

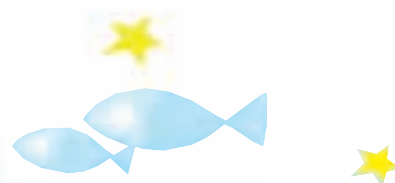
★ *Management Discussion and Analysis*





Management Discussion and Analysis

管理層討論及分析



**Dream
International
Limited**

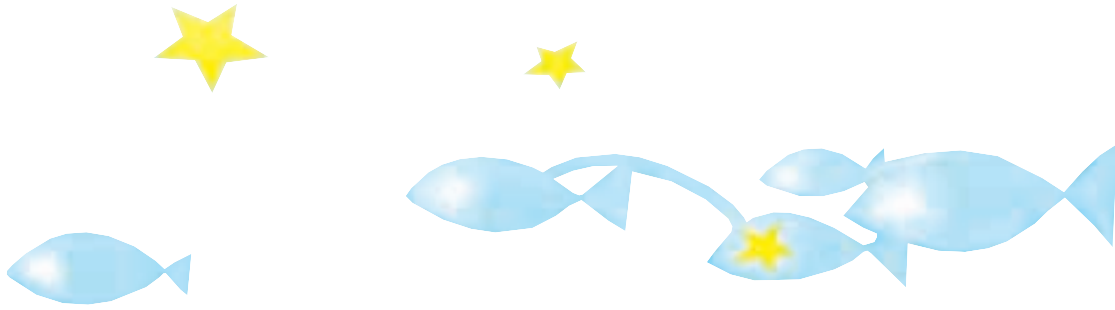
FINANCIAL REVIEW

During the year under review, the Group recorded a turnover of HK\$931,847,000, up 2.4% from the HK\$910,370,000 recorded last year. Profit attributable to shareholders increased 6.6% from HK\$113,489,000 last year to HK\$120,952,000. Despite the difficult economy environment experienced in the first half of 2003, we were able to show increase in both turnover and profit attributable to shareholders. These results were attributable to our reliable relationship with the customers, constant reinforcement in marketing and sales capability, and efficient production capacity.

財務回顧

在回顧年內，本集團錄得營業額931,847,000港元，與上年度之910,370,000港元相比增長2.4%。股東應佔溢利亦較去年同期所錄得之113,489,000港元上升6.6%至120,952,000港元。儘管二零零三年上半年經歷了嚴峻的經濟困境，但我們在營業額及股東應佔溢利方面仍錄得增長，全賴我們與客戶建立了穩健的合作關係、不斷加強市場推廣活動及銷售能力，以及高效率的產能所致。





Dividend

The total dividend for the year will be HK9.0 cents per share (2002: HK8.8 cents per share), achieving a dividend yield of approximately 5.4% on the average closing price of HK\$1.66 per share in 2003. The total dividend comprises the interim dividend of HK3.0 cents per share and the final dividend of HK6.0 cents per share recommended by the Board of Directors, which will be paid on or before 31 May 2004, subject to shareholders' approval at the forthcoming annual general meeting to be held on 20 May 2004.

BUSINESS REVIEW

The poor market sentiment during 2003 did not prevent us from growing. We maintained our strategy to focus on our plush stuffed toy business. This core business continued to record growth of 4.1% as compared to last year, accounting for 95.0% of the Group's total turnover. We maintained a low profile in our steel and plastic toys business, which accounted for 5.0% of the Group's total turnover during the year under review.

Although the SARS outbreak stopped many of our overseas customers from visiting our showroom and facilities in Hong Kong and China, we utilized our overseas showroom, located in the US. As a result, we were able to display our designs in a location closer to our customers in time for the buying season. Although the schedule of certain shipments were delayed due to the epidemic, we were able to meet most of the tight schedules with our sizable capacity and flexible manpower deployment ability.



