Dream International Limited

Interim Report 2009

Dream International Limited

德林國際有限公司

(incorporated in Hong Kong with limited liability)

Stock Code: 1126

CONTENTS

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

In the first half of 2009, the global financial crisis continued to affect economies worldwide resulting in poor market sentiment especially in the US that hit the toy industry. However, with an established customer base and an improved operational structure, Dream International Limited (the "Company") and its subsidiaries (collectively the "Group") were able to achieve satisfactory results amid the challenging market environment.

For the six months ended 30 June 2009, driven by the growing sales of the plush stuffed toys segment, the Group's turnover increased by 12.4% year-on-year to HK$382.2 million (2008: HK$340.0 million). At the efforts of the Group in the past few years to restructure and relocate production bases to inland China and Vietnam, the Group managed to lower labour cost and enhance production efficiency leading to a 6.3% drop in cost of sales to HK$277.8 million during the review period (2008: HK$296.5 million) and a 1.4 times surge in gross profit to HK$104.4 million (2008: HK$43.5 million). Administrative expenses were also slashed by 13.5% to HK$64.8 million (2008: HK$74.9 million). Fixed assets were disposed with a gain of about HK$21.6 million (2008: Loss on disposal of fixed assets: HK$0.7 million). The Group turned around its business during the period with profit attributable to shareholders amounting to HK$38.9 million, a significant improvement from loss of HK$51.0 million in the last corresponding period.

The Group maintained a strong financial position with cash and cash equivalents of HK$203.2 million as at 30 June 2009 (31 December 2008: HK$122.4 million).

Business Review

Product Analysis

Plush stuffed toys segment

During the period, sales of plush stuffed toys surged by 18.9% to HK$324.3 million, accounting for 84.8% of the Group's total turnover. Original Equipment Manufacturing ("OEM") and licensing business remained the core business of the Group, representing 91.1% of the sales of the segment. For the OEM business, the Group's strategy is to nurture closer cooperation with existing customers who are famous character owners and licensors. During the period, the Group received a large order from a Japanese customer for a series of new products under a new character, which gave growth impetus to the business. Those new products were well received in the market and more orders are expected from the customer in the future. Furthermore, orders from other OEM customers including a renowned US entertainment company secured last year remained stable during the period.

The licensing business covering design and manufacture of plush and soft toys of various popular Disney characters which are sold to major US retailers continued to grow. In addition to the popular teenager items under the High School Musical and Hanna Montana brands, the Group expanded the product mix of the business to infant plush toys featuring other Disney characters during the period and received encouraging market response. Enjoying flexibility in deciding the different aspects of a product, the Group will adjust expansion pace and tailor new products to match market demands in the future.

Original Design Manufacturing ("ODM") business accounted for 8.9% of the sales of the plush stuffed toy segment. In the face of the economic downturn, the Group stopped taking small volume orders and mounted rounds of promotional sales to attract larger orders from renowned US retailers. To boost sales of higher-margin products, the Group continued to launch and promote interactive toys carrying the "CALTOY" brand, such as interactive educational electronic plush stuffed toys. The Group will continue to launch more interactive toy products and capture more market opportunities with self-developed innovative products.

Steel and plastic toys segment

Sales of the steel and plastic toy segment amounted to HK$57.9 million, accounting for 15.2% of the Group's total turnover. During the period, the Group trimmed down production of low-margin items and increased the proportion of products with higher selling price and better profit margins in the product mix. High-end products like tricycles with electronic sound mechanism on the handle bar, which the Group produces for a US marketing company, remained popular, and a new series of scooters also brought increasing orders from the US and European markets. The Group is currently co-developing new scooters with customers and new models will be launched in the two markets in the coming months. Furthermore, the Group restructured the sales network of its own "Great" and "Far Great" brands in China by focusing on metropolitan areas reporting high sales volumes, thereby strengthened its presence in the market.

During the period, the Group developed bicycle and tricycle products associated with a Japanese character very popular in China, and it will cooperate with a Tianjin bicycle company to launch the new products in the market in the second half year of 2009. Besides, having secured another character license from Disney for manufacturing scooters and ride-on products, the Group will accelerate its penetration in the China market.

Market Analysis

For the six months ended 30 June 2009, appreciation of the Japanese Yen and a large order for new plush products from a Japanese customer made Japan the largest market of the Group, accounting for 39.7% of the Group's total turnover. The weakened US market took the second place with share of contribution down to 32.1% of the total turnover. Sales from another major market Europe was fairly stable at 19.2%. To develop a more balanced market portfolio, the Group stepped up expansion in the China market which accounted for 3.7% of the total turnover for the period.

