



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 2005

The Directors of Dream International Limited (the “Company”) hereby announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2005 are as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

(Expressed in Hong Kong dollars)

	<i>Note</i>	2005	2004
		\$'000	(restated) \$'000
Turnover	4	1,040,444	1,158,107
Cost of sales		(853,523)	(867,628)
Gross profit		186,921	290,479
Goodwill amortisation		–	(5,737)
Other revenue		8,322	18,300
Other net loss		(19,929)	(13,659)
Selling and distribution costs		(45,602)	(49,064)
Administrative expenses		(160,079)	(177,450)
(Loss)/profit from operations		(30,367)	62,869
Finance costs		(3,339)	(830)
Share of profits less losses of associates		652	(142)
(Loss)/profit before taxation	5	(33,054)	61,897
Income tax	6	(3,416)	(12,846)
(Loss)/profit for the year		<u>(36,470)</u>	<u>49,051</u>
Attributable to:			
Equity shareholders of the Company		(36,348)	49,051
Minority interests		(122)	–
(Loss)/profit for the year		<u>(36,470)</u>	<u>49,051</u>
Dividends payable to equity shareholders of the Company attributable to the year:	7		
Interim dividend declared and paid during the year		–	20,026
Final dividend proposed after the balance sheet date		–	40,053
		<u>–</u>	<u>60,079</u>
(Loss)/earnings per share	8		
Basic		<u>\$(0.054)</u>	<u>\$0.073</u>
Diluted		<u>\$(0.054)</u>	<u>\$0.073</u>

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005
(Expressed in Hong Kong dollars)

		2005		2004 (restated)	
	<i>Note</i>	\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets					
– Property, plant and equipment			138,589		105,349
– Interests in leasehold land held for own use under operating leases			11,269		10,229
			<u>149,858</u>		<u>115,578</u>
Construction in progress			8,501		4,864
Goodwill			100,154		90,559
Interest in associates			1,483		809
Other financial assets			94,859		88,022
Intangible assets			12,505		12,180
Deferred tax assets			7,460		5,122
			<u>374,820</u>		<u>317,134</u>
Current assets					
Inventories		160,482		142,522	
Trade and other receivables	9	176,541		171,543	
Deposits with bank		–		7,500	
Cash and cash equivalents		103,128		141,866	
			<u>440,151</u>		<u>463,431</u>
Current liabilities					
Trade and other payables	10	108,720		95,446	
Bank loans and overdrafts		105,568		27,016	
Current taxation		7,986		12,825	
			<u>222,274</u>		<u>135,287</u>
Net current assets			<u>217,877</u>		<u>328,144</u>
Total assets less current liabilities			<u>592,697</u>		<u>645,278</u>
Non-current liabilities					
Bank loans			–		26,600
Defined benefit retirement obligation			10,820		13,763
Deferred tax liabilities			741		926
Other financial liabilities			23,189		–
Net assets			<u>557,947</u>		<u>603,989</u>
Capital and reserves					
Share capital			52,019		51,942
Reserves			490,930		552,047
Total equity attributable to equity shareholders of the Company			<u>542,949</u>		<u>603,989</u>
Minority interests			<u>14,998</u>		<u>–</u>
Total equity			<u>557,947</u>		<u>603,989</u>

Notes:

1. Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standard (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting policies generally accepted in Hong Kong. The financial information set out in this announcement does not constitute the Group’s statutory financial statements for the year ended 31 December 2005 but is derived from those financial statements.

2. Basis of preparation of financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value:

- financial instruments classified as available-for-sale securities; and
- derivative financial instruments

3. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

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

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items as previously reported for the year ended 31 December 2004. The effects of the changes in accounting policies on the balances at 1 January 2004 and 2005 are disclosed in note 28 to the financial statements.

(i) Effect on the consolidated income statement for the year ended 31 December 2004