股息

全年派息總額達每股9.0港仙(2002年：每股8.8港仙)，股息收益率相當於本公司股份於本年度的平均收市價每股1.66港元的約5.4%。全年派息總額包括中期股息每股3.0港仙，以及董事會建議派發之末期股息每股6.0港仙。末期股息待即將於二零零四年五月二十日舉行之股東週年大會通過後，於二零零四年五月三十一日或之前派發。

業務回顧

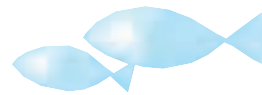
儘管二零零三年市場氣氛疲弱，但無礙集團增長。我們維持原有策略，專注發展毛絨玩具業務。此核心業務與去年比較，持續錄得4.1%的增長，佔集團總營業額95.0%。集團的金屬及塑膠玩具業務仍然維持較低的比例，於回顧年間佔集團總營業額5.0%。

雖然非典型肺炎在中港兩地爆發，有礙海外客戶參觀集團的陳列室及廠房，但我們善用位於美國的海外陳列室，於採購旺季時，仍能在接近客戶的地點，展示我們的產品設計。縱使部分船期因疫情而延遲，但在龐大的產能及靈活的人手調配下，我們仍能在緊迫的限期內趕及將大部份產品付運。



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Product Analysis:

The growth of our ODM business resulted from our excellent relationships with leading chain stores in North America. During the year, the ODM business accounted for 15.3% of the Group's total turnover as compared to 12.5% last year. This shows that our Caltoy products received positive responses from retailing giants Walmart, Costco and Target. At the same time, the appeal and design of our products, also brought in growing orders from customer such as Walgreen.

Our top quality products, competitive price and on-time delivery allowed us to maintain our position as the preferred partner of world leading brands, including Disney, SEGA Corporation and Banpresto Co., Ltd. These OEM customers contributed 84.7% to the Group's total turnover. Our strategic alliances with these world-leading customers and distributors will not only help us to sustain stable orders and guarantee profits but also to secure new characters and designs in the figure.

Market Analysis:

North America remained our major market during the year ended 31 December 2003, accounting for 42.9% of the Group's total turnover. The newly set up Caltoy Division led by our newly appointed President of the Division, Mr. Dewey Gaines, an ex-Disney executive, went through period of review with regard to its operations, organizational structure and customer base since it was established towards the end of the year. During this time, we had been proactive in seeking opportunities for the acquisition of other potential US marketing companies, to increase our US marketing presence. These activities will provide strong back up for the Group in achieving further growth in the US market.

Japan is the Group's second largest market, accounting for 39.9% of the Group's total turnover during the year. We mainly sell OEM products, which provide a higher profit margin, in Japan.

產品分析：

集團 ODM 業務的增長歸功於我們與北美洲主要連鎖店之間合作無間。在回顧年內，ODM 業務由去年佔集團總營業額的 12.5% 增至 15.3%。此情況顯示具規模的零售商 Walmart、Costco 和 Target 對集團的 Caltoy 產品反應積極。與此同時，我們精美的產品設計亦為我們贏得 Walgreen 等客戶更多訂單。

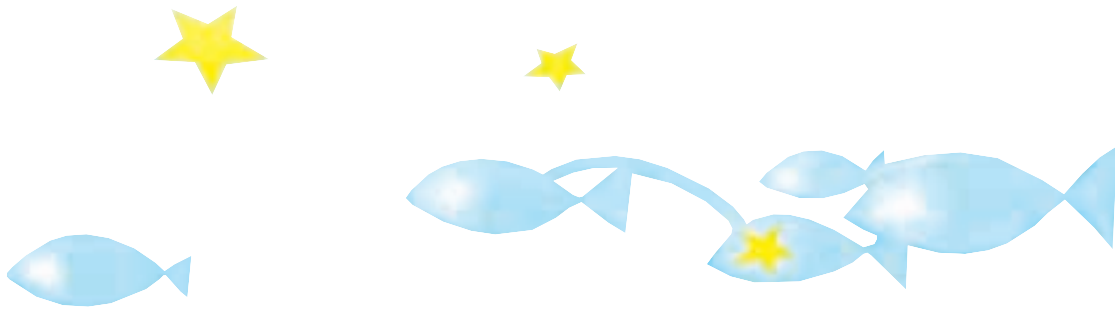
不少世界知名的品牌如迪士尼、世嘉和 Banpresto Co., Ltd. 等，均因為集團高質素的產品、具競爭力的價格及準時付運，視我們為最佳的合作夥伴。這些 OEM 客戶佔集團總營業額 84.7%。與享譽全球的客戶及分銷商建立策略性聯盟，不僅為我們帶來持續穩定的訂單和保證的利潤，亦有助我們將來取得更多新角色造型和設計的訂單。

