DREAM INTERNATIONAL LIMITED
德林國際有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1126)

Results Announcement for the year ended 31 December 2010

The board of directors (the "Board") of Dream International Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010, together with the comparative figures for the previous financial year.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	**2010** *HK$'000*	2009 *HK$'000*
Turnover	*3&4*	**1,544,857**	994,052
Cost of sales		**(1,079,378)**	(742,063)
Gross profit		**465,479**	251,989
Other revenue	*5(a)*	**14,279**	9,151
Other net gain	*5(b)*	**3**	2,510
Distribution costs		**(117,705)**	(69,113)
Administrative expenses		**(146,532)**	(131,011)
Profit on disposal of land and buildings, and other related fixed assets		**—**	19,748
(Impairment)/reversal of impairment of fixed assets		**(538)**	5,837
Profit from operations		**214,986**	89,111
Finance costs	*8(a)*	**(873)**	(2,690)
Share of loss of associates		**(196)**	(318)
Profit before taxation	*8*	**213,917**	86,103
Income tax	*9*	**(10,958)**	(7,865)
Profit for the year		**202,959**	78,238
Attributable to:			
Equity shareholders of the company		**199,597**	74,619
Non-controlling interests		**3,362**	3,619
Profit for the year		**202,959**	78,238
Earnings per share	*10*		
Basic		**29.83¢**	11.16¢
Diluted		**29.83¢**	11.16¢

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	**2010** *HK$'000*	2009 *HK$'000*
Profit for the year		**202,959**	78,238
Other comprehensive income for the year (after tax adjustments):			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**9,001**	18,971
Available-for-sale securities: net movement in fair value reserve		**314**	85
		9,315	19,056
Total comprehensive income for the year		**212,274**	97,294
Attributable to:			
Equity shareholders of the company		**208,480**	93,596
Non-controlling interests		**3,794**	3,698
Total comprehensive income for the year		**212,274**	97,294

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Fixed assets			
— Interests in leasehold land held for own use under operating leases		**20,022**	16,459
— Other property, plant and equipment		**163,838**	131,880
		183,860	148,339
Long term receivables		**7,231**	—
Prepayments		**1,992**	9,184
Intangible assets		**16,690**	14,028
Interest in associates		**522**	638
Deferred tax assets		**13,625**	2,299
Other financial assets	*11*	**10,162**	6,142
		234,082	180,630
Current assets			
Inventories		**197,813**	149,246
Trade and other receivables	*12*	**224,085**	152,475
Current tax recoverable		**—**	33
Other financial assets	*11*	**19,030**	3,359
Bank deposits		**16,006**	36,801
Cash and cash equivalents		**261,534**	287,761
Assets held for sale	*7*	**2,722**	—
		721,190	629,675
Current liabilities			
Trade and other payables	*13*	**264,738**	271,793
Bank loans		**7,904**	55,487
Current tax payable		**17,019**	5,988
		289,661	333,268
Net current assets		**431,529**	296,407
Total assets less current liabilities		**665,611**	477,037

CONSOLIDATED BALANCE SHEET *(CONTINUED)*
AT 31 DECEMBER 2010

	2010	2009
	HK$'000	*HK$'000*
Non-current liabilities		
Bank loans	**6,101**	—
Net defined benefit retirement obligation	**268**	1,046
	6,369	1,046
NET ASSETS	**659,242**	475,991
CAPITAL AND RESERVES		
Share capital	**52,303**	52,019
Reserves	**591,830**	412,657
Total equity attributable to equity shareholders of the company	**644,133**	464,676
Non-controlling interests	**15,109**	11,315
TOTAL EQUITY	**659,242**	475,991

NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

The announcement does not comprise the consolidated financial statements for the year ended 31 December 2010 but the information herein has been extracted from the draft consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2010 comprise the Group and the Group's interest in associates.

These financial statements have been prepared in accordance with all applicable 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 Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

The measurement basis used in the preparation of the statutory financial statements is the historical cost basis except that financial instruments classified as available-for-sale investments, equity linked financial assets and derivative financial instruments are stated at their fair value.