Operational Analysis

As at 30 June 2009, the Group operated eight plants in all, six of which were in China and two in Vietnam, running at an average utilisation rate of around 78%. The Group, through restructuring and relocation of its plants to either inland China or Vietnam, was able to enjoy better production efficiency and cost-effectiveness at markedly reduced direct labour costs and administrative expenses during the period. The production plant of the Group in Vietnam has gradually gone on smooth track and another factory for fabric manufacturing in the country also commenced operation in the first half of 2009 as scheduled.

Prospects

The global economy is recovering slowly. The US, which is the largest toy market in the world, though still reporting discouraging economic figures, such as high employment rate, the Group sees some factors favourable for its development in the near future.

Consolidation of the toy industry, which began a few years ago as the operational environment got tougher and tougher and hastened by the economic downturn which started last year, has ousted many toy manufacturers. The decreasing overall manufacturing capacity for plush toys is favourable to the Group as the world's largest plush toy manufacturer, since it is well-positioned to claim a bigger market share and stronger bargaining power in pricing. Moreover, tightening safety and testing requirements on toys manufactured in China and rising production cost in the country are also going to give advantage to well-established industry players like Dream International Limited which has scalable production capacity, solid customer base, strong R&D capability and sound financial position for producing quality products.

Apart from focusing on higher-margin products, the Group will continue to tighten cost control to maintain profitability. Apart from enjoying relatively lower labour costs in inland China, with the new fabric plant in Vietnam already in full operation, the Group has established a vertically integrated production line that boasts lower production costs there. The Group is planning next to ramp up production capacities of the production base in Vietnam to reap greater economies of scale and it expects this production base to take up more orders and contribute more revenue in the future.

Number and Remuneration of Employees

At 30 June 2009, the Group had 7,998 employees (31 December 2008: 8,706) in Hong Kong, Mainland China, South Korea, US, Japan and Vietnam. The Group values its human resources and recognises 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 2009, the Group had net current assets of HK$255.6 million (31 December 2008: HK$178.4 million). The Group's total cash and cash equivalents as at 30 June 2009 amounted to HK$203.2 million (31 December 2008: HK$122.4 million). The total borrowings of the Group as at 30 June 2009 amounted to HK$51.0 million (31 December 2008: HK$145.7 million).

The Group's gearing ratio, calculated on the basis of total bank borrowings over the total shareholders' equity, decreased significantly from 38.5% at 31 December 2008 to 12.2% at 30 June 2009. The decrease was mainly due to early redemption of long-term structured deposit of about HK$78 million, the proceeds received on disposal of plant in Jiangsu of about HK$46 million and repayment of bank borrowings of about HK$95 million.

Being another step of our strategies to restructure the business operations, we invested about US$1 million in Vietnam to establish a new plant in Mekong Delta of Vietnam in the first half of 2009 in order to balance the production level with China. The Group expects to spend another US$5 million to the plant to increase production capacity and it will be financed with the Group's internal resources.

Pledge on Group Assets

Bank borrowings are secured on the Group's buildings, plant and machinery, land use rights and time deposit with a net book value as at 30 June 2009 of HK$52.2 million (31 December 2008: HK$134.4 million).

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009 — unaudited

		Six months ended 30 June	
		2009	2008
	Note	**HK$'000**	HK$'000
Turnover	*3&4*	**382,226**	340,002
Cost of sales		**(277,791)**	(296,536)
Gross profit		**104,435**	43,466
Other revenue		**4,244**	8,436
Other net income		**23,726**	3,603
Distribution costs		**(25,384)**	(22,151)
Administrative expenses		**(64,767)**	(74,940)
Impairment losses on fixed assets	*9(b)*	**—**	(5,837)
Profit/(loss) from operations		**42,254**	(47,423)
Finance costs	*5(a)*	**(1,388)**	(3,812)
Share of losses of associates		**(100)**	(164)
Profit/(loss) before taxation	*5*	**40,766**	(51,399)
Income tax	*6*	**(2,640)**	(5,218)
Profit/(loss) for the period		**38,126**	(56,617)
Attributable to:			
Equity shareholders of the Company		**38,932**	(51,034)
Minority interests		**(806)**	(5,583)
		38,126	(56,617)
Earnings/(loss) per share	*8*		
Basic		**HK5.8 cents**	(HK7.6 cents)
Diluted		**HK5.8 cents**	(HK7.6 cents)

