**
Exchange difference	**666**	**8,571**	**(1,072)**	**8,165**
Closing net book value as at 30 June 2008	**15,635**	**194,161**	**15,045**	**224,841**

Note: Management has assessed that there is an unfavourable change in the market and economic environment in which the steel and plastic toys segment operates. Management has considered that the fixed and intangible assets for this segment, as a cash generating unit, has been impaired as at 30 June 2008. Accordingly, the carrying amount of related assets has been reduced to its recoverable amount, with reference to the estimated discounted future cash flows generated from these assets.

11 Cost of inventories sold

	Six months ended 30 June 2008 HK$'000	2007 HK$'000
Carrying amount of inventories sold	**290,038**	342,786
Write-down of inventories	**8,772**	10
Reversal of write-down of inventories	**(2,274)**	(1,241)
	296,536	341,555

The reversal of write-down of inventories made in prior years arose due to a portion of the aged raw materials used for production during the six months ended 30 June 2008.

12 Trade and other receivables

	As at 30 June 2008 HK$'000	As at 31 December 2007 HK$'000
Trade receivables	**84,982**	111,422
Less: Allowance for doubtful debts	**(9,737)**	(2,955)
	75,245	108,467
Deposits, prepayments and other receivables	**47,485**	42,402
Amount due from ultimate holding company	**7,397**	8,194
Amounts due from fellow subsidiaries	**—**	419
Amounts due from associates	**130**	283
Amounts due from related companies	**—**	328
Loan to a fellow subsidiary	**—**	8,300
	130,257	168,393

Loan to a fellow subsidiary at 31 December 2007 was unsecured, bore interest at 7.5% per annum and was fully repaid during the six months ended 30 June 2008.

12 Trade and other receivables *(Continued)*

(a) Ageing analysis

As at 30 June 2008 and 31 December 2007, the ageing analysis of the trade receivables (net of provision for impairment) is as follows:

	As at 30 June 2008 HK$'000	As at 31 December 2007 HK$'000
Current	**48,138**	85,718
Less than 3 months past due	**20,714**	16,239
More than 3 months but less than 1 year past due	**5,297**	5,711
More than 1 year past due	**1,096**	799
	75,245	108,467

The Group generally grants a credit period of 30 days to 60 days to its customers.

12 Trade and other receivables *(Continued)*

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly.

The movement in the allowance for doubtful debts during the period is as follows:

	As at 30 June 2008 HK$'000	As at 31 December 2007 HK$'000
At 1 January	**2,955**	7,353
Impairment loss recognised	**6,782**	3,163
Uncollectible amounts written off	**(168)**	(7,210)
Write back of impairment loss	**(3)**	(462)
Exchange difference	**171**	111
At 30 June 2008/31 December 2007	**9,737**	2,955

At 30 June 2008, the Group's trade debtors of $6,782,000 (2007: $3,163,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that the recoverability of those trade debtors was in doubt. Consequently, specific allowance for doubtful debts of $6,782,000 (six months ended 30 June 2007: $3,149,000) was recognised.

13 Trade and other payables

	As at 30 June 2008 HK$'000	As at 31 December 2007 HK$'000
Trade payables	**90,233**	70,276
Accrued charges and other payables	**77,837**	76,934
Amounts due to fellow subsidiaries	**4,367**	2,635
	172,437	149,845

13 Trade and other payables *(Continued)*

As at 30 June 2008 and 31 December 2007, the ageing analysis of the trade payables is as follows:

	As at 30 June 2008 HK$'000	As at 31 December 2007 HK$'000
Within 1 month	**43,092**	42,216
After 1 month but within 3 months	**39,802**	17,726
After 3 months but within 6 months	**5,473**	8,718
After 6 months but within 1 year	**469**	713
Over 1 year	**1,397**	903
	90,233	70,276

14 Commitments

(a) Capital Commitments

Capital commitments outstanding as at 30 June 2008 not provided for in the Group's interim financial information:

	As at 30 June 2008 HK$'000	As at 31 December 2007 HK$'000
Contracted but not provided for	**10,390**	13,863

(b) Other Commitments

During the six months ended 30 June 2008, the Group entered into a licensing agreement with Disney Consumer Products, Inc. ("Disney") to produce and distribute Disney products for the period from 6 May 2008 to 31 December 2010. The agreement includes a minimum license fee payable for each of the financial year of 2008, 2009 and 2010. The license fees commitment for 2008 has been fulfilled during the six months ended 30 June 2008. Pursuant to the above agreement, the Group has committed the minimum license fees for the years 2009 and 2010 amounted to US$3,000,000 (equivalent HK$23,403,000) and US$4,000,000 (equivalent HK$31,204,000) respectively.

15 Related party transactions

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

		Six months ended 30 June	
		2008	2007
		HK$'000	HK$'000
(i)	Sales of goods to (note 1):		
	Fellow subsidiaries	**—**	526
	An associated company	**50**	590
	A related company	**—**	1,057
		50	**2,173**
(ii)	Purchases of goods from (note 2):		
	A fellow subsidiary	**—**	8,978
(iii)	Sales commission received from (note 2):		
	A fellow subsidiary	**1,542**	—
(iv)	Rentals paid/payable to:		
	Ultimate holding company	**1,160**	1,678
(v)	Processing fee paid/payable to:		
	An associated company	**5,631**	5,894
(vi)	Key management compensation:		
	Salaries and other short-term benefits	**4,388**	5,306
	Share-based payments	**—**	230
		4,388	5,536

(vii) Included in bank loans is an amount of HK$62,403,000 (2007: HK$39,000,000) pledged with bank deposits of US$8,200,000 (equivalent to HK$63,982,000) (2007: US$5,200,000, equivalent to HK$40,570,000) hold by a director of the Company.

15 Related party transactions *(Continued)*

Note:

1. These related companies have changed their principal activities and reduced purchases of goods from the Group during the six months ended 30 June 2008.

2. The Group assists one of its customers to source raw materials from a fellow subsidiary. During the six months ended 30 June 2007, the transactions were initiated through the purchase and re-sale of goods. During the six months ended 30 June 2008, the Group acted as a sales agent and received commission income.

16 Contingent liabilities

During the six months ended 30 June 2008, a United States company commenced a lawsuit in the State of Texas against the Company on the grounds that the Company infringed their patent by selling, offering for sale, distributing and importing infringing goods (the "Litigation"). The plaintiff seeks an award of damages, no less than a reasonable royalty, attorney's fee, costs and expenses incurred in the Litigation.

Having considered the Litigation with the Company's various legal counsels, the management and the board of directors believe that the Company's opposition to the plaintiffs' complaint, as well as the Company's defences and appeal rights, continue to be meritorious. As such, the Company intends to continue to vigorously defend the Litigation. In accordance with paragraph 92 of Hong Kong Accounting Standard 37 ("HKAS 37"), Provisions, Contingent Liabilities and Contingent Assets, it would be against the interests of the Company to make further disclosure of the information required by HKAS 37.

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

INTERIM DIVIDEND

The Board of Directors did not recommend the payment of interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2008, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Long positions in ordinary shares of US$0.01 each

	Number of ordinary shares held				
	Personal interests (Note 1)	**Family interests**	**Corporate interests**	**Total**	**Percentage of issued share capital of the Company**
The Company					
Kyoo Yoon Choi	—	—	455,000,000 (Note 2)	455,000,000	68.06%
Young M. Lee	1,740,000	—	—	1,740,000	0.26%
Jung Kuk Lee	170,000	—	—	170,000	0.03%
C & H Co., Ltd.					
Kyoo Yoon Choi	189,917	124,073 (Note 3)	—	313,990	61.03%

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

(i) Long positions in ordinary shares of US$0.01 each *(Continued)*

Notes:

1. The shares are registered under the names of the directors and chief executives of the Company who are the beneficial owners.