2. Changes in accounting policies

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two 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 3 (revised 2008), *Business combinations*

— Amendments to HKAS 27, *Consolidated and separate financial statements*

— Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary*

— Improvements to HKFRSs (2009)

— HK(IFRIC) 17, *Distributions of non-cash assets to owners*

— HK (Int) 5, *Presentation of financial statements — classification by the borrower of a term loan that contains a repayment on demand clause*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The issuance of HK(Int) 5 has had no material impact on the Group's financial statements as the Interpretation's conclusion was consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a partial disposal of a subsidiary or a noncash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

- The amendment introduced by the *Improvements to HKFRSs (2009)* omnibus standard in respect of HKAS 17, *Leases*, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

  - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

— If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

— In addition to the Group's existing policy of measuring the non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

— As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

— If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

— If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

— In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, *Investments in associates*, and HKAS 31, *Interests in joint ventures*, the following policies will be applied as from 1 January 2010:

— If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and reacquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

— If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

— As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

— As a result of the amendment to HKAS 17, *Leases*, arising from the "*Improvements to HKFRSs (2009)*" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate as the leases do not transfer significantly all the risks and rewards of ownership of the land to the Group.

3. Turnover

The principal activities of the Group are the design, development, manufacture and sale of plush stuffed and, steel and plastic toys. Turnover represents the sales value of goods supplied to customers and excludes value added tax or other sales taxes and is after deduction of any trade discounts.

4. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. 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 PRC and Japan.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, 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 club memberships, interests in associates, investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade creditors and accruals attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

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. Other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

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.

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 years ended 31 December 2010 and 2009 is set out below.

	Plush stuffed toys		**Steel and plastic toys**		**Total**	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**1,383,005**	854,879	**161,852**	139,173	**1,544,857**	994,052
Inter-segment revenue	**—**	—	**895**	—	**895**	—
Reportable segment revenue	**1,383,005**	854,879	**162,747**	139,173	**1,545,752**	994,052
Reportable segment profit (adjusted EBITDA)	**223,298**	99,447	**27,674**	17,456	**250,972**	116,903
Interest income from bank deposits	**1,319**	1,409	**49**	54	**1,368**	1,463
Interest income from other financial assets	**758**	423	**—**	—	**758**	423
Interest expense	**(869)**	(1,924)	**(4)**	(766)	**(873)**	(2,690)
Depreciation and amortisation for the year	**(16,200)**	(16,027)	**(7,824)**	(6,834)	**(24,024)**	(22,861)
(Impairment)/reversal of impairment of:						
— fixed assets	**(538)**	—	**—**	5,837	**(538)**	5,837
— intangible assets	**(10)**	(10)	**—**	163	**(10)**	153
Reportable segment assets	**538,258**	393,772	**108,216**	99,843	**646,474**	493,615
Additions to non-current segment assets during the year	**69,717**	20,338	**1,173**	4,626	**70,890**	24,964
Reportable segment liabilities	**228,144**	232,501	**65,633**	74,031	**293,777**	306,532

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

	2010	2009
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**1,545,752**	994,052
Elimination of inter-segment revenue	**(895)**	—
Consolidated turnover	**1,544,857**	994,052

	2010	2009
	HK$'000	*HK$'000*
Profit		
Reportable segment profit	**250,972**	116,903
Share of loss of associates	**(196)**	(318)
Interest income	**2,126**	1,886
Depreciation and amortisation	**(24,024)**	(22,861)
Finance costs	**(873)**	(2,690)
(Impairment)/reversal of impairment of non-current assets	**(548)**	5,990
Unallocated head office and corporate expenses	**(13,540)**	(12,807)
Consolidated profit before taxation	**213,917**	86,103

	2010	2009
	HK$'000	*HK$'000*
Assets		
Reportable segment assets	**646,474**	493,615
Elimination of inter-segment receivables	**(28,771)**	(33,693)
	617,703	459,922
Club memberships	**16,690**	13,350
Interest in associates	**522**	638
Other financial assets	**29,192**	9,501
Deferred tax assets	**13,625**	2,299
Current tax recoverable	**—**	33
Unallocated head office and corporate assets	**277,540**	324,562
Consolidated total assets	**955,272**	810,305

	2010	2009
	HK$'000	*HK$'000*
Liabilities		
Reportable segment liabilities	**293,777**	306,532
Elimination of inter-segment payables	**(28,771)**	(33,693)
	265,006	272,839
Current tax payable	**17,019**	5,988
Unallocated head office and corporate liabilities	**14,005**	55,487
Consolidated total liabilities	**296,030**	334,314

(c) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, intangible assets, prepayments and interest in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets, and the location of operations, in the case of interest in associates.