The notes on pages 12 to 27 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009 — unaudited

		Six months ended 30 June	
	Note	**2009** **HK$'000**	2008 HK$'000
Profit/(loss) for the period		**38,126**	(56,617)
Other comprehensive income for the period (after tax and reclassification adjustments):			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**1,270**	7,690
Available-for-sales securities: net movement in fair value reserve	*7*	**40**	—
		1,310	7,690
Total comprehensive income/(loss) for the period		**39,436**	(48,927)
Attributable to:			
Equity shareholders of the Company		**40,228**	(39,408)
Minority interests		**(792)**	(9,519)
Total comprehensive income/(loss) for the period		**39,436**	(48,927)

The notes on pages 12 to 27 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 June 2009 — unaudited

	Note	At 30 June 2009 HK$'000	At 31 December 2008 HK$'000
Non-current assets			
Fixed assets	*9*		
— Interests in leasehold land held for own use under operating leases		**16,710**	21,396
— Other property, plant and equipment		**130,301**	171,933
		147,011	193,329
Intangible assets		**12,037**	12,516
Investments in associates		**858**	950
Other financial assets		**5,551**	—
Deferred tax assets		**1,267**	503
		166,724	207,298
Current assets			
Inventories	*10*	**156,073**	132,909
Trade and other receivables	*11*	**118,439**	199,889
Current tax recoverable		**355**	255
Other financial assets		**—**	73,954
Cash and cash equivalents	*12*	**203,198**	122,370
		478,065	529,377
Current liabilities			
Trade and other payables	*13*	**166,503**	198,332
Bank loans		**51,018**	145,692
Current tax payable		**4,910**	6,976
		222,431	351,000
Net current assets		**255,634**	178,377
Total assets less current liabilities		**422,358**	385,675

CONSOLIDATED BALANCE SHEET

At 30 June 2009 — unaudited (Continued)

	Note	**At 30 June 2009 HK$'000**	At 31 December 2008 HK$'000
Non-current liabilities			
Net defined benefit retirement obligation		**4,225**	6,978
NET ASSETS		**418,133**	378,697
CAPITAL AND RESERVES			
Share capital		**52,019**	52,019
Reserves		**360,422**	322,123
Total equity attributable to equity shareholders of the Company		**412,441**	374,142
Minority interests		**5,692**	4,555
TOTAL EQUITY		**418,133**	378,697

The notes on pages 12 to 27 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009 — unaudited

		Attributable to equity shareholders of the Company									
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve fund HK$'000	Exchange reserves HK$'000	Fair value reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2008		52,019	176,893	6,829	18,427	31,077	—	146,746	431,991	18,220	450,211
Changes in equity for the six months ended 30 June 2008:											
Lapse of share options		—	—	(2,876)	—	—	—	2,876	—	—	—
Total comprehensive income for the period		—	—	—	—	11,626	—	(51,034)	(39,408)	(9,519)	(48,927)
Balance at 30 June 2008 and 1 July 2008		52,019	176,893	3,953	18,427	42,703	—	98,588	392,583	8,701	401,284
Changes in equity for the six months ended 31 December 2008:											
Total comprehensive income for the period		—	—	—	—	(27,546)	—	9,105	(18,441)	(4,146)	(22,587)
Balance at 31 December 2008 and 1 January 2009		52,019	176,893	3,953	18,427	15,157	—	107,693	374,142	4,555	378,697
Changes in equity for the six months ended 30 June 2009:											
Increase in minority interests resulting from change in shareholding	15	—	—	(1,929)	—	—	—	—	(1,929)	1,929	—
Lapse of share options		—	—	(265)	—	—	—	265	—	—	—
Total comprehensive income for the period		—	—	—	—	1,256	40	38,932	40,228	(792)	39,436
Balance at 30 June 2009		52,019	176,893	1,759	18,427	16,413	40	146,890	412,441	5,692	418,133

The notes on pages 12 to 27 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2009 — unaudited

		Six months ended 30 June	
		2009	2008
	Note	**HK$'000**	HK$'000
Cash generated from/(used in) operations		**65,480**	(33,773)
Tax paid		**(5,568)**	(2,386)
Net cash generated from/(used in) operating activities		**59,912**	(36,159)
Net cash generated from/(used in) investing activities		**116,543**	(13,095)
Net cash (used in)/generated from financing activities		**(96,062)**	6,198
Net increase/(decrease) in cash and cash equivalents		**80,393**	(43,056)
Cash and cash equivalents at 1 January	*12*	**122,370**	107,222
Effect of foreign exchange rate changes		**435**	844
Cash and cash equivalents at 30 June	*12*	**203,198**	65,010

The notes on pages 12 to 27 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was approved by the Board of Directors and authorised for issue on 25 September 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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 on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed 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 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by the Audit Committee.