	2004 (as previously reported)	Effect of new policy (decrease in profit for the year)			2004 (as restated)
		HKFRS 2 (note 3(c))	HKAS 17 (note 3(f))	Sub-total	
	\$'000	\$'000	\$'000	\$'000	\$'000
Turnover	1,158,107	–	–	–	1,158,107
Cost of sales	(867,628)	–	–	–	(867,628)
Gross profit	290,479	–	–	–	290,479
Goodwill amortisation	(5,737)	–	–	–	(5,737)
Other revenue	18,300	–	–	–	18,300
Other net loss	(13,659)	–	–	–	(13,659)
Selling and distribution costs	(49,064)	–	–	–	(49,064)
Administrative expenses	(173,584)	(3,866)	–	(3,866)	(177,450)
Profit from operations	66,735	(3,866)	–	(3,866)	62,869
Finance costs	(830)	–	–	–	(830)
Share of profits less losses of associates	(142)	–	–	–	(142)
Profit before taxation	65,763	(3,866)	–	(3,866)	61,897
Income tax	(12,836)	–	(10)	(10)	(12,846)
Profit attributable to equity shareholders of the Company	52,927	(3,866)	(10)	(3,876)	49,051
Earnings per share					
Basic	\$0.079	(0.006)	–	(0.006)	\$0.073
Diluted	\$0.079	(0.006)	–	(0.006)	\$0.073
Other significant disclosure items:					
Staff costs	(243,432)	(3,866)	–	(3,866)	(247,298)
Depreciation	(17,666)	–	95	95	(17,571)
Amortisation of land lease premium	–	–	(95)	(95)	(95)

(ii) Effect on the consolidated balance sheet at 31 December 2004

	2004 (as previously reported)	Effect of new policy (increase/(decrease) in net assets)				2004 (as restated)
		HKFRS 2	HKAS 17	HKAS 32	Sub-total	
		(note 3(c))	(note 3(f))	(note 3(g))		
	\$'000	\$'000	\$'000	\$'000	\$'000	
Non-current assets						
Property, plant and equipment	116,279	–	(10,930)	–	(10,930)	105,349
Interests in leasehold land held for own use under operating leases	–	–	10,229	–	10,229	10,229
Deferred tax assets	4,978	–	144	–	144	5,122
Investment securities	12,180	–	–	(12,180)	(12,180)	–
Intangible assets	–	–	–	12,180	12,180	12,180
Other investments	2,734	–	–	(2,734)	(2,734)	–
Other non-current financial assets	–	–	–	88,022	88,022	88,022
Long-term bank deposit	85,288	–	–	(85,288)	(85,288)	–
Other non-current assets	96,232	–	–	–	–	96,232
	<u>317,691</u>	<u>–</u>	<u>(557)</u>	<u>–</u>	<u>(557)</u>	<u>317,134</u>
Current assets	463,431	–	–	–	–	463,431
Current liabilities	<u>135,287</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>135,287</u>
Net current assets	<u>328,144</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>328,144</u>
Total assets less current liabilities	<u>645,835</u>	<u>–</u>	<u>(557)</u>	<u>–</u>	<u>(557)</u>	<u>645,278</u>
Non-current liabilities	<u>41,289</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>41,289</u>
NET ASSETS	<u>604,546</u>	<u>–</u>	<u>(557)</u>	<u>–</u>	<u>(557)</u>	<u>603,989</u>
CAPITAL AND RESERVES						
Attributable to equity shareholders						
of the company						
Share capital and share premium	227,755	–	–	–	–	227,755
Capital reserve	–	4,054	–	–	4,054	4,054
Revaluation reserve	589	–	(589)	–	(589)	–
Other reserves	20,686	–	–	–	–	20,686
Retained profits	355,516	(4,054)	32	–	(4,022)	351,494
	<u>604,546</u>	<u>–</u>	<u>(557)</u>	<u>–</u>	<u>(557)</u>	<u>603,989</u>

(b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(i) *Estimated effect on the consolidated income statement for the year ended 31 December 2005:*

	Estimated effect of new policy (increase)/decrease in loss for the year				Total \$'000
	HKFRS 2 (note 3(c)) \$'000	HKFRS 3 (note 3(d)) \$'000	HKAS 17 (note 3(f)) \$'000	HKAS 32 & 39 (note 3(g)) \$'000	
Other net loss	–	–	–	(11,530)	(11,530)
Administrative expenses	(1,915)	5,737	–	–	3,822
Loss before taxation	(1,915)	5,737	–	(11,530)	(7,708)
Income tax	–	–	(10)	–	(10)
Loss for the year	(1,915)	5,737	(10)	(11,530)	(7,718)
Loss per share					
Basic and diluted (note)	\$ (0.0029)	\$ 0.0086	–	\$ (0.0173)	\$ (0.0116)
Other significant disclosure items:					
Staff costs	(1,915)	–	–	–	(1,915)
Amortisation of goodwill	–	5,737	–	–	5,737
Depreciation	–	–	(163)	–	(163)
Amortisation of land lease premium	–	–	163	–	163

Note: Diluted loss per share for the year is the same as the basic loss per share as the potential ordinary shares outstanding during the year were anti-dilutive.