	Revenue from external customers		**Specified non-current assets**	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**2,737**	1,316	**—**	1,063
North America	**582,993**	443,383	**213**	239
Japan	**637,336**	359,128	**3,981**	4,078
Europe	**164,607**	160,106	**—**	—
South America	**140,150**	—	**—**	—
Mainland China	**11,107**	11,015	**69,749**	84,519
Vietnam	**—**	14,553	**113,862**	70,991
Republic of Korea	**2,485**	3,570	**15,259**	11,299
Other countries	**3,442**	981	**—**	—
	1,542,120	992,736	**203,064**	171,126
	1,544,857	994,052	**203,064**	172,189

5. Other revenue and net gain

(a) Other revenue

	2010	2009
	HK$'000	*HK$'000*
Bank interest income	**1,368**	1,463
Interest income from other financial assets	**758**	423
Commission income	**3,819**	3,763
Compensation claimed	**4,191**	—
Sundry income	**4,143**	3,502
	14,279	9,151

(b) Other net gain

	2010	2009
	HK$'000	*HK$'000*
Net gain on disposal of property, plant and equipment	**118**	605
Gain/(loss) on disposal of club memberships	**31**	(191)
Net realised and unrealised gain on other financial assets	**1,113**	3,555
Net gain/(loss) on forward foreign exchange contracts	**661**	(568)
Net exchange loss	**(2,682)**	(335)
Gain on disposal of a subsidiary *(note 6)*	**68**	—
Others	**694**	(556)
	3	2,510

6. Gain on disposal of interest in subsidiary

On 1 January 2010, the Company disposed of a 100% ownership interest in C & H Toys (Shuyang) Co., Ltd. ("CTSY") to the existing factory manager ("the Purchaser") at a consideration of US$1,387,000 (equivalent to HK$10,757,000) realising a net gain on disposal of HK$68,000. The principal activity of the CTSY was the manufacture of plush stuffed toys.

	HK$'000
Assets and liabilities (other than cash or cash equivalents) disposed of :	
Fixed assets	9,762
Inventories	44
Debtors, bills receivable, deposits and prepayments	1,429
Creditors and accrued charges	(6,358)
	4,877
Disposal proceeds	(10,757)
Cash and cash equivalents disposed of	5,812
Gain on disposal of interest in subsidiary	(68)
Net inflow of cash and cash equivalents in respect of the disposal of interest in subsidiary	4,945

In accordance with the sale and purchase agreement, the outstanding consideration as at 31 December 2010 is receivable as follows:

	HK$'000
Within 1 year	2,177
After 1 year but within 5 years	4,665
	6,842

Property and land use rights of CTSY with a carrying value of RMB7,866,000 (equivalent to HK$8,968,000) as at 1 January 2010 were pledged to a subsidiary of the Company to secure the amount due from the Purchaser.

7. Assets held for sale

During the year ended 31 December 2010, a wholly owned subsidiary of the Company entered into a memorandum with a third party individual to dispose of a 100% ownership interest in a subsidiary in Vietnam ("Vietnam Subsidiary") at a consideration of US$350,000 (equivalent to HK$2,722,000). The disposal has not been completed and is subject to satisfaction of certain criteria which include approval by local authorities. The assets and liabilities of the Vietnam Subsidiary included a land use right in Vietnam, other receivables and other payables amounting to US$373,000, US$1,000 and US$24,000 respectively (equivalent to HK$2,896,000, HK$10,000 and HK$184,000 respectively) as at 31 December 2010. Immediately before classification as held for sale, an impairment loss on the land use right of US$69,000 (equivalent to HK$538,000) was recognised in profit or loss.

