

# Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2001.

## GROUP REORGANISATION

Pursuant to a reorganisation to rationalise the group structure in preparation for the public listing of the company's shares, the company became the holding company of the group on 31 December 2001. Further details of the group reorganisation, including details of the subsidiaries acquired pursuant thereto, are set out in note 16 on the financial statements.

On 7 February 2002, dealing in shares of the company commenced on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK").

## PRINCIPAL ACTIVITIES

The principal activities of the company are the design, development, manufacturing and sale of plush stuffed toys. The principal activities and other particulars of the subsidiaries are set out in note 16 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the company and its subsidiaries during the financial year are set out in note 12 on the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the group's total	
	Sales	Purchases
The largest customer	49.8 %	
Five largest customers in aggregate	70.0 %	
The largest supplier		23.0 %
Five largest suppliers in aggregate		69.8 %

C & H Co., Ltd. is the largest customer and supplier, the ultimate holding company of the company. Please refer to the paragraph headed "Connected Transactions" and "Directors' Interests in Contracts" for details.

Save as disclosed above and so far as the Board are aware, neither the directors, their associates nor any shareholder of the company (which to the knowledge of the directors owns more than 5% of the company's share capital) had any interest in these major customers and suppliers.

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## FINANCIAL STATEMENTS

The profit of the group for the year ended 31 December 2001 and the state of the company's and the group's affairs as at that date are set out in the financial statements on pages 30 to 65.

An aggregate interim dividend of HK\$7,710,000 was paid on 28 March 2001 and a special dividend of HK\$23,220,000 was paid on 14 and 28 December 2001 (2000: \$Nil). The directors now recommend the payment of a final dividend of HK\$31,200,000 representing HK\$0.048 per share (2000: \$Nil) in respect of the year ended 31 December 2001.

## CHANGE OF COMPANY'S NAME

By a special resolution passed on 16 December 2001, the name of the company was changed from C & H Toy of H.K. Co., Limited to Dream International Limited. By a special resolution passed on 3 January 2002, the name of the company was changed from Dream International Limited to Dream International Limited 德林國際有限公司. Consequently, the company adopted the Chinese name as part of its legal name with effect from 11 January 2002.

## FIXED ASSETS

Details of the movements in fixed assets are set out in note 13 on the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the company during the year, together with the reasons therefor, are set out in note 23 on the financial statements.

## DIRECTORS

The directors during the financial year were:

### Chairman and non-executive director

Kyoo Yoon **Choi**

### Executive directors

Chul Hong **Min**

Young M. **Lee**

(appointed on 12 October 2001)

Sung Sick **Kim**

### Independent non-executive directors

David, Kwai Che **Tse**

(appointed on 22 October 2001)

Valiant, Kin Piu **Cheung**

(appointed on 22 October 2001)

Mr. Chul Hong Min retires at the forthcoming annual general meeting in accordance with article 101 of the company's articles of association and, being eligible, offers himself for re-election.

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## DIRECTORS' SERVICE CONTRACTS

The independent non-executive directors were appointed by the board of directors on 20 October 2001 for a term of 2 years commencing on 22 October 2001. Their remuneration is determined by the board of directors on the anniversary of the date of their appointment.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 7 February 2002 (being the date the company's shares were listed on the SEHK), the directors and chief executive of the company who held office at 31 December 2001 had the following interests in the issued share capital of the company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance) as recorded in the register of directors' and chief executive's share interests:

	Personal interests	Family interests	Corporate interests	Other interests
<b>Dream International Limited</b>				
– Kyoo Yoon Choi	–	–	487,500,000 (Note 1)	–
<b>C &amp; H Co., Ltd.</b>				
– Kyoo Yoon Choi	197,100 (Note 2)	–	–	–
– Sung Sick Kim	16,225 (Note 3)	–	–	–
– Chul Hong Min	14,750 (Note 4)	–	–	–
<b>Gina World Co., Ltd.</b>				
– Kyoo Yoon Choi	795,000 (Note 5)	–	–	–

Notes:

- 1 Kyoo Yoon Choi, together with his wife, Woul Hee Cha, and his three children, Woo Jin Choi, You Jin Choi and Soo Jin Choi, hold approximately 84.57% of the issued share capital of C & H Co., Ltd. and Kyoo Yoon Choi beneficially owns 76% of the issued share capital of Uni-Link Technology Limited which is a substantial shareholder of the Company.
- 2 Kyoo Yoon Choi holds approximately 35.92% of the issued share capital of C & H Co., Ltd.