(ii) *Estimated effect on the consolidated balance sheet at 31 December 2005:*

	Estimated effect of new policy (increase/(decrease) in net assets)				Total \$'000
	HKFRS 2 (note 3(c)) \$'000	HKFRS 3 (note 3(d)) \$'000	HKAS 17 (note 3(f)) \$'000	HKAS 32 & 39 (note 3(g)) \$'000	
Non-current assets					
Property, plant and equipment	–	–	(11,970)	–	(11,970)
Interests in leasehold land held for own use under operating leases	–	–	11,269	–	11,269
Intangible assets	–	–	–	12,505	12,505
Investment securities	–	–	–	(12,505)	(12,505)
Other investments	–	–	–	(2,734)	(2,734)
Goodwill	–	15,332	–	–	15,332
Deferred tax assets	–	–	134	–	134
Other financial assets	–	–	–	14,393	14,393
	–	15,332	(567)	11,659	26,424
Non-current liabilities					
Other financial liabilities	–	–	–	(23,189)	(23,189)
NET ASSETS	–	15,332	(567)	(11,530)	3,235
CAPITAL AND RESERVES					
Effect attributable to equity shareholders of the Company					
Revaluation reserve	–	–	(551)	–	(551)
Capital reserve	5,969	–	–	–	5,969
Retained profits	(5,969)	15,332	(16)	(11,530)	(2,183)
	–	15,332	(567)	(11,530)	3,235

(iii) *Estimated effect on amounts recognised as capital transactions with owners of the Group for the year ended 31 December 2005:*

**Effect of
new policy
(increase)
HKFRS 2
(note 3(c))
\$'000**

Attributable to equity shareholders of the Company

1,915

(c) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 1(q)(iii) to the financial statements.

The new accounting policy has been applied retrospectively with comparatives restated, except that the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

- (a) all options granted to employees on or before 7 November 2002; and
- (b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The adjustments for each financial statement line affected for the years ended 31 December 2004 and 2005 are set out in notes 3(a) and (b).

Details of the employee share option scheme are set out in note 26 to the financial statements.

(d) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

Amortisation of goodwill

In prior periods:

- positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and
- negative goodwill was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises. Further details of these new policies are set out in note 1(e) to the financial statements.

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. The adjustments for each consolidated financial statement line affected for the year ended 31 December 2005 are set out in note 3(b).

In accordance with the transitional arrangements under HKFRS 3, the carrying amount of negative goodwill as at 1 January 2005 of \$9,595,000 has been derecognised at 1 January 2005, with a corresponding adjustment to the opening balance of retained earnings.

(e) Changes in presentation (HKAS 1, Presentation of financial statements)

Presentation of shares of associates' taxation (HKAS 1, Presentation of financial statements)

In prior years, the group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1 January 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective shares of profit or loss reported in the consolidated income statement before arriving at the Group's profit or loss before tax. There are no material adjustments arising from the changes in presentation.

(f) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Further details of the new policy are set out in notes 1(h) and (j) to the financial statements. Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. However, as from 1 January 2005 the buildings are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

Description of transitional provisions and effect of adjustments

All the above new accounting policies relating to leases have been adopted retrospectively. The adjustments for each financial statement line item affected for 31 December 2004 and 2005 are set out in notes 3(a) and (b). In respect of the leasehold land and buildings held for own use, it is not practicable to estimate the effect of the change on the year ended 31 December 2005.

(g) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement) and intangible assets (HKAS 38, Intangible assets)

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the group has changed its accounting policies relating to financial instruments to those as set out in notes 1 (f), (g), (k) and (m) to (o) to the financial statements. Further details of the changes are as follows.

In prior years, club memberships held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision. Other investments in securities (including those held for trading and for non-trading purposes) were stated at fair value with changes in fair value recognised in profit or loss.

With effect from 1 January 2005, club memberships with indefinite useful lives are classified as intangible assets and carried at cost less accumulated impairment losses.

Other investments, with the exception of securities held for trading purposes and certain unquoted equity investments, are classified as available-for-sale securities and carried at fair value. Changes in the fair value of available-for-sale securities are recognised in equity, unless there is objective evidence that an individual investment has been impaired. In addition, bank deposits are stated at amortised cost less accumulated impairment losses. Further details of the new policies are set out in note 1(f) to the financial statements.