The financial information relating to the financial year ended 31 December 2008 that is included in the interim financial report as being previously reported information 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 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 April 2009.

2 Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— HKFRS 8, *Operating segments*

— HKAS 1 (revised 2007), *Presentation of financial statements*

— Improvements to HKFRSs (2008)

— Amendments to HKAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*

— Amendments to HKFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*

— HKAS 23 (revised 2007), *Borrowing costs*

— Amendments to HKFRS 2, *Share-based payment — vesting conditions and cancellations*

2 Changes in accounting policies *(Continued)*

The amendments to HKAS 23 and HKFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

— HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, but has not resulted in additional reportable segments being identified and presented (see note 3). As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

— As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

2 Changes in accounting policies *(Continued)*

- The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendment has resulted in changes to the Group's accounting policies:

  - As a result of amendments to HKAS 28, *Investments in associates*, impairment losses recognised in respect of the associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

3 Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. On first-time adoption of HKFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Plush stuffed toys: this segment is involved in the design, development, manufacture and sale of plush stuffed toys. These products are either sourced externally or are manufactured in the Group's manufacturing facilities located primarily in The People's Republic of China ("the PRC") and Vietnam.

— Steel and plastic toys: this segment is involved in the design, development, manufacture and sale of steel and plastic toys. These products are manufactured in the PRC and sold to customers mainly located in the United States and Europe.

(a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investments in associates, investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

3 Segment reporting *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

3 Segment reporting *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Plush stuffed toys		Steel and plastic toys		Total	
For the six months ended 30 June	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**324,314**	272,842	**57,912**	67,160	**382,226**	340,002
Inter-segment revenue	**—**	—	**—**	24	**—**	24
Reportable segment revenue	**324,314**	272,842	**57,912**	67,184	**382,226**	340,026
Reportable segment profit/(loss) (adjusted EBITDA)	**55,773**	(18,280)	**898**	(10,821)	**56,671**	(29,101)
Impairment of						
— plant and machinery	**—**	—	**—**	(5,837)	**—**	(5,837)
— intangible assets	**—**	—	**—**	(163)	**—**	(163)
Reportable segment assets	**366,935**	454,496	**108,579**	116,378	**475,514**	570,874
Additions to non-current segment assets during the period	**5,738**	24,818	**289**	1,318	**6,027**	26,136
Reportable segment liabilities	**133,894**	154,237	**89,968**	94,629	**223,862**	248,866

3 Segment reporting *(Continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Revenue		
Reportable segment revenue	**382,226**	340,026
Elimination of inter-segment revenue	**—**	(24)
Consolidated turnover	**382,226**	340,002

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Profit/(loss)		
Reportable segment profit/(loss)	**56,671**	(29,101)
Share of losses of associates	**(100)**	(164)
Interest income	**987**	1,882
Depreciation and amortisation	**(11,967)**	(15,160)
Finance costs	**(1,388)**	(3,812)
Unallocated head office and corporate expenses	**(3,437)**	(5,044)
Consolidated profit/(loss) before taxation	**40,766**	(51,399)

3 Segment reporting *(Continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities *(Continued)*

	At 30 June 2009 HK$'000	At 31 December 2008 HK$'000
Assets		
Reportable segment assets	**475,514**	570,874
Elimination of inter-segment receivables	**(53,134)**	(43,556)
	422,380	527,318
Club memberships	**11,180**	11,325
Investments in associates	**858**	950
Other financial assets	**5,551**	73,954
Deferred tax assets	**1,267**	503
Current tax recoverable	**355**	255
Unallocated head office and corporate assets	**203,198**	122,370
Consolidated total assets	**644,789**	736,675

	At 30 June 2009 HK$'000	At 31 December 2008 HK$'000
Liabilities		
Reportable segment liabilities	**223,862**	248,866
Elimination of inter-segment payables	**(53,134)**	(43,556)
	170,728	205,310
Current tax payable	**4,910**	6,976
Unallocated head office and corporate liabilities	**51,018**	145,692
Consolidated total liabilities	**226,656**	357,978

4 Seasonality of operations

The Group's plush stuffed toys and steel and plastic toys divisions, on average experience higher sales in the second half year, compared to the first half year, due to the increased demand of its products during the holiday season. As such, the first half year reports lower revenues and segment results for these segments than the second half.