8. Profit before taxation

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

	2010	2009
	HK$'000	*HK$'000*
(a) Finance costs		
Interest expense on bank borrowings wholly repayable within five years	**873**	2,690
(b) Staff costs#		
Expenses recognised in respect of defined benefit retirement plan	**2,080**	2,984
Contributions to defined contribution retirement plans	**19,879**	17,298
Total retirement costs	**21,959**	20,282
Salaries, wages and other benefits	**276,776**	203,442
	298,735	223,724

(c) Other items

Amortisation#:		
— land lease premium	**508**	418
— intangible assets	**678**	676
Depreciation#	**22,838**	21,767
Impairment/(reversal of impairment):		
— trade receivables	**2,368**	(4,288)
— other receivables	**(193)**	(238)
— fixed assets	**538**	(5,837)
— intangible assets	**10**	(153)
Auditors' remuneration	**4,527**	4,114
Operating leases charges: minimum lease payments in respect of property rentals#	**21,258**	19,923
Cost of inventories#	**1,079,378**	742,063

Cost of inventories includes HK$259,448,000 (2009: HK$183,881,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 8(b) for each of these types of expenses.

9. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	2010	2009
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**7,073**	3,311
Over-provision in respect of prior years	**(615)**	(371)
	6,458	2,940
Current tax — Outside Hong Kong		
Provision for the year	**15,643**	6,613
Deferred tax		
Origination and reversal of temporary differences	**(11,143)**	(1,688)
	10,958	7,865

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

The Corporate Income Tax ("CIT") rate applicable to subsidiaries registered in the PRC is 25% (2009: 25%). Certain PRC subsidiaries are entitled to income tax holidays granted by the PRC tax authorities whereby they are exempted from CIT for two years starting from the first profit making year and thereafter subject to CIT at 50% of the prevailing tax rate for the following three years.

10. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings of HK29.83 cents per share (2009: HK11.16 cents per share) is based on the profit attributable to ordinary equity shareholders of the Company of HK$199,597,000 (2009: HK$74,619,000) and the weighted average of 669,086,238 ordinary shares (2009: 668,529,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2010	2009
	'000	*'000*
Issued ordinary shares at 1 January	**668,529**	668,529
Effect of share options exercised	**557**	—
Weighted average number of ordinary shares at 31 December	**669,086**	668,529

(b) Diluted earings per share

The Company did not have dilutive potential ordinary shares outstanding during both 2010 and 2009. Accordingly, the diluted earnings per share is the same as the basic earnings per share for both 2010 and 2009.

11. Other financial assets

	2010	2009
	HK$'000	*HK$'000*
Non-current		
Equity-linked securities *(note (i))*	**3,442**	—
Available-for-sale debt securities — unlisted	**6,720**	6,142
	10,162	6,142
Current		
Equity-linked deposits *(note (ii))*	**15,645**	—
Held-to-maturity debt securities — unlisted	**3,385**	3,359
	19,030	3,359
	29,192	9,501

Notes:

(i) Equity-linked securities represent 18 months deposits placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date of 25 May 2012.

(ii) Equity-linked deposits represent 12 months deposits placed with a bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date of 10 February 2011.

12. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following aging analysis as of the balance sheet date:

	2010	2009
	HK$'000	*HK$'000*
Current	**141,481**	93,533
Less than 1 month past due	**7,136**	10,967
1 to 3 months past due	**7,455**	601
More than 3 months past due but less than 12 months past due	**1,158**	598
More than 12 months past due	**87**	7
	157,317	105,706

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within thirty to sixty days from the date of billing. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

13. Trade and other payables

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

	2010	2009
	HK$'000	*HK$'000*
Due within 1 month or on demand	**58,004**	56,969
Due after 1 month but within 3 months	**49,715**	28,489
Due after 3 months but within 6 months	**—**	18
Due after 6 months but within 1 year	**83**	—
Due after 1 year	**22**	—
	107,824	85,476

14. Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2010	2009
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK2 cents per ordinary share (2009: HK Nil cents per ordinary share)	**13,371**	—
Final dividend proposed after the balance sheet date of HK4 cents per ordinary share (2009: HK3 cents per ordinary share)	**26,887**	20,056
	40,258	20,056

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2010	2009
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3 cents per ordinary share (2009: HK Nil cents per ordinary share)	**20,056**	—

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

2010 was an encouraging year for Dream International. The US and European economies continued to recover from the global financial crisis, while Asian countries recorded economic growth — positive developments for the toy industry. In this favorable global environment, Dream International Limited (the "Company") and its subsidiaries (collectively the "Group") were able to build on the growth momentum achieved in the past year to realize record-breaking results.

