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DREAM INTERNATIONAL LIMITED
德林國際有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1126)

Increase Investment in Joint Venture Project

DISCLOSEABLE TRANSACTION

A letter from the board of directors of Dream International Limited is set out on pages 3 to 6 of this circular.

29 June 2006

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

“Associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“Company”	Dream International Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange
“C & H HK”	C & H HK Corp., Ltd., a shell company incorporated in Hong Kong on 21 July 2004 with initial issued capital of HK\$1 which was increased to US\$5.1 million and paid up by the end of year 2005. Its registered address is Flat/Rm 11, 12/F Wing On Centre, 111 Connaught Road Central, Central, Hong Kong
“Directors”	the directors of the Company
“Group”	The Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of the Hong Kong Special Administrative Region of PRC.
“J.Y. Plasteel”	J.Y. Plasteel (Suzhou) Co., Ltd. (正潤童車(蘇州)有限公司), a wholly owned subsidiary of C & H HK, which was incorporated as a Wholly Foreign Owned Enterprise under PRC laws with initial registered capital of US\$3.1 million, which is required to be paid up by 5 September 2008, and will be increased to US\$6 million by the end of year 2006. Its location of manufacturing facility will be in Taicang city, Jiangsu province of the PRC
“JV Agreement”	the JV agreement dated 28 September 2005 between the Company and other three investors from USA, Japan and Taiwan with the purpose to set up a manufacturing factory in the PRC
“Latest Practicable Date”	29 June 2006, being the latest practicable date for ascertaining information herein prior to printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Chen”	Mr. Chen Ding Xing (陳定興), a Taiwanese being the ultimate owner of Far Great Plastics Industrial Co., Ltd. and Shanghai Atem Plastics Industrial Co., Ltd. with address at 4F-3, No. 23, Dong Ling Road, Eastern District, Tainan City, Taiwan

DEFINITIONS

“Mr. Lea”	Mr. Lea Yu Sun, an independent investor from USA
“OAKS”	OAKS Co., Ltd., an independent investor from Japan with registered address at 1-3/F, Maekawa Building 1, 2-7-5 Komagata Taito-ku, Tokyo, Japan engaging in business of design, manufacturing and trading bicycles, infant carts, shopping carts, autobike accessories and toys in Japan
“ODM”	original design manufacturing, under which the manufacturer creates and/or owns the circuitry, pattern, design, trademark, logo, patent and brand name of the products which are sold under its own a unique identifiable name
“OEM”	original equipment manufacturing, under which products are designed and manufactured in whole or in part in accordance with customer’s specifications and are marketed under the customer’s brand name using the customer’s character licensed products
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States Dollars, the lawful currency of United States of America. For the disclosure purpose only, the exchange rate to HK\$ is 7.8



DREAM INTERNATIONAL LIMITED

德林國際有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 1126)

Executive Directors:

Kyoo Yoon Choi
Shin Hee Cha
Young M. Lee
Tae Sub Choi
James Wang

Registered office:

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

Independent non-executive Directors:

Valiant, Kin Piu Cheung
Cheong Heon Yi
Chan Yoo

29 June 2006

To the Shareholders of the Company

Dear Sir or Madam,

Increase Investment in Joint Venture Project

DISCLOSEABLE TRANSACTION

INTRODUCTION

Reference is made to the announcement of the Company dated 6 October 2005 and corresponding circular dated 25 October 2005 in respect of the joint venture agreement to invest in a manufacturing plant in PRC, which constituted a discloseable transaction under the Listing Rules.