市場分析：

截至二零零三年十二月三十一日止年度，北美洲仍是我們的主要市場，佔集團營業總額達 42.9%。新成立的 Caltoy 部門由新委任的部門總裁—前迪士尼行政人員 Dewey Gaines 先生管理。在 Gaines 先生履新之後，已深入探討其部門運作、組織架構和客戶基礎各方面的發展。與此同時，我們亦積極尋找機會，收購具潛力的美國市場推廣公司，以增強我們美國的市場佔有率。以上種種將為集團提供強大後盾，進一步在美國市場蓬勃發展。

日本為集團第二大的市場，在回顧年度佔集團總營業額 39.9%。在日本，我們主要銷售溢利較高的 OEM 產品。





Operational Analysis:

For the year ended 31 December 2003, our production utilization rate was maintained at a level of over 95%. Our eight plants, strategically located in two different areas within the PRC, benefited from comparatively lower labour costs and economies of scale. The cost of raw materials was kept minimum with our strong bargaining power as one of the biggest buyer in the raw materials supplier market. By utilizing outside subcontractors, we are in better position in optimising our manufacturing planning during the year. We also continued to maintain stringent quality and safety controls with our internal quality control teams and by employing outside testing laboratories.

In view of increasing customer demand for our products, a manufacturing plant in Huangtian, Shenzhen, the PRC was relocated to a newly contracted factory adjacent to our existing plant in Fuyong, Shenzhen, the PRC. This newly located plant commenced operations earlier this year. The new facility significantly increased production capacity by 13% with total production growing from 67 million pieces to 76 million pieces per year. This further strengthened our position as the largest plush stuffed toy manufacturer in the industry.

An additional milestone achieved during the year was the acquisition of Dream INKO Co., Ltd (“Dream INKO”). The Company’s subsidiary, J.Y. International Company Limited acquired the entire issued share capital of Dream INKO for a cash consideration of US\$17 million (representing approximately HK\$132.6 million), which was satisfied by the Group’s internal cash resources. Prior to the acquisition, many shareholders disclosed their concerns on the Company’s heavy reliance and connected transaction issues with our parent company, C & H Co., Ltd. However, with recent change in corporation structure, not only have these concerns been eliminated, but the transparency and operational efficiency of the Group have improved as well. Building on this improvement together with our product design, development capacity and low cost manufacturing bases in the PRC, we will be able to enlarge our market share around the world.

營運分析：

截至二零零三年十二月三十一日止年度，我們的生產設備使用率維持在超過95%水平。集團八間廠房策略性地分佈在國內兩個不同地區，坐享較相宜的勞工成本及規模效益。由於我們乃原料供應市場中的最大買家之一，所以我們擁有強大的議價能力，能夠將原料成本減至最低。與此同時，我們採用外判生產商，讓我們能於年內作出最優化的生產規劃。集團內部的品質監管隊伍與外聘的測試實驗室，亦繼續維持嚴謹的品質控制及安全標準。

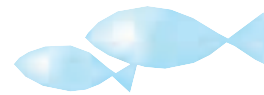
鑒於客戶對我們的產品需求日增，我們把黃田廠重置於福永鎮現有廠房毗鄰，並在今年初投產。新廠房大大提高產能達13%，總產量由每年67,000,000件增至76,000,000件，進一步加強我們作為最大毛絨玩具生產商的領導地位。

收購Dream INKO Co., Ltd (“Dream INKO”) 乃集團在回顧年內另一個重要的里程碑。集團的附屬公司—J.Y. International Company Limited利用內部資源，以17,000,000美元現金(約132,600,000港元)收購 Dream INKO 的全部股權。在收購之前，不少股東為集團對母公司 C & H Co., Ltd. 的依賴與關連交易問題表示憂慮。這項企業結構重組不僅能消除此等顧慮，更能改善集團的透明度及營運效率。再加上我們精美的產品設計、強大的開發能力，以及在國內低成本的生产基地，我們將繼續擴大在世界市場上的佔有率。