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## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES (continued)

- 3 Sung Sick Kim holds approximately 2.96% of the issued share capital of C & H Co., Ltd.
- 4 Chul Hong Min holds approximately 2.69% of the issued share capital of C & H Co., Ltd.
- 5 Kyoo Yoon Choi holds approximately 15.9% of the issued share capital of Gina World Co., Ltd.

Details of directors' and chief executive's interests under the company's share option scheme are set out in the section "Share option scheme" below.

### Share option scheme

The company has a share option scheme which was adopted on 22 January 2002 whereby the directors of the company are authorised, at their discretion, to invite employees of the group, including directors of any company in the group, to take up options to subscribe for shares of the company. The exercise price of the options was the highest of (i) the nominal value of the shares, (ii) the closing price of the shares on the SEHK on the date of grant and (iii) the average closing price of the shares on the SEHK for the five business days immediately preceding the date of grant. The options vest after one year and are exercisable for a period to be notified by the directors to each option-holder upon the grant of option, such period not to exceed ten years from the date on which the option is granted.

The maximum number of shares which may be issued upon the exercise of all outstanding options and yet to be exercised under the share option scheme shall not exceed 30% of the issued share capital of the company from time to time. Subject always to the above overall limit, the directors may grant options under the share option scheme, generally and without further authority, in respect of such number of shares which may be issued upon exercise of all options to be granted under the share option scheme not exceeding 10% of the issued share capital of the company as at 7 February 2002, being the date on which the company's shares were listed on the SEHK. For the purpose of calculating the above, options lapsed in accordance with the share option scheme shall not be counted.

As at 7 February 2002 (being the date the company's shares were listed on the SEHK) the directors and employees of the company had the following interests in options to subscribe for shares of the company granted at nominal consideration under the share option scheme of the company. Each option gives the holder the right to subscribe for one share and the consideration paid by each holder for the options granted is HK\$1.00.

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## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES (continued)

Directors	No. of options outstanding as at 7 February 2002	Date granted	Period during which options are exercisable (Note 1)	Price per share on exercise of options
Chul Hong Min	9,100,000	7 February 2002	7 February 2002 to 7 February 2012	HK\$1.18
Sung Sick Kim	3,900,000	7 February 2002	7 February 2002 to 7 February 2012	HK\$1.18
Young M. Lee	3,900,000	7 February 2002	7 February 2002 to 7 February 2012	HK\$1.18

Up to the date of this report, none of the options granted have been exercised. Apart from the foregoing, at no time during the year and up to the date of this report was the company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the director or chief executive of the company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

Note:

1 The maximum percentage of the share options being exercisable is determined in stages as follows:

On or after 1st year anniversary (or 7 Feb 2003)	30%
On or after 2nd year anniversary (or 7 Feb 2004)	another 30%
On or after 3rd year anniversary (or 7 Feb 2005)	another 40%

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## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2001, the following substantial shareholders were recorded in the register of members as holding 10% or more of the share capital of the company:

	Ordinary shares held of US\$ 0.01 each	Percentage of total issued shares
C & H Co., Ltd.	110,000,000	78.6%
Uni-Link Technology Limited	30,000,000	21.4%

Save as disclosed above, as at 31 December 2001, the company is not aware of any other registered shareholder who holds 10% or more of the issued share capital of the company.

In addition, as at 7 February 2002 (being the date the company's shares were listed on the SEHK), the company has been notified of the following interests in the company's issued shares amounting to 10% or more of the ordinary shares in issue:

	Ordinary shares held of US\$ 0.01 each	Percentage of total issued shares
C & H Co., Ltd.	382,850,000	58.9%
Uni-Link Technology Limited	104,650,000	16.1%

Kyoo Yoon Choi, together with his wife, Woul Hee Cha, and his three children, Woo Jin Choi, You Jin Choi and Soo Jin Choi, hold approximately 84.57% of the issued share capital of C & H Co., Ltd. and Kyoo Yoon Choi beneficially owns 76% of the issued share capital of Uni-Link Technology Limited. Kyoo Yoon Choi is considered to have deemed interests in the 487,500,000 ordinary shares as to approximately 75% of the issued shares of the company.

## DIRECTORS' INTERESTS IN CONTRACTS

C & H Co., Ltd. is the largest customer, the largest supplier and the ultimate holding company of the company. Kyoo Yoon Choi and his family, Sung Sick Kim and Chul Hong Min were interested in these arrangements as a shareholder holding a 84.57%, 2.96% and 2.69% interest respectively in the share capital of C & H Co., Ltd..