For the year ended 31 December 2010, driven by surging sales from the plush stuffed toys segment — especially in Japan, as well as a large promotional order from a Brazilian client, the Group registered year-on-year turnover increase of 55.4% to HK$1,544.9 million (2009: HK$994.1 million), the highest level since the Company's listing in 2002. Gross profit surged by 84.7% to HK$465.5 million due to better utilization of production capacity during low season — largely the result of greater orders from Brazil. Owing to successful business restructuring, administrative expenses to total turnover ratio dropped significantly from 13.2% in 2009 to 9.5%. The Group achieved operating profit growth of 141.3%, surging to HK$215.0 million (2009: HK$89.1 million), and a 1.7 — fold increase in profit attributable to equity shareholders, representing a record high of HK$199.6 million (2009: HK$74.6 million), thus demonstrating a significant improvement in profitability.

The Group maintained a healthy financial position with cash and bank deposits of HK$277.5 million (2009: HK$324.6 million) as at 31 December 2010.

BUSINESS REVIEW

Product Analysis

Plush stuffed toy segment

For the year ended 31 December 2010, sales of plush stuffed toys jumped by 61.8% to HK$1,383.0 million, representing 89.5% of the Group's total turnover. Original Equipment Manufacturing ("OEM") and licensing business remained the core business of the Group, accounting for 80.1% of sales of the plush stuffed toy segment. For the OEM business, the Group already established strong relationships with existing customers, which are famous character owners and licensors. Such ties have continued to be strengthened during the year. The Group launched a new toy character to partner with an existing popular character and received overwhelmingly positive response from the Japan market. These new products significantly drove sales of the plush stuffed toy segment and attracted new orders from other overseas markets.

Overall performance of the licensing business was satisfactory. Leveraging the "Toy Story 3" movie launched during the summer of 2010, the Group's Toy Story product series enjoyed highly favorable market response. However, in view of strong demand for the OEM business, the Group will shift its focus back to this key interest which allows it to enjoy lower selling, distribution, and administrative costs when compared to the licensing business, and represents better allocation of resources.

Sales from the Original Design Manufacturing ("ODM") business almost doubled, achieving turnover of HK$275.5 million, thus accounting for 19.9% of the plush stuffed toy segment's total turnover. The astonishing increase in contributions to total turnover was mainly due to a large order received from a globally recognized Brazilian consumer brand that required the Group to manufacture premium gifts for its promotion campaign. This order has been fully booked in the first half of 2010. In addition, the Group successfully secured another sizable purchase order from the same customer in the second half year and is expected to ship a further lot of products by 2011. Thanks to the global economic recovery and successful network restructuring, overall orders received for products under the "CALTOY" brand for renowned mass US retailers increased steadily.

Steel and plastic toy segment

For the year ended 31 December 2010, sales derived from the steel and plastic toy segment recorded growth of 16.3% to HK$161.9 million, accounting for 10.5% of the Group's total turnover. To raise profitability of this segment, the Group continued to focus on products that have higher selling prices and profit margins.

While sales of scooters co-developed with a customer increased steadily in the European markets during the year, the Group finalized the design of a new concept scooter of which the prototype was introduced at the Hong Kong Toy Fair, drawing generally encouraging responses. Further modifications will be made to the scooter in the near future to meet mass market demand. After restructuring the sales network to strengthen the presence of "Great" and "Far Great" brands in China, sales efficiency has improved and the Group has sought to promote the branded scooters and inline skates in the market.

During the year, the Group-developed bicycle and tricycle products became highly popular in China due to their association with a Japanese cartoon character. The new products continue to gain popularity, paralleling public response toward the cartoon series which is broadcasted in China. The Group has been looking into additional character license opportunities for its ride-on products.

Market Analysis

For the year ended 31 December 2010, the Group's sales in most major regions recorded significant growth. Owing to a large order placed by a Japanese customer for a new plush toy product, Japan became the largest market for the Group, contributing approximately 41.3% of total turnover. North America, traditionally a major toy market, was second with 37.7% of the Group's total turnover, followed by the European market at 10.7%. South America accounted for 9.1% of total turnover mainly because shipments for a large order received from a Brazilian consumer were made during the year.