2. Kyoo Yoon Choi in his own name holds approximately 36.91% of the issued share capital of C & H Co., Ltd., and together with his wife, Woul Hee Cha, hold approximately 61.03% of the issued share capital of C & H Co., Ltd. which owned 382,850,000 shares in the Company. In addition, Kyoo Yoon Choi beneficially owns 100% of interest of Uni-Link Technology Limited which owned 72,150,000 shares of the Company.

3. The wife of Kyoo Yoon Choi, Woul Hee Cha, holds approximately 24.12% of the issued share capital of C & H Co., Ltd.

(ii) Long positions in underlying shares of the Company

The directors and chief executives of the Company have been granted options under the Company's share option scheme, details of which are set out in the section "Share option scheme" below.

Save as disclosed above, at no time during the period under review, the directors and chief executives (including their spouses and children under 18 years of age) had any interests or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the SEHK pursuant to the Model Code.

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(Continued)*

SHARE OPTION SCHEME

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. The exercise price of the options is the highest of (i) the nominal value of the shares, (ii) the closing price of the shares on the SEHK on the date of grant and (iii) the average closing price of the shares on the SEHK for the five business days immediately preceding the date of grant. The options may be exercised progressively after one to three years from the date of grant and are exercisable for a period to be notified by the directors to each option holder upon the grant of the option. Such period will not exceed ten years from the date on which the option is granted.

The maximum number of shares which may be issued upon the exercise of all outstanding options and yet to be exercised under the share option scheme shall not exceed 30% of the issued share capital of the Company from time to time. Subject to the above overall limit, the directors may grant options under the share option scheme, generally and without further authority, in respect of such number of shares which may be issued upon exercise of all options to be granted under the share option scheme not exceeding 10% of the issued share capital of the Company as at 7 February 2002, being the date on which the Company's shares were listed on the SEHK. For the purpose of calculating the above, options lapsed in accordance with the share option scheme shall not be counted.

The total number of securities available for issue under the share option scheme as at 30 June 2008 was 46,471,000 shares (including options for 12,086,000 shares that have been granted but not yet lapsed or exercised) which represented 6.95% of the issued share capital of the Company at 30 June 2008. In respect of the maximum entitlement of each participant under the scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

As at 30 June 2008, the directors individually and other employees in aggregate of the Company had the following interests in options to subscribe for shares of the Company granted at nominal consideration under the share option scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of the Company of par value US$0.01 each.

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(Continued)*

SHARE OPTION SCHEME *(Continued)*

	Date granted	Period during which options exercisable (Note 1)	Exercise price per share	Number of options: Balance at 1 January 2008	Lapsed during the period (Note 2)	Balance at 30 June 2008
Directors						
Young M. Lee	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	1,360,000	—	1,360,000
James Wang	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	520,000	—	520,000
Jung Kuk Lee	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	520,000	—	520,000
Employees in aggregate	7 February 2002	7 February 2003 to 7 February 2012	HK$1.18	3,641,000	1,560,000 (Note 3)	2,081,000
	15 April 2003	15 April 2004 to 15 April 2013	HK$1.43	455,000	—	455,000
	2 January 2004	2 January 2005 to 2 January 2014	HK$1.87	7,850,000	700,000 (Note 3)	7,150,000
				14,346,000	2,260,000	12,086,000

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(Continued)*

SHARE OPTION SCHEME *(Continued)*

Notes:

1. The maximum percentage of the share options that may be exercised is determined in stages as follows:

	Percentage of share options granted
On or after 1st year anniversary of the date of grant	30%
On or after 2nd year anniversary of the date of grant	another 30%
On or after 3rd year anniversary of the date of grant	another 40%

2. Pursuant to the conditions of the share option scheme, any unexercised number of options granted to any employee will lapse three months after the employee ceases employment relationship with the Company.

