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 2006

The Directors of Dream International Limited (the "Company") announce that the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006 are as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	**2006** *HK$'000*	2005 *HK$'000*
Turnover	*3*	**1,084,357**	1,040,444
Cost of sales	*4*	**(924,319)**	(853,523)
Gross profit		**160,038**	186,921
Other income		**6,867**	8,322
Selling and distribution expenses	*4*	**(38,310)**	(45,602)
Administrative expenses	*4*	**(137,218)**	(160,079)
Goodwill impairment losses	*5*	**(100,194)**	–
Other losses - net		**(6,073)**	(19,929)
Operating loss		**(114,890)**	(30,367)
Finance costs		**(7,684)**	(3,339)
Share of (loss)/profit of associates		**(237)**	652
Loss before income tax		**(122,811)**	(33,054)
Income tax expense	*6*	**(8,673)**	(3,416)
Loss for the year		**(131,484)**	(36,470)
Attributable to:			
Equity holders of the Company		**(129,671)**	(36,348)
Minority interests		**(1,813)**	(122)
		(131,484)	(36,470)
Loss per share (expressed in HK$ per share)			
– basic and diluted	*7*	**(0.194)**	(0.054)
Dividends	*8*	**–**	–

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights		**16,168**	11,269
Property, plant and equipment		**199,878**	147,090
Intangible assets		**17,268**	112,659
Investments in associates		**1,298**	1,483
Deferred income tax assets		**3,180**	7,460
Other financial assets		**71,054**	71,670
		308,846	351,631
Current assets			
Inventories		**166,123**	160,482
Trade and other receivables	*9*	**204,572**	176,541
Cash and cash equivalents		**82,798**	103,128
		453,493	440,151
Total assets		**762,339**	791,782
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**52,019**	52,019
Reserves		**369,618**	490,930
		421,637	542,949
Minority interests		**20,474**	14,998
Total equity		**442,111**	557,947
LIABILITIES			
Non-current liabilities			
Borrowings		**8,684**	–
Deferred income tax liabilities		**322**	741
Retirement benefit obligations		**10,703**	10,820
		19,709	11,561
Current liabilities			
Trade and other payables	*10*	**157,515**	108,720
Bills payables		**18,393**	–
Current income tax liabilities		**12,214**	7,986
Borrowings		**112,397**	105,568
		300,519	222,274
Total liabilities		**320,228**	233,835
Total equity and liabilities		**762,339**	791,782
Net current assets		**152,974**	217,877
Total assets less current liabilities		**461,820**	569,508

Notes:

1. **Statement of compliance**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standard ("HKASs") and Interpretations ("Ints") 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 2006 but is derived from those financial statements.

2. **Basis of preparation of financial statements**

The accounting policies and methods of computation used in preparing these consolidated financial statements are consistent with those followed in preparing the annual consolidated financial statements of the Group for the year ended 31 December 2005, except for the adoption of the following new and revised HKFRSs, which are effective for accounting periods beginning on or after 1 January 2006.

– HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and disclosures
– HKAS 21 (Amendment)	Net Investment in a Foreign Operation
– HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup
– HKAS 39 (Amendment)	The Fair Value Option
– HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
– HKFRSs 1 & 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
– HKFRS 6	Exploration for and Evaluation of Mineral Resources
– HK(IFRIC)-Int 4	Determining whether an Arrangement Lease contains a Lease
– HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
– HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The adoption of the above standard, amendments to standards and interpretations did not have significant impact of the Group.

3. **Segment reporting**

(a) Primary reporting format – business segments

The Group comprises two main business segments:

– plush stuffed toys
– steel and plastic toys

	Plush stuffed toys		**Steel and plastic toys**		**Unallocated**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**903,920**	981,811	**180,437**	58,633	**–**	–	**1,084,357**	1,040,444
Other income	**1,434**	1,611	**30**	196	**5,403**	6,515	**6,867**	8,322
Total	**905,354**	983,422	**180,467**	58,829	**5,403**	6,515	**1,091,224**	1,048,766
Segment result	**(10,517)**	(28,980)	**(4,179)**	(1,387)	**–**	–	**(14,696)**	(30,367)
Goodwill impairment losses	**(99,532)**	–	**(662)**	–	**–**	–	**(100,194)**	–
Operating loss							**(114,890)**	(30,367)
Finance costs							**(7,684)**	(3,339)
Share of (loss)/profit of associates							**(237)**	652
Loss before income tax							**(122,811)**	(33,054)
Income tax expense							**(8,673)**	(3,416)
Loss for the year							**(131,484)**	(36,470)