Operational Analysis

As at 31 December 2010, the Group operated seven plants in total, four of which were in China and three in Vietnam, and all running at an average utilization rate of over 80%. In realizing better production efficiency and cost-effectiveness, as reflected in sharply reduced direct labor costs and administrative expenses, the Group further increased production activities in Vietnam during the year. The new main plant in Mekong Delta and other three factory buildings in the same complex will reach full capacity by the first half of 2011. The Group also outsourced part of its production to reliable subcontractors in order to enjoy greater flexibility — seamlessly adjusting production capacity to meet market demand.

PROSPECTS

With the fast rising Asian economy and increasing orders from other major markets, including the US and Europe, the entire toy manufacturing industry is enjoying revenue growth. However, rising material and labor costs in China, gradual appreciation of the Renminbi and increasing oil prices globally present challenges to most of the toy manufacturers in the country. Keeping such factors in mind, the Group is cautiously optimistic about the outlook for the industry.

With market consolidation in the past few years ousting less competitive companies, large-scale toy manufacturers such as Dream International are receiving greater volume of orders. To meet this vast market demand, the Group will continue to employ a dual production strategy, using self-owned production plants in China and Vietnam for a majority of orders while employing subcontractors when flexibility is called for. To shield the Group from the effects of rising production costs in China, it will raise contributions from the Vietnam plants to account for 30% of total production capacity in 2011, thus leverage lower local labor cost and less currency appreciation pressure.

As the world's largest plush toy manufacturer, Dream International continues to actively seek new business opportunities to achieve long-term business growth. Leveraging its reputation and association with quality, the Group is exploring the feasibility of penetrating the high-end toy market in 2011, having conducted thorough research and analysis during the past year. Benefiting from the Group's strong partnerships with world renowned toy brands as well as synergies in sourcing and manufacturing, the Group will further diversify its product mix by setting up a new product category to produce plastic figures. The plastic figures' business will serve as one of the Group's newest initiatives to boost revenue in coming years. To further develop in the toy sector, the Group will also seek orders from emerging overseas markets for existing products.

Looking ahead, the Group will continue to focus on profitability and efficiency as prime objectives. Accordingly, it will closely monitor developments in the toy industry, ready to pounce on those that allow the Group to grow and maximize returns to shareholders. With strategic expansion measures in place, the Group is ready to embrace every opportunity ahead.

Number and Remuneration of Employees

At 31 December 2010, the Group had 10,278 employees (2009: 8,773) in Hong Kong, Mainland China, the Republic of 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 31 December 2010, the Group had net current assets of HK$431.5 million (2009: HK$296.4 million). The Group's total cash and cash equivalents as at 31 December 2010 amounted to HK$261.5 million (2009: HK$287.8 million). The total borrowings of the Group as at 31 December 2010 amounted to HK$14.0 million (2009: HK$55.5 million).

The Group's gearing ratio, calculated on the basis of total bank borrowings over the total equity, decreased significantly from 11.7% at 31 December 2009 to 2.1% at 31 December 2010.

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 carrying value as at 31 December 2010 of HK$38.1 million (2009: HK$96.6 million).

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

During the year ended 31 December 2010, 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 year ended 31 December 2010, 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 Stock Exchange of Hong Kong Limited.

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 specific enquiries of the Company's directors, the directors have complied with the required standard set out in the Model Code.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors declared a final dividend of HK4 cents per share (2009: HK3 cents) for the year ended 31 December 2010. This final dividend which totals HK$26,887,000 (2009: HK$20,056,000) will be paid on 9 May 2011 to shareholders registered at the close of business on the record date, 29 April 2011.

The register of members will be closed from 21 April 2011 to 29 April 2011, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the final dividend and the right to vote for and/or attend the forthcoming annual general meeting scheduled on 29 April 2011, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m on 20 April 2011.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting policies, principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the annual results for year ended 31 December 2010.

By order of the Board
Kyoo Yoon Choi
Chairman

Hong Kong, 25 March 2011

At the date of this announcement, the directors of the Company are:

Executive Directors
Mr. Kyoo Yoon Choi *(Chairman)*
Mr. Young M. Lee
Mr. James Chuan Yung Wang
Mr. Hyun Ho Kim

Independent Non-Executive Directors
Professor Cheong Heon Yi
Professor Byong Hun Ahn
Mr. Tae Woong Kang