5 Profit/(loss) before taxation

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

		Six months ended 30 June	
		2009	2008
		HK$'000	HK$'000
(a)	**Finance costs:**		
	Interest on borrowings	**1,388**	3,812

(b) Other items:

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Amortisation:		
— intangible assets	**362**	343
— leasehold land and land use right	**160**	184
Depreciation	**11,445**	14,633
Operating leases charges in respect of land and buildings	**9,842**	11,397
(Reversal of write-down)/write-down of inventories, net *(note 10)*	**(370)**	6,498
Interest income	**(987)**	(1,882)
(Gain)/loss on disposal of fixed assets	**(21,589)**	700

6 Income tax

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Current tax — Hong Kong Profits Tax	**888**	570
Current tax — Outside Hong Kong	**2,514**	1,091
Deferred taxation	**(762)**	3,557
	2,640	5,218

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2008: 16.5%) to the six months ended 30 June 2009. Taxation for subsidiaries outside Hong Kong is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

7 Other comprehensive income

Available-for-sale securities

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Changes in fair value recognised during the period in other comprehensive income	**40**	—

8 Earnings/(loss) per share

(a) Basic

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity holders of the Company of HK$38,932,000 (six months ended 30 June 2008: loss of HK$:51,034,000) and the weighted average number of ordinary shares of 668,529,000 shares (six months ended 30 June 2008: 668,529,000 shares).

(b) Diluted

The Company did not have dilutive potential ordinary shares outstanding during the six months ended 30 June 2008 and 30 June 2009. Accordingly, the diluted earnings/(loss) per share is the same as the basic earnings/(loss) per share for both periods.

9 Fixed assets

(a) Acquisitions and disposals

During the six months ended 30 June 2009, the Group acquired items of plant and machinery with a cost of HK$6,027,000 (six months ended 30 June 2008: HK$26,136,000). Items of plant and machinery with a net book value of HK$41,496,000 were disposed of during the six months ended 30 June 2009 (six months ended 30 June 2008: HK$2,098,000), resulting in a gain on disposal of HK$21,589,000 (six months ended 30 June 2008: a loss on disposal of HK$699,000).

(b) Impairment losses

During the six months ended 30 June 2008, a number of machines were physically impaired. The Group assessed the recoverable amounts of those machines and as a result the carrying amount of the machines was written down by HK$5,837,000 (included in "Impairment losses on fixed assets"). The estimates of recoverable amount were based on the machines' fair values less costs to sell, determined by reference to the recent observable market prices for similar assets within the same industry. No impairment was identified as at 30 June 2009.

10 Inventories

During the six months ended 30 June 2009, HK$4,543,000 (2008: HK$2,274,000) has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss during the period, being the amount of reversal of a write-down of inventories to estimated net realisable value. This reversal arose due to an increase in the estimated net realised value of certain goods as a result of change in consumer preferences.

11 Trade and other receivables

Included in trade and other receivables are debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis:

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Current	**45,070**	135,716
Less than 1 month past due	**12,115**	5,373
1 to 3 months past due	**2,571**	6,378
More than 3 months but less than 12 months past due	**1,139**	1,468
More than 12 months past due	**—**	25
Trade debtors and bills receivable, net of allowance for doubtful debts	**60,895**	148,960
Other receivables and prepayments	**51,201**	43,763
Amount due from ultimate holding company	**5,201**	6,115
Amount due from a fellow subsidiary	**1,112**	1,000
Amount due from an associate	**30**	51
	118,439	199,889

Trade debtors and bills receivable are due within thirty to sixty days from the date of billing. However, debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted.