	Plush stuffed toys		Steel and plastic toys		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**548,418**	566,735	**138,390**	43,129	**686,808**	609,864
Investments in associates	**1,298**	1,483	**–**	–	**1,298**	1,483
Unallocated assets					**74,233**	180,435
Total assets					**762,339**	791,782
Segment liabilities	**144,833**	109,559	**41,778**	9,981	**186,611**	119,540
Unallocated liabilities					**133,617**	114,295
Total liabilities					**320,228**	233,825
Capital expenditure	**19,769**	58,002	**60,438**	17,706	**80,207**	75,708
Depreciation of property, plant and equipment	**21,943**	20,811	**4,127**	684	**26,070**	21,495
Amortisation of leasehold land and land use rights and patent	**217**	163	**756**	–	**973**	163

(b) *Secondary reporting format – geographical segments*

	Turnover		Segment assets		Capital expenditure	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
North America	**534,694**	478,886	**2,017**	212	**137**	26
Japan	**271,226**	323,473	**4,297**	4,412	**–**	–
Europe	**187,552**	166,885	**–**	–	**–**	–
South Korea	**14,350**	28,602	**91,267**	176,227	**140**	1,087
PRC and Hong Kong	**67,200**	40,814	**538,328**	384,472	**70,738**	44,284
Vietnam	**539**	–	**50,899**	44,541	**9,192**	30,311
Others	**8,796**	1,784	**–**	–	**–**	–
	1,084,357	1,040,444	**686,808**	609,864	**80,207**	75,708

The analysis of turnover by geographical segment is based on the destination of shipments of goods. No analysis of the contribution by geographical segment has been presented as the ratios of profit to turnover achieved for the above geographical segments are not substantially out of line with the Group's overall ratio of profit to turnover.

4. Expenses by nature

	2006	2005
	HK$'000	*HK$'000*
Changes in inventories of finished goods and work in progress	**(6,728)**	(16,805)
Raw materials and consumables used	**640,040**	622,872
Water and electricity	**17,743**	12,647
Freight and transportation	**20,169**	31,137
Depreciation	**26,070**	21,495
Amortisation of leasehold land and land use rights and patent	**973**	163
Operating lease payments	**27,363**	31,452
Auditors' remuneration	**3,000**	3,772
Commission charges	**10,946**	8,650
Provision for inventories	**3,459**	2,898
(Write back)/provision for trade receivables	**(1,526)**	2,285
Telephone and communications	**6,049**	6,382
Postage and courier charges	**5,206**	4,365
Employee benefit expenses	**249,206**	259,038
Others	**97,877**	68,853
Total cost of sales, selling, distribution and administrative expenses	**1,099,847**	1,059,204

5. Goodwill impairment losses

The impairment charge mainly arose in the cash generating unit ("CGU") in plush stuffed toys business segment in Korea following a decision to reduce the trading activities allocated to this operation. Following this decision, the Group reassessed the trading volume and gross margin of the CGU and resulted in the goodwill impairment losses for the year ended 31 December 2006.

6. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

Taxation on PRC and overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC and other countries in which the Group operates.

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% at the standard tax rate for the following three years.

	2006	2005
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	**1,056**	4,106
– PRC and overseas taxation	**3,680**	1,795
Deferred income tax charge/(credit)	**3,937**	(2,485)
	8,673	3,416

7. Loss per share

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
	HK$'000	*HK$'000*
Loss attributable to equity holders of the Company	**(129,671)**	(36,348)
Weighted average number of ordinary shares in issue (thousands)	**668,529**	668,264
Basic loss per share (HK$ per share)	**(0.194)**	(0.054)

(b) Diluted

Diluted loss per share for the year ended 31 December 2005 and 2006 is the same as the basic loss per share as the potential ordinary shares outstanding during the years were anti-dilutive.

8. Dividends

The Board of Directors do not declare or propose any dividends for the years ended 31 December 2005 and 2006.