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PROSPECTS

Looking to the future, we will continue to focus on the expansion of our ODM business, Caltoy. The management believes that the new Caltoy division will provide an invaluable springboard to the Group's new wave of development. As the Caltoy division is located in the US, one of the Group's major markets, we gain not only first hand information of market trends, but also immediate and direct feedback together with a better understanding of the needs of customers. We are also able to take a more proactive approach in testing our products in conjunction with our American customers. At the same time, capitalizing on the depth of the management's experience and widespread understanding of the needs of mass retail market, this new division will enhance the Group's customer-focused philosophy in the design of products which are tailored to cater for the different market segments.

Currently, we are assisting a marketing company to develop and revive a long-standing character that was famous many years ago in the US. If this character proves to be successful, it will be an additional OEM product line to our business.

Our long-term relationships with licensing customers have enabled us to consolidate our already extensive presence in the market. With our solid relationship with OEM customers around the world, we will maintain our OEM business with a modest growth. Additionally, we will keep our eyes on any potential character license properties that may become available in the market.

In addition to our new facility in Fuyong, Shenzhen, the PRC, we are looking into setting up a new facility in Vietnam. The purpose of this new development is to take advantage of the skilled labour of Vietnam with lower costs, which is about 40% less than the PRC. Additionally, it will reduce the risk of having all our production facilities in one single country. Finally, Vietnam provides a business environment, which does not have any quota restrictions on exports to the US. We are now exploring potential factory sites in Vietnam and will commence manufacturing on a limited trial basis.

展望

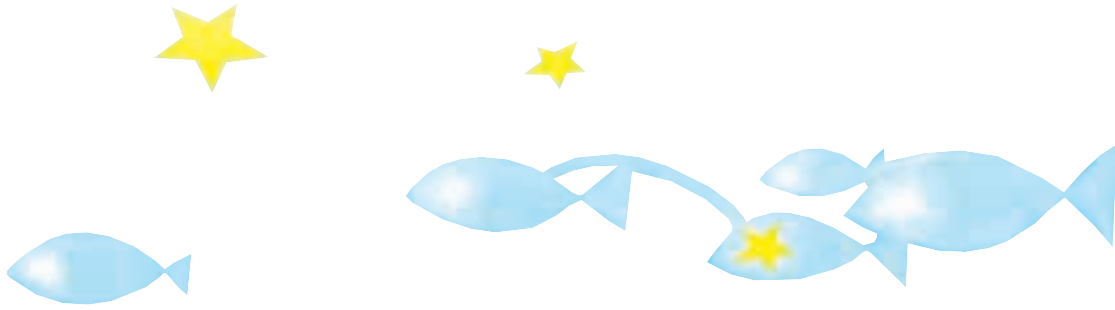
展望未來，集團將致力拓展ODM的Caltoy業務。管理層相信，新成立的Caltoy部門將為集團的發展提供澎湃動力。Caltoy部門設於集團的主要市場—美國，這不僅能讓我們接收第一手市場資訊，而且能迅速而直接獲得市場反應，更加了解客戶需要。我們亦將以更加進取的態度，與美國客戶測試我們的產品。與此同時，憑藉管理層的豐富經驗和對大眾零售市場的了解，這個新部門將加強集團設計產品時以客為本的哲學：以度身訂造的方法，照顧不同市場層面的客戶需要。

現時，我們正協助一家市場推廣公司開發及改造一個深入民心的角色造型。這角色造型多年前在美國十分流行。若成績理想，我們的OEM業務將會因此而額外增添一條新的生產線。

憑藉與特許經營客戶的長期合作關係，我們已在市場上奠定穩固的市場地位。與全球OEM客戶的緊密合作，將促使我們的OEM業務維持穩健的增長。同時，我們會密切留意在市場上推出的特許造型經營權的商機。