As announced on 15 June 2006, in view of the recent rapid growing demand for bicycles and steels and plastic toys in PRC market, the Company suggested that the progress and amount of investment of the joint venture project should be accelerated to capture the domestic market and distribution network arising from the recent booming economy of PRC. In the extraordinary general meeting of C & H HK the joint venture company held on 13 June 2006, C & H HK has resolved to increase its share capital to US\$8.5 million and would then allot and issue the 2,500,000 ordinary shares of USD1.00 each to the Company and 900,000 ordinary shares of USD1.00 each, which OAKS had originally agreed but eventually failed to subscribe for, to Mr. Lea. All shares would be issued for subscription monies being received in cash in full at par by 30 June 2006. OAKS agreed to waive its right to subscribe for 900,000 ordinary

LETTER FROM THE BOARD

shares of C & H HK and completely withdraw from this joint venture project. The withdrawal of OAKS had no adverse impact to the business of C & H HK. Meanwhile, Mr. Chen agreed to waive his right to subscribe for any new share issue of the C & H HK.

Subsequent to the above shares subscriptions, the investing shareholding proportion of the Company, Mr. Lea and Mr. Chen in C & H HK would vary effectively from 61.76%, 35.30% and 2.94% to 66.47%, 31.77% and 1.76%, respectively. C & H HK will remain as the subsidiary of the Company. Other than the shareholdings in C & H HK, both Mr. Lea and Mr. Chen are not connected with the Company and its connected persons. Save for the abovementioned changes, other terms of the JV Agreement remained unchanged. The Board is confident that the increased US\$2.5 million from the Company will be satisfied by approximately US\$1.5 million from its internal resource and US\$1 million from bank borrowings.

The entering into the JV Agreement and the increase in investment in C & H HK remain as a discloseable transaction of the Company under the Chapter 14 of the Listing Rules. The main purpose of this circular is to provide you with further particulars of the increase investment in the joint venture project.

DETAILS OF THE RESOLUTIONS OF C & H HK

An Extra-ordinary General Meeting of C & H HK was duly held on 13 June 2006. In which, the following resolutions were passed as ordinary resolutions:

Resolution No. 1

“That the authorised capital of C & H HK be increased from USD5,100,000 to USD8,500,000 by the creation of additional 3,400,000 ordinary shares of USD1.00 each, such shares ranking *pari passu* with the existing shares of C & H HK in all respects.”

Resolution No. 2

“That the 900,000 Ordinary Shares of USD1.00 each of the C & H HK be allotted and issued to the Mr. Lea for subscription monies being received in cash in full at par on or before 30 June 2006.”

Resolution No. 3

“That the 2,500,000 ordinary shares of USD1.00 each of the C & H HK be allotted and issued to Dream International Limited for subscription monies being received in cash in full at par on or before 30 June 2006.”

BUSINESS OF THE JOINT VENTURE AND THE COMPANY

The subject matters of the sales and purchases agreements, mentioned in the announcement dated 6 October 2006, were completed and the assets were duly transferred.

C & H HK engages in trading business of bicycles and steel and plastic toys manufactured by its wholly owned subsidiary J.Y. Plasteel. J.Y. Plasteel mainly operates a production plant established in Taicang city, Jiangsu province of PRC.

LETTER FROM THE BOARD

J.Y. Plasteel has established its own production plant in Taicang city of Jiangsu province, PRC by the end of April 2006. The relocation of all the acquired assets to the new plant is now under way and expected to be completed by the end of July 2006. New machineries and equipments have been purchased and are undergone the process of installation and testing. According to the present satisfactory progress, the plant will be fully operated in the second half of the year 2006. Based on the management account of C & H HK as at 31 March 2006, it was found that the unaudited consolidated net assets value as at 31 March 2006 was US\$5.13 million and the unaudited consolidated net profits before and after tax since the incorporation of C & H HK was US\$30,000.

The Company is a manufacturing company together with its subsidiaries are principally engaged in the design, development, manufacturing and sales of a wide range of plush stuffed toys as well as steel and plastic toys on OEM and ODM basis.

SOURCE OF FUND

The Board is confident that the increased US\$2.5 million investment from the Company will be satisfied by approximately US\$1.5 million from its internal resource and US\$1 million from bank borrowings.