As a result of adopting HKAS 39, the Group has re-designated other investments with a carrying value of \$2,734,000 at 31 December 2004 as available-for-sale securities at 1 January 2005. The Group has also reclassified investment securities with a carrying value of \$12,180,000 at 31 December 2004 as intangible assets at 1 January 2005.

There is no material effect on the opening balance of the fair value reserve or retained earnings at 1 January 2005 as a result of the reclassifications.

The adjustments for each financial statement line item affected for the years ended 31 December 2004 and 2005 are set out in notes 3(a) and (b).

(h) Retranslation of goodwill on consolidation of a foreign operation (HKAS 21, The effects of changes in foreign exchange rates)

In prior years, goodwill arising on the acquisition of a foreign operation was translated at the exchange rates ruling at the transaction dates.

With effect from 1 January 2005, in order to comply with HKAS 21, the Group has changed its accounting policy relating to retranslation of goodwill. Under the new policy, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and is retranslated at exchange rates ruling at the balance sheet date, together with the retranslation of the net assets of the foreign operation. Further details of the new policy are set out in note 1(u) to the financial statements.

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and is only applied to acquisitions occurring on or after 1 January 2005. As the Group has not acquired any new foreign operations since that date, the change in policy has had no impact on the financial statements for the year ended 31 December 2005.

(i) **Definition of related parties (HKAS 24, Related party disclosures)**

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(w) to the financial statement has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

4. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises two main business segments:

- plush stuffed toys
- steel and plastic toys

	Plush stuffed toys		Steel and plastic toys		Unallocated		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	\$'000	(restated) \$'000	\$'000	(restated) \$'000	\$'000	(restated) \$'000	\$'000	(restated) \$'000
Revenue from external customers	981,811	1,114,298	58,633	43,809	–	–	1,040,444	1,158,107
Other revenue from external customers	1,611	3,757	196	12	6,515	14,531	8,322	18,300
Total	983,422	1,118,055	58,829	43,821	6,515	14,531	1,048,766	1,176,407
Segment result	(28,980)	61,322	(1,387)	1,547	–	–	(30,367)	62,869
(Loss)/profit from operations							(30,367)	62,869
Finance costs							(3,339)	(830)
Share of profits less losses of associates							652	(142)
Taxation							(3,416)	(12,846)
(Loss)/profit attributable to equity shareholders							(36,470)	49,051
	Plush stuffed toys		Steel and plastic toys		Unallocated		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	\$'000	(restated) \$'000	\$'000	(restated) \$'000	\$'000	(restated) \$'000	\$'000	(restated) \$'000
Depreciation in respect of property, plant and equipment for the year			20,811	16,495	684	1,076	21,495	17,571
Amortisation of land lease premium for the year			163	95	–	–	163	95
Amortisation of goodwill for the year			–	5,648	–	89	–	5,737
Significant non-cash expenses (other than depreciation and amortisation)			13,815	30,480	–	–	13,815	30,480
Segment assets			566,735	496,004	43,129	43,976	609,864	539,980
Interest in associates			1,483	809	–	–	1,483	809
Unallocated assets							203,624	239,776
Total assets							814,971	780,565
Segment liabilities			109,559	102,154	9,981	7,055	119,540	109,209
Unallocated liabilities							137,484	67,367
Total liabilities							257,024	176,576
Capital expenditure incurred during the year			58,002	38,266	17,706	241	75,708	38,507

Geographical segments

The Group participates in several principal economic environments as set out below.

In presenting information on the basis of geographical segments, segment turnover is based on the geographical destination of delivery of goods. Segment assets and capital expenditure are based on the geographical location of the assets.

	Turnover		Segment assets		Capital expenditure incurred during the year	
	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
North America	478,886	514,256	212	425	26	31
Japan	323,473	448,356	4,412	4,580	–	4,603
Europe	166,885	129,496	–	–	–	–
South Korea	28,602	30,598	176,227	175,966	1,087	3,216
Hong Kong	35,498	6,309	78,388	69,606	11,728	350
PRC (other than Hong Kong)	5,316	14,587	306,084	270,190	32,556	23,982
Vietnam	–	8,576	44,541	19,213	30,311	6,325
Others	1,784	5,929	–	–	–	–
	<u>1,040,444</u>	<u>1,158,107</u>	<u>609,864</u>	<u>539,980</u>	<u>75,708</u>	<u>38,507</u>

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given for the profit contribution from each of the above geographical locations.