9. Trade and other receivables

At 31 December 2006 and 2005, the ageing analysis of the trade receivables was (net of provision for impairment) as follows:

	2006	2005
	HK$'000	*HK$'000*
Current	**102,395**	76,745
1 to 3 months	**17,470**	18,483
More than 3 months but less than 12 months	**19,125**	3,783
Over 1 year	**778**	233
	139,768	99,244

10. Trade and other payables

At 31 December 2006 and 2005, the ageing analysis of the trade payables was as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 1 month	**51,357**	39,589
After 1 month but within 3 months	**23,897**	7,870
After 3 month but within 6 months	**5,641**	1,311
After 6 month but within 1 year	**2,988**	911
Other 1 year	**1,164**	1,260
	85,047	50,941

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Plush toy manufacturers including the Group continued to face challenges in 2006. However, supported by a sizeable operation and strong reputation as an industry leader, the Group managed to attain a mild increase in turnover to HK$1,084.4 million (2005: HK$1,040.4 million) for the year ended 31 December 2006, thanks to the rapid growth of the steel and plastic toy business. Gross profit decreased to HK$160.0 million (2005: HK$186.9 million), mainly because of rising labour costs in the coastal areas in the PRC. Moreover, appreciation of the Renminbi and high raw material costs also created additional burden on costs of sales.

Loss attributable to equity holders was HK$129.7 million (2005: HK$36.3 million), including the impairment losses of goodwill of HK$100.2 million that arose from the purchase of Dream INKO Co., Ltd. in 2003. Excluding this non-recurring loss, loss attributable to equity holders improved to HK$29.5 million when compared with last year. The Group has been restructuring its business since 2005 and started to see the fruits of its efforts in the second half of 2006. It indeed reported net profit (excluding the one-off goodwill impairment losses) of HK$7.1 million for the second half of the year, a marked improvement from net loss of HK$36.6 million for the first half of the year.

The Group was in a healthy financial position with cash and bank deposits (excluding long-term structured deposits) of HK$82.8 million (31 December 2005: HK$103.1 million) as at 31 December 2006.

Business Review

To maintain its leading position in the toy industry, the Group focused on larger orders and strived to expand its client base and enrich its product portfolio during the year. It also implemented various measures to address market challenges and other pressure on its operation. The Group continued to move its production facilities to inland China where labour costs are lower. To increase revenue denominated in Renminbi, the Group endeavoured to exploit the huge potential of the PRC market with the steel and plastic toy business. The Group also continued to restructure its business, such as streamlining the workforce and reallocating resources among its offices, to enhance operational efficiency and cost-effectiveness.

Product Analysis

During the year under review, revenue from plush stuffed toys amounted to HK$903.9 million, representing 83.4% of the Group's total turnover. As the Group focused on volume orders and higher margin customers, the proportion of Original Equipment Manufacturing ("OEM") business to the revenue from the plush stuffed toy segment decreased to 77.8%, yet it remained as the Group's core business. While maintaining close relationship with renowned character owners and licensors, the Group also secured new orders for promotional toys from a famous international fast food chain store. Leveraging its leading position in the plush stuffed toy industry, the Group continued to explore cross-selling opportunities for its steel and plastic products with existing OEM customers.

The Group's Original Design Manufacturing ("ODM") business recorded revenue of HK$199.8 million, and its proportion increased significantly to 22.2% of the plush stuffed toy segment's turnover. During the year, the Group launched a new series of interactive educational electronic plush toys for pre-school children that was well received in the market. In addition to shifting its focus to higher margin customers, the Group also allocated more resources to R&D to ensure it has the ability to match changing market trends and tailor products to meet unique customer requirements.

Driven by strong market demand together with the full-year contribution from the joint venture set up in the second half of 2005, revenue from the steel and plastic toy business rose by over 200% to HK$180.4 million when compared with 2005. Backed by the joint venture, the Group expanded its product scope to cover scooters, inline skates and skateboards, which attracted direct orders from a US chain store as well as more businesses from customers in the US and Europe. Carrying the acquired "Great" and "Far Great" brands, the Group's steel and plastic toys including scooters, bicycles, tricycles and inline skates actually made inroads into the PRC market during the year.

Market Analysis
Driven by the growth in the steel and plastic toy business, North America remained as the most prominent market of the Group and accounted for 49.3% of its total turnover. Japan came second and contributed 25.0%, while Europe became another major market with a 17.3% share. China market, which is laden with potential, represented 2.6% of the Group's total turnover.

Operational Analysis
During the year, the Group operated ten plants in China and one plant in Vietnam at an average utilization rate of around 85%. The leased Vietnam plant as a temporary facility was closed in 2006 after the Group's own plant was ready for full operation. All the production in Vietnam was then centralized in one plant to achieve economies of scale and enhance operational efficiency. The plant manufactured plush stuffed toys and contributed HK$42.7 million to the turnover of the Group during the year.

To deal with rising labour costs in coastal areas in the PRC, the Group continued to move its production base inland and invested an additional US$1.3 million (approximate to HK$10.1 million) in the Chaohu and Mingguang plants, which commenced trial run in the second half of 2006. Including the plants in Shuyang and Beiliu that commenced full operation in the first half of 2006, the four plants in inland China will account for 28% of the Group's total production capacity when all of them are in full operation.