3. This 2,260,000 share options related to various employees who left the Group on or before 31 March 2008. These outstanding share options were lapsed by 30 June 2008.

The life of the above granted share options is ten years commencing on the date on which an option is granted in accordance with the scheme.

Save as disclosed above, at no time during the period was the Company, its holding company, its associated companies or fellow subsidiaries a party to any arrangement to enable the director and chief executive of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in the shares in, or underlying shares in, or debentures of, the Company and its associated corporation required to be disclosed pursuant to the SFO or otherwise notified to the Company and the SEHK pursuant to the Model Code.

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(Continued)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 30 June 2008, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of directors and chief executives:

Name	Capacity in which shares were held	Number of shares held	Percentage of the issued share capital of the Company
C & H Co., Ltd. (Note)	Beneficial owner	382,850,000	57.27%
Uni-Link Technology Limited (Note)	Beneficial owner	72,150,000	10.79%

Note:

Kyoo Yoon Choi, being a director of C & H Co., Ltd., together with his wife, Woul Hee Cha, hold approximately 61.03% of the issued share capital of C & H Co., Ltd. and Kyoo Yoon Choi beneficially owns 100% of the issued share capital of Uni-Link Technology Limited. Kyoo Yoon Choi is considered to have deemed interests in the 455,000,000 ordinary shares as to approximately 68.06% of the issued shares of the Company. James Wang, being a director of the Company, is also a director of Uni-Link Technology Limited.

Same as disclosed above, as at 30 June 2008, the Company is not aware of any other registered substantial shareholder who holds 5% or more of the issued share capital of the Company.

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

During the six-month period ended 30 June 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(Continued)*

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six-month period ended 30 June 2008, 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 2008.

By order of the Board
Young M. LEE
Director

Hong Kong, 24 September 2008

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Kyoo Yoon CHOI *(Chairman and Executive Director)*
Mr. Young M. LEE *(Executive Managing Director and Chief Financial Officer)*
Mr. James WANG
Mr. Jung Kuk LEE
Mr. Hyun Ho KIM

Independent Non-executive Directors

Professor Cheong Heon YI
Dr. Chan YOO
Professor Byong Hun AHN (appointed on 30 May 2008)
Mr. Oliver, Shing Kay WONG (appointed on 1 September 2008)
Mr. Valiant, Kin Piu CHEUNG (resigned on 30 May 2008)

AUDIT COMMITTEE

Professor Cheong Heon YI
Dr. Chan YOO
Professor Byong Hun AHN (appointed on 30 May 2008)
Mr. Oliver, Shing Kay WONG (appointed on 1 September 2008)
Mr. Valiant, Kin Piu CHEUNG (resigned on 30 May 2008)

REMUNERATION COMMITTEE

Dr. Chan YOO
Professor Cheong Heon YI
Professor Byong Hun AHN (appointed on 30 May 2008)
Mr. Oliver, Shing Kay WONG (appointed on 1 September 2008)
Mr. Valiant, Kin Piu CHEUNG (resigned on 30 May 2008)

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

8th Floor
Tower 5, China HK City
33 Canton Road
Tsimshatui Kowloon
Hong Kong

COMPANY SECRETARY

Mr. Chi Chung SHUM

AUDITORS

KPMG
Certified Public Accountants
8/F., Prince's Building
10 Chater Road, Central
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Young M. LEE
Mr. Chi Chung SHUM

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Citibank, N.A.
Shinhan Finance Limited

SHARE REGISTRAR

Tricor Abacus Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

FINANCIAL RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit A, 29/F., Admiralty Centre I
18 Harcourt Road, Hong Kong

WEBSITE ADDRESS

www.dream-i.com.hk

STOCK CODE

Stock Exchange, Hong Kong 1126
Access to Reuter 1126.HK
Access to Bloomberg 1126:HK