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

	2005	2004
	\$'000	(restated) \$'000
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	<u>3,339</u>	<u>830</u>
(b) Staff costs:		
Contributions to defined contribution retirement plan	4,795	7,837
Expenses recognised in respect of defined benefit retirement plan	<u>4,161</u>	<u>4,865</u>
Retirement costs	8,956	12,702
Equity-settled share-based payment expenses	1,915	3,866
Salaries, wages and other benefits	<u>248,167</u>	<u>230,730</u>
	<u>259,038</u>	<u>247,298</u>
(c) Other items:		
Amortisation of land lease premium	163	95
Amortisation of negative goodwill arising on acquisition of subsidiary	–	(1,591)
Amortisation of positive goodwill arising on acquisition of subsidiary	–	7,328
Depreciation	21,495	17,571
Impairment losses:		
– trade and other receivables	2,285	22,480
Change in fair value of financial instruments	10,414	–
Loss on long-term structured deposit contract	3,700	8,000
Cost of inventories	<u>853,523</u>	<u>867,628</u>

6. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	2005 \$'000	2004 (restated) \$'000
Current tax - Provision for Hong Kong Profits Tax		
Tax for the year	4,106	5,184
Under-provision in respect of prior years	—	3
	<u>4,106</u>	<u>5,187</u>
Current tax - Outside Hong Kong		
Tax for the year	917	7,155
Under/(over)-provision in respect of prior years	878	(86)
	<u>1,795</u>	<u>7,069</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(2,485)</u>	<u>590</u>
	<u><u>3,416</u></u>	<u><u>12,846</u></u>

Provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) 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 tax jurisdictions.

In accordance with the relevant regulations and the Enterprise Income Tax Law applicable in the PRC, the PRC subsidiaries are exempted from Enterprise Income Tax for two years starting from the first profit making year and thereafter subject to Enterprise Income Tax at 50% of the standard tax rate for the following three years. During the year ended 31 December 2005, the PRC subsidiaries incurred losses and therefore are not subject to Enterprise Income Tax. In 2004, certain PRC subsidiaries were subject to Enterprise Income Tax at 50% of the standard tax rate of 27% income tax in the balance sheets.

As at 31 December 2005, tax reserve certificates totalling \$16,482,000 were purchased by the Company pending resolution of certain enquiries raised by the Hong Kong Inland Revenue Department (“IRD”) in connection with the Company’s offshore Claims relating to years of assessment 1998/99 to 2002/03. The agreement of the Company’s tax affairs for the subsequent years of assessment is also subject to the outcome of these enquiries. Based on the information available to date, the directors of the Company consider the tax provisions included in the financial statements in the aggregate amount of \$24,058,000 for the years of assessment 1998/99 to 2005/06 are adequate after taking into account the nature of the enquiries raised by the IRD, the documentation available to support the claims and the bases upon which the Company’s assessable profits for the years of assessment prior to 1998/99 have been agreed with the IRD.

7. Dividends payable to equity shareholders of the Company attributable to the year

	2005 \$'000	2004 \$'000
Interim dividend declared and paid of \$Nil (2004: \$0.030) per share	—	20,026
Final dividend proposed after the balance sheet date of \$Nil (2004: \$0.060) per share	—	40,053
	<u>—</u>	<u>60,079</u>

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

8. (Loss)/earnings per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the company of \$36,348,000 (2004 (restated): Profit \$49,051,000) and the weighted average of 668,264,400 (2004: 666,349,070) ordinary shares in issue during the year.

(b) Diluted loss per share

Diluted loss per share for the year ended 31 December 2005 is the same as the basic loss per share as the potential ordinary shares outstanding during the year ended 31 December 2005 were anti-dilutive.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the profit attributable to equity shareholders of the company of \$49,051,000 (restated) and the weighted average number of ordinary shares of 670,953,579 shares after adjusting for the effects of all dilutive potential ordinary shares under the company’s share option scheme.