Apart from the foregoing, the acquisition of two subsidiaries from C & H Co., Ltd. pursuant to the reorganization and the related party transactions as disclosed in notes 1(c) and 27 respectively to the financial statements, no contract of significance to which the company, any of its holding company, subsidiaries or fellow subsidiaries was a party, in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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## DIRECTORS' INTERESTS IN COMPETING BUSINESS

C & H Co., Ltd. ("C & H Korea") and its subsidiaries, as set out below, are engaged in the business of the design, development, manufacturing and sale of plush stuffed toys and steel and plastic toys, and of the dyeing and manufacturing of plush fabrics, which may compete with the business of the group. Mr. C. H. Min, Mr. S. S. Kim and Mr. K. Y. Choi are deemed to be interested in these businesses which may compete with the group's businesses as they are shareholders of C & H Korea and K. Y. Choi is also a director of C & H Korea.

Name of company	Nature of competing business	The group is capable of carrying on its business independently of and at arms length from the competing business
C & H Korea	C & H Korea is ultimate holding company of the group. The directors of C & H Korea are Mr. K. Y. Choi, Ms. S. H. Cha, Mr. Y. H. Pyo and Mr. J. H. Chung. C & H Korea is engaged in the design, development and marketing of plush stuffed toys and other toys products. C & H Korea has established the production facilities in Korea called "Eumsung factory" which carries out the production of steel and plastic toys.	Pursuant to the Deed of Undertaking*, C & H Korea agreed to first offer all sales orders received by it from customers, other than the Branded Customers, to the group for the production and sale to the ultimate customers directly. C & H Korea agreed to first offer all customers' orders for the production of plush stuffed toys and steel and plastic toys received directly or indirectly by it from Branded Customers to the group on normal commercial terms after arm's length negotiation. Also pursuant to the Deed of Undertaking*, C & H Korea entered into a co-operative arrangement with the group to market jointly with the group and to assist the group in developing its design and product development capabilities in particular for the provision of services to the Branded Customers. In addition, the Eumsung factory will exclusively receive orders from Gina World Co., Ltd. to be sold in the Korean market and its business scope will be geographically delineated from that of the group.

## Report of the Directors

### DIRECTORS' INTERESTS IN COMPETING BUSINESS (continued)

Name of company	Nature of competing business	The group is capable of carrying on its business independently of and at arms length from the competing business
C & H Lanka (PVT) Ltd. ("C & H Lanka")	C & H Lanka is wholly owned subsidiary of C & H Korea. The directors of C & H Lanka are Mr. K. Y. Choi, Mr. T. S. Choi, Ms. S. H. Cha, and Mr. Y. D. Noh. C & H Lanka is engaged in the manufacturing of plush stuffed toys in Sri Lanka.	Pursuant to the Deed of Undertaking*, C & H Lanka agreed not to engage or otherwise be involved in any business which competes or is likely to compete with the group's business in any of the regions that the group engages business in. Its business will be limited to production of quota related plush stuffed toys and orders that cannot be handled by the group.
Jung Yoon Textile (Private) Ltd. ("JY Textile")	JY Textile is wholly owned subsidiary of C & H Korea. The directors of JY Textile are Mr. K. Y. Choi and Mr. T. S. Choi. JY Textile is engaged in the manufacturing and the dyeing of fabrics.	JY Textile is engaged in manufacturing of fabrics and dyeing of fabrics for C & H Lanka and local customers in Sri Lanka. Substantially all the fabrics manufactured by the group are used for the group's own production of plush stuffed toys.



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## DIRECTORS' INTERESTS IN COMPETING BUSINESS (continued)

Name of company	Nature of competing business	The group is capable of carrying on its business independently of and at arms length from the competing business
Gina World Co., Ltd. ("Gina World")	Gina World is listed on the Korea Securities Dealers Automated Quotation market in Korea. Gina World is owned as to 52.5% by C & H Korea, 17.5% by Mr. K. Y. Choi and 30% by the public. The directors of Gina World are Mr. Y. D. Noh, Mr. I. Y. Park and Mr. K. S. Song. Gina World holds certain rights to marketing and distribution of character licensed toy products in Korea and focuses on the marketing and distribution of character licensed toy products in the Korean market.	Gina World is a customer of the group and its business is delineated geographically with the group as it focuses on marketing and distribution of certain character licensed toy products in Korea. Pursuant to the Deed of Undertaking*, C & H Korea agreed to procure Gina World to first offer all customers' orders for the production of plush stuffed toys directly or indirectly by it to the group on normal commercial terms after arm's length negotiation.