Prospects
The Group witnessed the unrelenting consolidation of the toy industry in last couple of years. Many small players were ousted leaving only the sizable and financially strong ones in the market. With fewer struggling small players in the cut-throat competition, the survived players will enjoy better margins and stronger bargaining power when negotiating with suppliers as well as customers.

Although, as a leading player, the Group stands to benefit in the consolidating market, it remains cautiously optimistic about the prospects of its business. The Group trusts that its comparative advantages in production capacity, quality control and design ability will inevitably make it a preferred choice to major multi-national buyers who have to comply with stringent legal and non-governmental requirements in their own countries and their products' end markets.

In addition, the Group will actively seek to capture business opportunities in the PRC market. It sees a strong ride for its steel and plastic products under the "Great" and "Far Great" brands as well as those produced on an OEM basis. In the first quarter of 2007, the Group leveraged its existing strong relationship with a renowned plush stuffed toy customer to secure orders for steel and plastic toys from the customer. These developments will not only boost the contributions from the steel and plastic toy business, but will also help reduce the pressure from appreciation of the Renminbi. Besides the PRC market, the Group will explore further business opportunities for its "Great" and "Far Great" products in other countries.

To thrive in the ever-changing market, the Group will sharpen its competitive edges and strive to sustain its leadership in the industry. Seeing the positive market response to its electronic plush toy first launched in 2006, the Group will look for and exploit more opportunities in electronic toys and other innovative toys. To achieve this, more resources will be invested in enhancing product development and production capabilities. Meanwhile, the Group will also explore new alliances with potential customers who are looking for quality and reliable manufacturing partners.

The Group's improved results (excluding the goodwill impairment loss of HK$100.2 million) in the second half of 2006 are evidence of its effective business strategies and cost control measures. These strategies and measures will be continued in the coming year to help the Group to sustain its position as the largest plush stuffed toy manufacturer in the world.

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 2006 amounted to HK$152.0 million (2005: HK$173.0 million). This amount included the long-term structured deposit of US$12 million at a major bank with a carrying amount of HK$69.2 million as at 31 December 2006 (2005: HK$69.8 million) which has been accounted for as an other financial assets at fair value through profit or loss.

As at 31 December 2006, the ratio of current assets to current liabilities was 1.5 times (2005: 2.0 times). The total loans, bills payable and overdrafts of the Group as at 31 December 2006 amounted to HK$139.5 million (2005: HK$105.6 million). As a result, the Group's net cash and bank position as at 31 December 2006 was maintained at an acceptable level of HK$12.5 million (2005: HK$67.4 million).

The Group's gearing ratio, calculated on the basis of total loans, bills payables and overdrafts borrowings over the total shareholders' equity, was increased to 31.6% (2005: 18.9%). This is mainly due to the goodwill impairment loss of HK$100.2 million for the year ended 31 December 2006. Meanwhile, the increase in bank borrowings were used to expedite various capital investments of the Group, such as, approximately US$2.5 million (approximate to HK$19.4 million) at the tricycle manufacturing plant in Taicang of Jiangsu Province and approximately US$1.3 million in setting up two new plants in Mingguang and Chaohu cities of Anhui Province.

PLEDGE ON GROUP ASSETS AND BANK COVENANTS

As at 31 December 2006, 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$109.8 million (2005: HK$110.4 million). Such banking facilities were utilised to the extent of HK$101.8 million (2005: HK$42.3 million).

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 2006 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 waivers from declaring an event of default with respect to the breach of this covenant for the year ended 31 December 2006.

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2006, the Group had 14, 9750, 1929, 74, 7 and 8 employees in Hong Kong, Mainland China, Vietnam, South Korea, US and Japan respectively. The Group treasures 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 do not recommend a dividend for the year ended 31 December 2006 (2005: Nil). The Transfer Books and Register of Members will be closed from 21 May 2007 to 25 May 2007, 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 25 May 2007, 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 18 May 2007.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2006, 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 with the management and the Company's auditor, PricewaterhouseCoopers, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters of the draft final results for year ended 31 December 2006. The Group's consolidated financial statements for the year ended 31 December 2005 were audited by KPMG.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2006, 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.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES

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.

By order of the Board
Kyoo Yoon Choi
Chairman

Hong Kong, 18 April 2007

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, Kin Piu Cheung
Professor Cheong Heon Yi
Dr. Chan Yoo

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