9. Trade and other receivables

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

	2005 \$'000	2004 \$'000
<i>From the date of billing:</i>		
Current	76,745	72,696
1 to 3 months	18,483	19,186
More than 3 months but less than 12 months	3,783	8,910
Over 1 year	233	797
	<u>99,244</u>	<u>101,589</u>

Trade and other receivables are due within 14 to 90 days from the date of billing. Debtors with long overdue balances are requested to settle all outstanding balances before any further credit is granted. Normally, the group does not obtain collateral from customers. The group reviews regularly the recoverable amount of each individual trade and other receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

10. 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:

	2005 \$'000	2004 \$'000
<i>From the date of billing:</i>		
Within 1 month	39,589	30,585
After 1 months but within 3 months	7,870	7,496
After 3 months but within 6 months	1,311	484
After 6 months but within 1 year	911	89
Over 1 year	1,260	1,013
	<u>50,941</u>	<u>39,667</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 31 December 2005, the Group reported turnover amounting to HK\$1,040.4 million (2004: HK\$1,158.1 million). Rising labour costs and labour shortages in coastal cities of the PRC, as well as persistently hefty raw material costs remained serious concerns for toy manufacturers. The unfavourable circumstances affected the Group's gross profit, which stood at HK\$186.9 million for the year (2004: HK\$290.5 million). Due to a loss of HK\$14.1 million from a financial activity, loss attributable to shareholders widened to HK\$36.3 million (2004: profit of HK\$49.1 million).

Nevertheless, the Group maintained a healthy financial position. As at 31 December 2005, its cash and bank deposits amounted to HK\$173.0 million (31 December 2004: HK\$234.7 million).

Business Review

To deal with the challenging market environment which was expected to persist, the Group embarked on reinforcing, reorganizing and restructuring its business during the year under review.

On the one hand, the Group sought to expand its existing customer base and markets by offering an enriched product mix. More resources were allocated to set up production facilities in Vietnam and inland PRC to mitigate labour shortages and increasing labour costs in the coastal cities of the PRC. The Group also streamlined its business structure to reduce cost and enhance efficiency. These strategies strengthened not only the Group's position as a market leader, but also its foundation in meeting challenges.

Product Analysis

Representing 94.4% of the total turnover, plush stuffed toys remained the core business of the Group and recorded HK\$981.8 million in sales during the year. Within this sector, the OEM business contributed HK\$810.6 million in turnover. With major character owners and licensors as customers, the Group focused on exploring business opportunities in its existing customer base, such as cross-selling of steel and plastic toys to these OEM customers.

The proportion of the ODM business to the total turnover of the Group rose from 14.2% last year to 16.4% this year. Driven by increased orders from US customers such as new customer KOHL'S for its Christmas promotion programme, the business segment reported continuous growth during the year. After extensive preparation, the Group's new product line - infant products such as rattle, plush and bedding, will be launched in the infant section of Walmart in 2006. This is going to bring in significant revenue to the Group and allow the Group to gain more exposure in the global infant products market.

Revenue from the steel and plastic toy business increased by 33.8% to HK\$58.6 million when compared with last year and accounted for 5.6% of the Group's total turnover. During the year, the Group invested in C & H HK Corp., Ltd. and J.Y. Plasteel (Suzhou) Co., Ltd. to acquire the trademarks "Great", "Far Great", the right and machineries to manufacture and distribute tricycles, bicycles, scooters, infant carts, inline skates, etc. under these brands. J.Y. Plasteel (Suzhou) Co., Ltd. will build a new plant, which will cost US\$4 million in capital investment including machinery, in Taicang city, Jiangsu province, to expand the steel and plastic toy product mix. These new subsidiaries would engage in manufacturing and distribution of steel and plastic toys under the character products of world-leading brands, and enables the Group to get access to the domestic PRC market and earn Renminbi revenue.

Market Analysis

During the year, North American remained the largest market of the Group, accounting for 46.0% of the Group's total turnover. Even though the US economy was affected by dampened consumption sentiment as a result of rising oil price and hurricanes devastation, the US market was resilient and only experienced a mild decrease in sales. Japan, the Group's second-largest market, contributed 31.1% of the total turnover. The Group continued to launch ODM products under the "CALTOY" brand in this market, where non-character toys were well received. The reduced sales to the Japan market was anticipated as the Group had been rationalizing its clientele by trimming the numbers of low margin customers or orders.

Benefited from the increasing orders of the OEM customer, IKEA, the Group enjoyed remarkable business growth in the Europe market. The proportion of turnover contribution from the Europe market increased to 16.0% of the Group's turnover for the year.

Operational Analysis

Fluctuation in oil price during the year adversely affected material costs, which pushed up production costs. However, capitalising on its leading industry position, the Group was able to obtain better prices for bulk purchase of raw materials. In view of greater market demand for polyester as raw materials for toys, the Group has established its own polyester production line to secure steady supply of this staple raw material at a lower cost.