REASONS FOR THE INCREASE INVESTMENT IN C & H HK

In view of the recent growing demand for bicycles and steels and plastic toys in PRC market, the Company suggested the progress and amount of investment of the joint venture project should be accelerated to capture the domestic market and distribution network arising from the recent booming economy of PRC. In the extraordinary general meeting of C & H HK the joint venture company held on 13 June 2006, C & H HK has resolved to increase its share capital to US\$8.5 million and would then allot and issue the 2,500,000 ordinary shares of USD1.00 each to the Company and 900,000 ordinary shares of USD1.00 each to Mr. Lea. All shares would be issued for subscription monies being received in cash in full at par by 30 June 2006.

The Company, Mr. Lea and Mr. Chen had invested US\$3.15 million, US\$1.8 million and US\$0.15 million, respectively, in C & H HK as ordinary shares subscription monies pursuant to the JV Agreement among the Company, Mr. Lea, OAKS and Mr. Chen dated 28 September 2005. OAKS, which originally agreed to invest in C & H HK, failed to submit its application for shares to the C & H HK within the agreed period of time. After repeated reminders given by C & H HK after the due date on 31 December 2005, OAKS agreed to waive its right to subscribe for 900,000 ordinary shares of C & H HK and completely withdraw from this joint venture project. Therefore, the authorised capital was increased to US\$5.1 million only instead of the US\$6 million as per the original JV agreement. The withdrawal of OAKS had no adverse impact to the business of C & H HK. Meanwhile, Mr. Chen indicated that he had no intention to subscribe for any new share issue of C & H HK and agreed to waive his right to subscribe for this and any future new share issue of C & H HK.

In view of the satisfactory progress of the joint venture project and the financial performance since incorporation of C & H HK, the Company and Mr. Lea were confident that the joint venture project would be successful and like to expedite its progress and amount by subscribing for the abovementioned new shares issues.

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Subsequent to the above shares subscriptions, the number of ordinary shares to be held by the Company, Mr. Lea and Mr. Chen in C & H HK will be 5,650,000, 2,700,000 and 150,000 respectively. Their respective shareholding proportion will vary effectively from 61.76%, 35.30% and 2.94% to 66.47%, 31.77% and 1.76%. C & H HK will remain as the subsidiary of the Company. Save for the abovementioned changes, other terms of the JV Agreement remained unchanged.

The Board, including independent non-executive directors, is confident that the increased US\$2.5 million from the Company will be satisfied by approximately US\$1.5 million from its internal resource and US\$1 million from bank borrowings. The Board consider that the transactions are fair and reasonable and believe that it is in the best interests of the Company and the shareholders of the Company as whole.

To the best of the directors' knowledge, information and belief having made all reasonable enquiry, OAKS and the other shareholders of C & H HK and, where applicable, their ultimate beneficial owners, other than their shareholdings in C & H HK, are third parties independent of the Company and connected persons of the Company.

FINANCIAL EFFECT OF THE TRANSACTIONS

The C & H HK and its subsidiary J.Y. Plasteel had been consolidated in the Company's consolidated balance sheet as non-wholly owned subsidiaries in the annual report for the year ended 31 December 2005. Based on the information published in annual report for the year ended 31 December 2005 and the consolidated management accounts of C & H HK for the first quarter of year 2006, there will not have material impact on the net asset value of the Group. For the whole year 2006, the Board expects an increase of about US\$15 million in the Group's turnover (based on the actual sales volume of the acquired business of Shanghai Atem Industrial Co., Ltd. and Far Great Plastics Industrial Co., Ltd. for the year 2005 and the consolidated management account of C & H HK as at 31 March 2006) attributable to the C & H HK group. Save as aforesaid, the Directors confirm that there is no other material impact on the earnings of the Group for the year 2006 as a result of the transactions. The Directors also confirm that the transactions will not have material impact on the liabilities of the Group as the US\$1 million will be funded by bank loan, the gearing ratio will merely increase from existing 18.9% to 20.0% (based on the information published in annual report for the year ended 31 December 2005).