除福永鎮新廠房，我們正研究在越南興建新廠房的可行性。這項新發展是為了坐享越南熟練勞工較相宜工資的優勢，因為當地工資與中國相比，可低約四成。此外，集團亦能減低集中生產設施於單一國家的風險。最重要的是，越南出口美國的貨品並不受配額限制，營造了有利的營商環境。我們現正在越南物色廠址，並將以試產方式投入生產。





LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources position remained strong. The Group's cash and bank deposits as at 31 December 2003 amounted to HK\$267.3 million (2002: HK\$320.1 million). As at 31 December 2003, the company had placed deposits under dual currency option deposit contracts with certain banks in the total amount of US\$4,549,000 (equivalent to HK\$35,316,000) (2002: US\$5,697,000 (equivalent to HK\$44,435,000), JPY300,000,000 (equivalent to HK\$19,710,000) and EUR1,242,000 (equivalent to HK\$10,174,000)) with banks.

A long-term Japanese Yen loan of HK\$36.5 million (2002: HK\$33.1 million), which will mature in September 2004, was secured by bank deposits of HK\$62.1 million (2002: HK\$78.0 million) to the extent of 141% (2002: 141%) of the loan balance outstanding at 31 December 2003. As at 31 December 2003, the Group's unsecured current bank loans and overdrafts amounted to HK\$7.8 million (2002: HK\$8.0 million), repayable within one year.

Application of proceeds from capital raising

The group raised approximately HK\$175 million, net of related expenses, from the new issue and placing 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 on 7 February 2002. The directors have been carefully looking for suitable opportunities and timing to apply the net proceeds in line with the proposed application as set out in the company's prospectus dated 29 January 2002 and have no intention so far as to change the ways of its usages.

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

流動資金及財務資源

本集團之流動資金及財務資源狀況維持強勁。本集團於二零零三年十二月三十一日之現金及銀行存款為 267,300,000 港元（二零零二年：320,100,000 港元）。於二零零三年十二月三十一日，本公司以雙重貨幣期權存款合約形式於若干銀行作出存款，總金額達 4,549,000 美元（相當於 35,316,000 港元）（二零零二年：5,697,000 美元（相當於 44,435,000 港元）、300,000,000 日圓（相當於 19,710,000 港元）及 1,242,000 歐羅（相當於 10,174,000 港元）。

一項將於二零零四年九月到期的長期日圓貸款 36,500,000 港元（二零零二年：33,100,000 港元）乃以銀行存款 62,100,000 港元（二零零二年：78,000,000 港元）作抵押，以二零零三年十二月三十一日之未償還貸款餘額之 141%（二零零二年：141%）為限。於二零零三年十二月三十一日，本集團的無抵押即期銀行貸款及透支為 7,800,000 港元（二零零二年：8,000,000 港元），須於一年內償還。

應用籌集資本所得款項

於扣除相關開支後，本集團藉於二零零二年二月按每股 1.2 港元之價格新發行及配售 162,500,000 股本公司新股份而籌得約 175,000,000 港元。本公司股份於二零零二年二月七日成功於香港聯交所上市。董事一直審慎尋求合適機會及時間，以遵照本公司於二零零二年一月二十九日刊發之招股章程所載之建議用途應用該筆所得款項淨額，而目前無意更改該筆款項之用途。

餘下之新發行及配售所得款項淨額目前以短期存款之方式存入香港之金融機構及／或持牌銀行。



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TREASURY POLICIES AND GEARING

The Group has consistently adhered to the prudent treasury policy. Most of the Group's liquid fund is placed in principal guaranteed short-term structured deposits among various banks. The Group also made use of financial tools of structured deposits and structured foreign currency loan to reduce the Japanese Yen accounts receivable exposure and to enhance return from the surplus cash of the Group within the controllable and acceptable risk level.