In the coastal cities of the PRC, labour shortages persisted and the official minimum wage rose over 20% during the year. Even though the wage offered by the Group was higher than the minimum level, it still had to shoulder cost pressure with other factories raising their wages to attract workers. In view of this, the Group planned to shift part of its production facilities to inland PRC where the wage level was lower. Moreover, to lessen reliance on manpower, the Group has been automating its manufacturing processes by engaging state-of-the-art equipment as much as feasible.

In Vietnam, the pioneer plant was in full operation in July 2005 and the larger plant commenced operation in September 2005. These two new plants together handled orders worth over US\$4.2 million during the year. Fully utilized, the two plants will be able to produce US\$7 million worth of products each year. Moreover, expansion of the existing plant in Shuyang, Jiangsu province was completed ahead of schedule and the Group's production capacity was boosted up by 6.5%. The new facilities, especially those in Vietnam, have not only helped to mitigate the persistent labour shortage problem, but also lowered production risk of the Group from relying on China as a single production base and the continuing appreciation of the Renminbi. During the year, the average utilization rate of the Group's production facilities bounded back to above 80%.

Prospects

The toy industry will stay very competitive in the coming years as the trends of hiking raw material costs and increasing labour costs in the coastal areas in the PRC are likely to persist. Continuous pressure on margins is anticipated for the next couple of years. However, the difficult operational environment has sparked consolidation of the toy industry, which will result in the ousting of small players leaving the most scalable players, including the Company. In the long run, the Group is set to enjoy better margins and will have yet stronger bargaining power in negotiating with customers and suppliers.

Looking ahead, the Group will continue to reinforce, reorganise and restructure its business to fortify its operational foundation and enhance profitability. Reassessment of customer mix will continue. Besides easing out low margin customers, the Group will explore business opportunities with retained large customers. More emphasis will also be put on R&D with the aim of enriching the Group's product mix and to develop innovative products with higher margins. The Group will also streamline and relocate certain operations to enhance cost-effectiveness. It is expected that the positive results of these initiatives will be reflected in the Group's results in the coming year.

While continuing to focus on its major plush stuffed toys business, the Group will exploit every opportunity for its steel and plastic toy business. Riding on the “Great” and “Far Great” brands acquired and the Group’s new plant in Taicang, the Group will be able to take up orders from existing Far Great customers and add more new product lines designed by the Group’s strong team of product designers to boost its business growth. Moreover, the acquired distribution network can provide the Group a platform to enlarge its customer base in existing markets as well as explore new markets, such as the PRC. As scheduled, the new plant in Taicang will be completed by the end of April 2006 and is expected to be full operational in August. This new plant together with additional new machineries will cost about US\$4 million, which will be funded by its internal resource and bank borrowing. The plant will manufacture OEM products and products under the “Great” and “Far Great” brands with anticipated annual sales over US\$15 million.

The Group will continue to relocate its production facilities inland in the coming year. New plants in Mingguang and Chaohu of Anhui province and in Beiliu of Guangxi province were set up early this year, which will boost its production capacity by 30% when they are in full operation. At the same time, 200 more sewing machines will be shipped to Vietnam in the first half of 2006. The Vietnam plants will be able to support sales up to US\$7 million a year. The expanded capacity will provide the Group a significant edge to capture more business opportunities in future.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

The Group’s liquidity and financial resources position remained healthy. The Group’s cash and bank deposits as at 31 December 2005 amounted to HK\$173.0 million (2004: HK\$234.7 million). This amount included deposits placed by the Company under dual currency option deposit contracts with banks in the total amount of US\$1.0 million (equivalent to HK\$7.9 million) (2004: US\$1.3 million (equivalent to HK\$10.5 million) and JPY100 million (equivalent to HK\$7.6 million)), and a long-term structured deposit contract with a bank in the amount of HK\$69.8 million (net of embedded derivatives) (2004: HK\$85.3 million). In view of the expected unfavorable movements in interest rates, the Company had decided to terminate a long-term structured deposit contract in January 2005 and subsequently entered into another structured deposit of US\$12 million with a major bank. Interest is payable quarterly in the first year ending 14 January 2006 at a rate of 6.5% per annum and in subsequent years at the rates based on the spread between the 30 year and 10 year U.S. dollar swap rates.