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendix to this circular.

Yours faithfully
By order of the Board
Young M. Lee
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

2.1 Directors' and chief executives' interest and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Appendix 10 of the Listing Rules – Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

(a) Interests in issued shares

	Personal Interests (Beneficial owner) (Note 1)	Number of Ordinary Shares			Percentage of total issued shares
		Family interests (Interest of spouse)	Corporate interests (Interest of corporation)	Total number of shares held	
The Company					
Kyoo Yoon Choi	–	–	455,000,000 (Note 2)	455,000,000	68.06%
Tae Sub Choi	585,000	–	–	585,000	0.09%
Young M. Lee	1,740,000	–	–	1,740,000	0.26%
C & H Co., Ltd. (the immediate holding company of the Company)					
Kyoo Yoon Choi	189,917	124,073 (Note 3)	–	313,990	61.03%
Shin Hee Cha	21,319	–	–	21,319	4.14%
Tae Sub Choi	5,685	–	–	5,685	1.10%

Notes:

1. The shares are registered under the names of the directors and chief executive 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 Mr. Kyoo Yoon Choi, Woul Hee Cha, holds approximately 24.12% of the issued share capital of C & H Co., Ltd.
- (b) *Interests in underlying Shares (Options granted under the Company's share option scheme)*

Name of Director	Date granted	Period during which options exercisable	Exercise price per share	No. of options outstanding	Total underlying Shares	Approximate percentage
Shin Hee Cha	2 January 2004	2 January 2005 to 2 January 2014	HK\$1.87	3,500,000	3,500,000	0.52%
Young M. Lee	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	1,360,000	1,360,000	0.20%
Tae Sub Choi	15 April 2003	15 April 2004 to 15 April 2013	HK\$1.43	1,365,000	1,365,000	0.20%
James Wang	7 February 2002	7 February 2003 to 7 February 2012	HK\$1.18	520,000	520,000	0.08%

Save as disclosed in this circular, as at the Latest Practicable Date, none of Directors and chief executives of the Company has any interest or short position in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

2.2 Interests in services contracts

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any member of the Group which is not expiring or determinable by the Company within one year without payment of compensation other than statutory compensation.

3. SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at the Latest Practicable Date, the following parties other than a Director or chief executive of the Company, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group:

Long Positions

Name of Shareholder	Note	Capacity	Number of Shares held	Approximate percentage of shareholding
C & H Co., Ltd.	1	Beneficial owner	382,850,000	57.27%
Uni-Link Technology Limited	1	Beneficial owner	72,150,000	10.79%
Arisaig Greater China Fund		Beneficial owner	35,720,000	5.34%
Arisaig Partners (Mauritius) Limited	2	Investment manager	35,720,000	5.34%
Lindsay William Ernest Cooper	3	Interest of corporation	35,720,000	5.34%

Note:

1. 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.
2. Arisaig Partners (Mauritius) Limited is the fund manager of Arisaig Greater China Fund.
3. Lindsay William Ernest Cooper is deemed interested through his indirect 33.33% beneficial interest in Arisaig Partners (Mauritius) Limited.

Save as disclosed in this circular, the Directors are not aware of any person as at the Latest Practicable Date had any interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective Associate(s) was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

6. MISCELLANEOUS

- (a) The head office, registered office and principal place of business of the Company is at 8th Floor, Tower 5, China HK City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.
- (b) The share registrar and transfer office of the Company in Hong Kong is Abacus Share Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (c) The company secretary and qualified accountant of the Company is Mr Wong Wai Sing, Wilson. He is a fellow member of Hong Kong Institute of Certified Public Accountants.
- (d) The English text of this circular shall prevail over the Chinese text in case of inconsistency.