As at 31 December 2003, the Group's gearing ratio was 7.4% (2002: 7.8%), calculated on the basis of the Group's borrowings over shareholders' funds.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2003, the Group employed approximately 25, 11,471, 189 and 13 employees in Hong Kong, mainland China, South Korea and USA respectively. We value our employees and recognize the importance of attracting and retaining quality staff for the Group's continuing success. The Group continued to recruit graduates from well-known universities in the PRC and these new recruits have since proven their capabilities in their respective work areas. This success has motivated the Group to embrace the concept of recruiting additional skillful staff with comparatively lower costs from within the PRC. The Group is considering to set up a production site in Vietnam so as to make use of the local skillful low cost workforce thereof. This will reduce the Group's overall manufacturing costs and enhancing the Group competitiveness in the future.

The Company has established a share option scheme on 22 January 2002 whereby employees of the Group, including Directors of the Group, may be granted options to acquire shares in the Company. Details of options granted during the year are stated in the section in Share option scheme in the Report of Directors.

庫務政策及負債資本比率

本集團一向貫徹奉行審慎的庫務政策。本集團的流動資金大部份均作為保本短期雙重貨幣存款而存放於多間銀行。本集團亦利用多種貨幣組合式存款及組合式外幣貸款等金融工具，藉此減低日圓應收賬款之外匯風險，並於可控制及可接受之風險水平下提高本集團現金盈餘之回報。

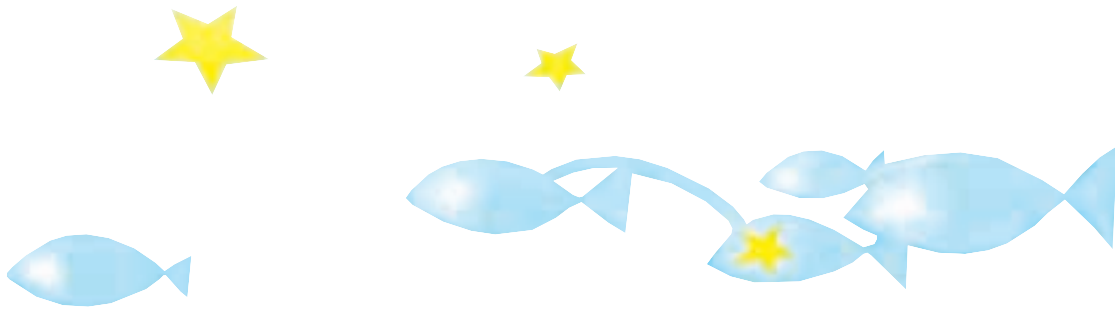
於二零零三年十二月三十一日，本集團的負債資本比率（按本集團之借貸除以股東資金計算）為7.4%（二零零二年：7.8%）。

僱員數目及酬金

於二零零三年十二月三十一日，本集團於香港、中國大陸、南韓及美國分別僱用25名、11,471名、189名及13名僱員。本集團重視員工，深諳吸引及挽留優質員工對本集團持續取得成功的重要性。本集團繼續從中國的知名大學招攬畢業生，而該等新聘員工亦已於相關工作範疇展示其實力。此項成功推動本集團採納於中國以相應較低的成本額外招聘熟手員工的概念。本集團正考慮於越南設立吾等的生產基地，以利用當地價格低廉而技巧純熟之勞動力，從而減低本集團之整體生產成本，並加強本集團於未來日子之競爭力。

本集團已於二零零二年一月二十二日設立購股權計劃，據此，本集團僱員（包括本集團董事）可獲授購股權以認購本公司股份。年內授出購股權之詳情載於董事會報告中購股權計劃一節。





Appreciation

Finally, I would like to take this opportunity to express my appreciation to the management and the staff of the Group for their wholehearted commitment and dedicated performances which have been so crucial to the successful development of the Group. I also wish to extend my sincere thanks to our business associates, customers, suppliers and shareholders for their continuous cooperation and support.

Chul Hong Min

President and Chief Executive Officer

Hong Kong, 7 April 2004

致意

最後，本人謹藉此機會對各管理層及本集團全體員工全心全意的承諾及忠誠服務深表謝意，這乃本集團發展成功的主要關鍵。此外，亦謹此感謝我們之業務夥伴、客戶、供應商及股東們一直以來的合作和支持。

閔詰泓先生

總裁及行政總監

香港，二零零四年四月七日