12 Cash and cash equivalents

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Deposits with banks	**87,028**	39,807
Cash at bank and in hand	**116,170**	82,563
Cash and cash equivalents in the balance sheet and cash flow statement	**203,198**	122,370

13 Trade and other payables

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Due within 1 month or on demand	**41,825**	59,984
Due after 1 month but within 3 months	**31,201**	31,484
Due after 3 months but within 6 months	**690**	—
Due after 6 months but within 1 year	**—**	—
Due after 1 year	**—**	110
Total creditors and bills payable	**73,716**	91,578
Accrued charges and other payables	**86,335**	95,822
Amount due to ultimate holding company	**1,311**	—
Amounts due to fellow subsidiaries	**4,129**	9,079
Amount due to an associate	**1,012**	1,853
	166,503	198,332

14 Dividend

The Board of Directors do not declare or propose any dividends for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

15 Increase in minority interests resulting from a change in shareholding

On 30 June 2009, a subsidiary issued 1,000,000 new shares to the Company, which resulted in an increase in the Group's shareholding in the subsidiary from 66.47% to 70% and a consequential increase in the minority interests share of the net assets of the subsidiary of HK$1,929,000.

16 Capital commitments outstanding not provided for in the interim financial report

	As at 30 June 2009 HK$'000	As at 31 December 2008 HK$'000
Contracted for	**4,401**	4,960

17 Contingent liabilities

During the period ended 30 June 2009, 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 sought an award of damages, no less than a reasonable royalty, attorney's fees, costs and expenses incurred in the Litigation.

Having considered the Litigation with the Company's various legal counsels, management and the Board of Directors believed that the Company's opposition to the plaintiffs' complaint, as well as the Company's defences and appeal rights, were meritorious.

On 25 September 2008, the courts entered an interlocutory order of summary judgement of no infringement, and accordingly, no provision has been recorded in the financial statements as at 30 June 2009 in respect of the claim under this litigation. The Company has issued a counter claim alleging various matters. 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.

18 Material related party transactions

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

		Six months ended 30 June	
		2009	2008
		HK$'000	HK$'000
(i)	Sales of goods and services to:		
	Fellow subsidiaries	**13,870**	—
	An associate	**—**	50
		13,870	50
(ii)	Purchases of goods from:		
	An associate	**7,789**	5,136
(iii)	Commission received/receivable from:		
	A fellow subsidiary	**2,514**	1,542
(iv)	Rentals paid/payable to:		
	Ultimate holding company	**1,098**	1,160
(v)	Processing fee paid/payable to:		
	An associate	**1,944**	5,631
(vi)	Sharing of administrative services from:		
	Ultimate holding company	**2,471**	—
(vii)	Key management compensation:		
	Salaries and other short-term benefits	**2,786**	4,388

Note: The above transactions were conducted in accordance with the terms of the respective contracts.

19 Comparative figures

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to the current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

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 2009 (30 June 2008: 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 2009, 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 position 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%
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 position 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.

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 2009 was 46,471,000 shares (including options for 10,546,000 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 2009. 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 2009, 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 are exercisable *(Note 1)*	Exercise price per share	Number of options Balance at 1 January 2009	Lapsed during the period *(Note 2)*	Balance at 30 June 2009
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 (resigned on 7 November 2008)	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	2,081,000	(520,000) *(Note 3)*	1,561,000
	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	7,150,000	(500,000) *(Note 3)*	6,650,000
				12,086,000	(1,540,000)	10,546,000

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 anniversary of the date of grant	30%
On or after 2nd anniversary of the date of grant	another 30%
On or after 3rd 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. These 1,540,000 share options related to various employees who left the Group on or before 31 March 2009. These outstanding share options were lapsed by 30 June 2009.

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 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)*

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 2009, 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 2009, the Company is not aware of any other registered substantial shareholder who holds 5% or more of the issued share capital of the Company.

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

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

During the six-month period ended 30 June 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six-month period ended 30 June 2009, the Company has fully complied with the Code on Corporate Governance Practices 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 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 months ended 30 June 2009.

By order of the Board
Young M. LEE
Director

Hong Kong, 25 September 2009

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. Hyun Ho KIM
Mr. Sang Hee JUNG (resigned on 31 August 2009)

Independent Non-executive Directors

Professor Cheong Heon YI
Professor Byong Hun AHN
Mr. Oliver, Shing Kay WONG

AUDIT COMMITTEE

Mr. Oliver, Shing Kay WONG *(Chairman)*
Professor Cheong Heon YI
Professor Byong Hun AHN

REMUNERATION COMMITTEE

Professor Cheong Heon YI *(Chairman)*
Professor Byong Hun AHN
Mr. Oliver, Shing Kay WONG

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Hong Kong

COMPANY SECRETARY

Mr. Chi Chung SHUM

AUDITORS

KPMG
Certified Public Accountants
8/F., Prince's Building
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AUTHORISED REPRESENTATIVES

Mr. Young M. LEE
Mr. Chi Chung SHUM

PRINCIPAL BANKERS

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

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

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