Mr. Kyoo Yoon Choi
Chairman

Dear Shareholders,

Presented with an adverse macroeconomic environment, toy manufacturers in the PRC, including Dream International Limited (the "Company") and its subsidiaries (collectively the "Group"), had another challenging year in 2006. The Group had to cope with high raw material costs and rising labour costs in the coastal cities in the PRC, while appreciation of the Renminbi added further cost pressure. All these factors together affected the profitability of our business and that of the industry at large.

In fact, we saw signs of these challenges emerging two years ago and started then to reinforce, reorganize and restructure our business to brace our business for the worst times. To ensure effective control over costs, we streamlined the management team and rationalized our workforces. We also reallocated resources among our different plants and moved production facilities to inland China where labour costs were lower. For higher production efficiency, we pursued automation of production and reviewed the workflows at different plants. We focused on higher margin customers who placed volume orders to enhance profitability. These strategies have improved our cost-effectiveness with benefits starting to materialize in the second half of 2006 in terms of profit contributions.

At the same time as we strived to reinforce our business foundation, we also kept a close watch on the business environment for the opportunities that would allow us to apply our core competence and bring about strong returns. Seeing educational products for pre-school children gaining popularity in the market, we launched a series of interactive plush toys incorporating educational elements in a US chain store during the year. Our debut move into the electronic toy segment has proven to be a success. The new product has received positive feedback from the market. Thus, we are going to invest more resources in R&D to develop new products that cater to market demand and also enrich our product portfolio.

We made a strategic move in 2005 to set up a joint venture to expand our steel and plastic toy business. The joint venture has made advancements and brought in encouraging contributions. It has expanded our product portfolio to include such as scooters, inline skates and skateboards, which are popular among youngsters in the US and Europe. To support sales of these products, the joint venture also strengthened its sales network in these two markets. Moreover, carrying the acquired "Great" and "Far Great" brands, our steel and plastic products made inroads into the PRC market and generated revenue in Renminbi for the Group. In early 2007, we obtained a license directly from an existing plush stuffed toy customer, a renowned character owner, and will cross-sell to it our steel and plastic products in the PRC. We believe the strong market demands for these products in the PRC will fuel growth of the business segment in the future.

Although we can see some of the challenges in the market prevailing in the near future, with hopes that raw material prices will stabilize and our business strategies starting to deliver the desired effects as reflected in the progress we achieved in the second half of 2006, we are cautiously optimistic about our business in the coming year. We expect to see gradual improvement in our business riding on our leadership and rich experience in the toy industry.

On behalf of the Board, I would like to express my appreciation to the management team and staff for their dedication and contribution to the Group. I would also like to thank all our shareholders, business partners and customers for their support during this testing period for the Group.

Kyoo Yoon Choi
Chairman
Hong Kong,
18 April 2007