The transactions with the above companies are set out in the paragraph headed "Connected Transactions". There has not been any subsequent change of directors' interests in any competing business which was previously disclosed in the company's prospectus for the new issue and placing of shares dated 29 January 2002.

\* In relation to the listing of the company's shares on the Main Board of the SEHK, C & H Korea has entered into the Deed of Undertaking in favour of the company to effect that for so long as C & H Korea and its associates are beneficially interested, directly or indirectly, whether individually or taken together, in 30% or more of the issued capital of the company, C & H Korea will not, and C & H Korea will procure that none of its subsidiaries, other than the group, will engage or otherwise be involved in any business which competes or likely to compete, either directly or indirectly, with any of the restricted business in any of the regions in which the group engages in and undertakes the restricted business (such regions include the PRC, Taiwan, Europe, the US and Japan). Such an undertaking shall extend to all subsidiaries of C & H Korea, except for the group.

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## SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the combined results and assets and liabilities of the group for each of the four years ended 31 December 2001 prepared on the basis set out in Note 1 below.

	Combined results			2001 HK\$'000
	1998 HK\$'000	1999 HK\$'000	Year ended 31 December 2000 HK\$'000	
<b>Turnover</b>	658,806	805,398	874,401	<b>830,893</b>
<b>Profit from operations</b>	66,610	87,048	92,269	<b>105,330</b>
Finance cost	(3,329)	(777)	(155)	<b>(230)</b>
<b>Profit from ordinary activities before taxation</b>	63,281	86,271	92,114	<b>105,100</b>
Taxation	(11,052)	(6,137)	(3,868)	<b>(6,580)</b>
Profit attributable to shareholders	52,229	80,134	88,246	<b>98,520</b>
Dividends	–	11,565	–	<b>62,130</b>
<b>Basic earnings per share (Note 2)</b>	HK\$0.136	HK\$0.209	HK\$0.229	<b>HK\$0.202</b>

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## SUMMARY OF FINANCIAL INFORMATION (continued)

	Combined assets and liabilities			<b>2001</b>
	1998	At 31 December		
	HK\$'000	1999	2000	HK\$'000
		HK\$'000	HK\$'000	
<b>Non-current assets</b>				
Fixed assets	36,518	43,008	79,583	<b>90,178</b>
Deferred tax assets	2,868	637	191	-
<b>Current assets</b>	188,111	208,716	270,970	<b>317,276</b>
<b>Current liabilities</b>	138,407	102,412	89,419	<b>114,881</b>
<b>Net current assets</b>	49,704	106,304	181,551	<b>202,395</b>
<b>Long-term liabilities</b>	7,710	-	-	-
<b>NET ASSETS</b>	81,380	149,949	261,325	<b>292,573</b>

Note 1: The summary of the financial information as at 31 December 1998, 1999 and 2000 and for each of the three years then ended has been extracted from the company's prospectus for the placing and new issue of shares dated 29 January 2002. The summary of the financial information for the year ended 31 December 2001 has been extracted from the additional financial information disclosed on page 66 of the financial statements. The financial information has been prepared as if the group reorganisation was completed on 1 January 1998, being the beginning of the four years presented.

For the purpose of the financial statements on pages 30 to 65, the results attributable to the subsidiaries being acquired during the period pursuant to the group reorganisation have been included in the consolidated income statement from the respective dates of their acquisition.

Note 2: The calculation of the basic earnings per share is based on the combined profit attributable to shareholders for the relevant year and the weighted average of 383,035,714, 383,035,714, 385,611,546 and 487,500,000 shares in issue during the four years ended 31 December 2001 respectively, after adjusting for the subdivision of shares in December 2001 and the capitalization issue of shares subsequent to the year ended 31 December 2001, as disclosed in note 23 on the audited financial statements.

# Report of the Directors

## APPLICATION OF PROCEEDS FROM CAPITAL RAISING

The group raised approximately HK\$175 million, net of related expenses, from the issue of 162,500,000 new shares of the company at HK\$1.2 per share in February 2002. The company's shares were successfully listed on the SEHK with effect from 7 February 2002. The directors will apply the net proceeds as follows:–

- as to approximately HK\$23.4 million for vertical integration in the area of spinning of yarns;
- as to approximately HK\$70.2 million for expansion of marketing in the US market;
- as to approximately HK\$23.4 million for acquisition of character licence business;
- as to approximately HK\$23.4 million for expansion of marketing in Japan and Europe;
- as to approximately HK\$23.4 million for developing research and development capabilities; and
- as to the balance of approximately HK\$11.2 million as general working capital of the group.