As at 31 December 2005, the Group had net current assets of HK\$217.9 million (2004: HK\$328.1 million). The total bank loans of the Group as at 31 December 2005 amounted to HK\$105.6 million (2004: HK\$53.6 million). As a result, the Group’s net cash and bank position as at 31 December 2005 was maintained at an acceptable level of HK\$67.4 million (2004: HK\$181.1 million).

The Group has consistently adhered to its prudent treasury policy within the controllable risk level. To enhance return from liquid assets, the Group placed its liquid fund in principal guaranteed short-term dual currency deposits with various banks, and entered into a long-term structured deposit contract.

The Group’s gearing ratio, calculated on the basis of total bank borrowings over the total shareholders’ equity, was increased to 18.9% (2004: 8.9%). The increase in bank borrowings were used to expedite various capital investments in of the Group, such as, approximately US\$4 million invested in the Vietnam new plant, approximately US\$2 million used in acquiring assets related to tricycle manufacturing plant in Shanghai and approximately US\$1 million in setting up two new plants in Anhui and Guangxi to cope with the acute labour shortage problem.

PLEDGE ON GROUP ASSETS AND BANK COVENANTS

As at 31 December 2005, the banking facilities of certain subsidiaries were secured by mortgages over their land use rights, buildings and deposit with an aggregate carrying value of HK\$4.3 million (2004: Nil), HK\$36.2 million (2004: Nil) and HK\$69.8 million (net of embedded derivatives) (2004: Nil) respectively. Such banking facilities were utilised to the extent of HK\$42.3 million (2004: Nil).

Some of the Group’s banking facilities are subject to the fulfilment of financial covenants, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. As at 31 December 2005 the Group was not in compliance with one of the covenants in relation to these facilities, which require that the interest coverage ratio should exceed 5.0:1. However, subsequent to the balance sheet date, the Group has obtained the bank’s waiver from declaring an event of default with respect to the breach of this covenant for the year ended 31 December 2005.

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2005, the Group had 15, 11245, 1541, 108, 8 and 8 employees in Hong Kong, Mainland China, Vietnam, South Korea, US and Japan respectively. The Group values its human resources and recognizes the importance of attracting and retaining quality staff for its continuing success. Staff bonuses and share options are awarded based on individual performance and job nature.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors did not recommend final dividend for the year ended 31 December 2005 (2004: HK6.0 cents).

The Transfer Books and Register of Members will be closed from 23 May 2006 to 26 May 2006, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the right to vote for and/or attend the forthcoming annual general meeting scheduled on 26 May 2006, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrar, Abacus Share Registrars Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m on 22 May 2006.

PURCHASE, SALES AND REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

AUDIT COMMITTEE

The audit committee has reviewed the Group's consolidated accounts for the year ended 31 December 2005 with the management and the Company's auditor, KPMG, including the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company believes that corporate governance is essential to the sustainable success of the Company and trust that all stakeholders of the Company can benefit from better transparency and accountability of a high standard of corporate governance.

With effect from 1 January 2005, the Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited, except for certain deviations in respect of the service term and rotation and re-election of directors. To ensure compliance with the CG Code, the Board has undertaken to review and propose the necessary amendments to the provision of the Articles of Association of the Company to bring the constitution of the Company in alignment with certain provisions of the CG Code. Special resolution is proposed in the coming annual general meeting of the Company to amend the Articles of Association of the Company so that (i) any director appointed to fill a casual vacancy shall be subject to re-election by Shareholders at the Company's next following general meeting after the appointment rather than the Company's next following annual general meeting after the appointment, (ii) every director shall be subject to retirement by rotation at least once every three years and directors holding office as the Chairman of the Board or the Managing Director shall also be subject to retirement by rotation and (iii) the Company may remove any Director by an ordinary resolution instead of special resolution.

Save as to the abovementioned deviations, none of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for the year under review, in compliance with the code provisions set out in the CG Code.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by Directors as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries of all Directors and all Directors have confirmed that they complied with the required standard of dealings set out therein during the year.

SCOPE OF WORK OF AUDITORS REGARDING THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2005 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors in this Announcement.

By order of the Board
Kyoo Yoon Choi
Chairman

Hong Kong, 12 April 2006

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

Executive directors:

Mr. Kyoo Yoon Choi (*Chairman*)
Mrs. Shin Hee Cha
Mr. Tae Sub Choi
Mr. Young M. Lee
Mr. James Wang

Independent non-executive directors:

Mr. Valiant Cheung
Mr. Cheong Heon Yi
Dr. Chan Yoo

Please also refer to the published version of this announcement in International Herald Tribune.