The net proceeds from the new issue and the placing is currently placed on short term deposits with financial institutions and/or licensed banks in Hong Kong.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2001, neither the company nor any of its subsidiaries has purchased, sold or redeemed any of the company's shares.

## BANK LOANS AND OTHER BORROWINGS

As at 31 December 2001, there were no bank loans nor overdrafts, or other borrowings. Particulars of bank loans and other borrowings of the company and the group as at 31 December 2000 are set out in note 21 on the financial statements.

## CONNECTED TRANSACTIONS

- 1 The group sold plush stuffed toys to C & H Korea and/or its subsidiaries or associates (hereinafter "C & H Korea group"), who in turn sold those products to the ultimate customers of C & H Korea group. In addition, the group also sourced raw materials such as fabrics for C & H Lanka, a subsidiary of C & H Korea. These transactions were entered into on prices and terms comparable to the prevailing market rate or practice. During the year ended 31 December 2001, the amount of sales to C & H Korea group amounted to approximately HK\$403,222,000, out of which, sales to C & H Lanka for sourcing of raw materials amounted to approximately HK\$3,836,000.

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## CONNECTED TRANSACTIONS (continued)

- 2 Pursuant to a commission agreement, C & H Korea group referred sales orders for plush stuffed toys to the group for production. Upon production of such products, the group sold the products to the customers directly, on a “free on board” basis. The group paid C & H Korea group a commission which represents not more than 5% of the amount of sales for plush stuffed toys. The commission rate was comparable to the commission rates payable by the group to independent third parties and were on terms comparable to the prevailing market rate or practice.

During the year ended 31 December 2001, the amount of commission paid by the group to C & H Korea group amounted to approximately HK\$6,852,000, including an amount of HK\$5,847,000 paid to C & H Toy of America, Inc. (“C & H America”), prior to it becoming a subsidiary of the group on 30 December 2001.

- 3 In its normal course of business, C & H America referred sales orders to C & H Lanka for the production of certain toy products. Upon production of the toy products, C & H Lanka sold those products to the ultimate customers directly. C & H America charged C & H Lanka a commission which represented not more than 5% of the amount of sales of such toy products.

During the year ended 31 December 2001, the amount of commission paid to the C & H America by C & H Lanka amounted to approximately HK\$9,812,000. The commission rate payable by C & H Lanka was comparable to the commission rate payable by the group to independent third parties and were on terms comparable to the prevailing market rate or practice.

- 4 (a) The group sourced certain raw materials and components necessary for the production of plush stuffed toys from C & H Korea group. During the year ended 31 December 2001, the amount of raw material purchases made by the group from C & H Korea group amounted to approximately HK\$63,400,000. The prices and terms upon which the raw materials were supplied by the C & H Korea group to the group were carried out on normal commercial terms and are on terms comparable to the prevailing market rate or practice.
- (b) The group, in its normal course of business, has sub-contracted orders with C & H Lanka for the production of certain toy products in the event that orders for toy products received by the group exceed its production capacity or were unable to be handled by the group. During the year ended 31 December 2001, the amount of purchases from C & H Lanka amounted to approximately HK\$3,531,000.

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## RETIREMENT SCHEME

The group operates defined contribution retirement scheme which covers certain of the group's employees in Hong Kong and the PRC. The scheme is funded by contributions from employees ranging from 5% to 19% of the employees' salary and the group in accordance with relevant regulations under respective local authorities.

As from 1 December 2000, the group also operates a Mandatory Provident Fund Scheme ("MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

The company's shares were listed on the SEHK on 7 February 2002 and with the exception that Mr. Kyoo Yoon Choi, a non-executive director, who was not appointed for a specific term, and is not subject to retirement by rotation and re-election at the company's annual general meeting in accordance with the company's articles of association, the company has complied with the Code of Best Practice as set out by the SEHK in Appendix 14 to the Listing Rules since that date.

## AUDIT COMMITTEE

In accordance with paragraph 14 of the Code of Best Practice as set out in Appendix 14 to the Listing Rules of the SEHK, the board of directors has established an audit committee on 22 January 2002 comprising two independent non-executive directors. The audit committee has been convened for the purpose of reviewing the company's financial reporting and internal control systems.

## AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board  
Kyoo Yoon **Choi**  
*Chairman*

Hong Kong, 10 April 2002