

Management Discussion and Analysis

管理層討論及分析

FINANCIAL REVIEW

F During the year under review, the Group recorded a turnover of HK\$1,158,107,000, representing a 24.3% increase compared with HK\$931,847,000 for the previous year. Profit attributable to shareholders amounted to HK\$52,927,000, a drop of 56.2% against last year's profits HK\$120,952,000. Despite the challenges encountered in the review year, the Group still enjoyed significant business growth. The decrease in profit attributable to shareholders was mainly due to the rise in raw material costs, lower utilization rate of production facilities induced by labour shortage and an one-off provision for bad debts and related inventory as a result of one of our US customers undergoing bankruptcy proceedings. Adopting effective business strategies and prudent cost control policies, the Group managed to minimize the impact of these issues on its business in 2004. We believe that through our persistent effort, we will be able to address these challenges and see our results return to previous levels.

財務回顧

於回顧年內，集團錄得營業額1,158,107,000港元，與去年931,847,000港元比較，增加24.3%。股東應佔溢利較去年的溢利120,952,000港元下降56.2%至52,927,000港元。儘管在回顧年間面對種種挑戰，集團業務仍然大幅增長。股東應佔溢利下降，主要由於原材料成本上漲、勞工短缺導致廠房使用率減低，以及為一名正在申請破產的美國客戶作出一次性壞賬及相關存貨撥備所致。集團透過有效的業務策略及審慎的成本控制政策，已將上述問題對二零零四年業務的影響減至最低。我們相信只要不斷努力，定能克服上述各項挑戰，令來年的業績回升至過往水平。



Dream
International Limited

BUSINESS REVIEW

For the year ended 31 December 2004, the plush stuffed toy industry remained challenging and competitive. Nonetheless, the Group's strategies of enhancing production capacities, maintaining close relationship with customers and diversifying income streams facilitated its steady growth.



Product Analysis:

The Group's core business, plush stuffed toys, recorded HK\$1,114,298,000 in sales, representing 96.2% of the total turnover of the Group. Thanks to the Group's quality products and its excellent relationship with international leading brands, such as Disney, SEGA Corporation, and Banpresto Co., Ltd, its Original Equipment Manufacturing ("OEM") business achieved steady growth and provided it with a stable income stream. This segment's profit margin was maintained at the satisfactory level of 28.2%.

The Group's Original Design Manufacturing ("ODM") business accounted for 14.2% of its total turnover, increasing to HK\$164,082,000. Benefiting from the recovery of the US economy, the ODM business grew 14.9% with renowned retailing giants, including Walmart, Costco, Target and Walgreen, as major contributors. Seeing abundant room for expansion in the ODM market and riding on the strengths of its R&D and marketing teams, the Group endeavors to develop its "CALTOY" products so as to capture a larger share of the market.

Another business of the Group, the steel and plastic toy business, accounted for 3.8% (2003: 5.0%) of its total turnover. To enhance the contribution of this sector, during the year under review, the Group's wholly owned subsidiary,



業務回顧

截至二零零四年十二月三十一日止年度，毛絨玩具業仍然充滿挑戰及競爭。儘管如此，集團致力提升產能、與客戶保持緊密關係及開拓收入來源的政策，推動集團穩步增長。

產品分析：

集團的核心業務—毛絨玩具業務，銷售額為1,114,298,000港元，佔本集團總營業額96.2%。有賴集團的優質產品，以及與國際主要品牌如迪士尼、世嘉、Banpresto Co., Ltd建立的良好關係，集團的原設備製造（「OEM」）業務得以穩定增長，並為集團提供穩定的收入來源。該業務的盈利率維持在28.2%的理想水平。

集團的原設計製造（「ODM」）業務佔總營業額14.2%，年內銷售額增至164,082,000港元。受惠於美國經濟復甦，在主要客戶包括沃爾瑪、Costco、Target、Walgreen等零售業巨頭帶動下，ODM業務取得14.9%的增長。有見於ODM市場仍有大量的發展空間，為爭取更大的市場佔有率，集團將善用其強大的研發隊伍及營銷隊伍，全力發展「CALTOY」品牌的產品。

集團的另一項業務—金屬及塑膠玩具業務，佔總營業額3.8%（二零零三年：5.0%）。為增加該業務對集團的貢獻，於回顧年內，集團的全資附屬公司香港正潤玩具有限公司

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J.Y. Toys Co., Ltd. ("JY Toys") has planned to build a new plant in Jiangsu province, which will specialize in producing toy parts, toys, stationeries, children's ride-on toys, bicycles and infant products. The Group is planning to invest US\$5 million in the new plant.

Market Analysis:

The US was still the largest market accounting for 44.4% of the Group's total turnover in 2004. During the year under review, apart from realigning the operation of its New York office, the Caltoy Division focused on improving customer services and existing buyer relationships. It also continued to assess the US mass market heeding the potential consolidation of the retail segments there. These activities are expected to help springboard new ODM products into the US market in future.



During the year under review, Japan, which accounted for 38.7% of the Group's total turnover, was the Group's second largest market. Turnover in Japan was mainly attributable to the strong demand for OEM products and continuous support from international leading brands. Understanding that non-character toys are popular in the Japanese market, the Group will grasp every opportunity to launch ODM products of various designs under the "CALTOY" brand to that market.

Operational Analysis:

Following its acquisition in September 2003, the year ended 31 December 2004 is the first full-year that the contribution of Dream INKO Co., Ltd. ("Dream INKO") was consolidated to the Group's annual results. In addition to improving operational efficiency, the Group will put greater emphasis on R & D and marketing, which will help to cement the foundation for developing innovative ODM products for the market.

(「正潤玩具」)計劃於江蘇省興建新廠房，專門生產玩具部件、玩具、文儀用具、兒童坐騎玩具、腳踏車及嬰兒用品。本集團預計投資5,000,000美元於新廠房中。

市場分析：

於二零零四年，美國仍然是集團最大的市場，佔集團總營業額44.4%。在回顧年內，Caltoy部門除了重組紐約辦事處的營運外，亦一直專注於改善客戶服務及與現有買家的關係。集團亦繼續對美國的大眾市場進行評估，留意當地零售業可能出現市場整固的情況。上述活動預期有助日後ODM的新產品進軍美國市場。

在回顧年內，日本市場佔集團總營業額38.7%，為集團的第二大市場。日本營業額的增長主要由於對OEM產品的需求強勁，並得到國際知名品牌繼續支持。集團得悉非特許角色造型玩具深受日本市場歡迎，故將把握每個機會，以「CALTOY」品牌在日本推出各種不同設計的ODM產品。

營運分析：

自二零零三年九月收購Dream INKO Co., Ltd. (「Dream INKO」)後，截至二零零四年十二月三十一日止年度為首個年度將Dream INKO的全年貢獻綜合計入集團的全年業績。除了提高營運效率以外，集團亦專注在研發及市場推廣方面，為市場提供創新的ODM產品。



For the year ended 31 December 2004, the rise in raw material costs and labour shortage issues were the Group's main concerns. However, as the largest plush stuffed toy manufacturer in the world, the Group enjoyed lower raw material costs than its competitors. In addition, the Group stocked up on raw materials and secured longer-term fixed-price contracts from suppliers to minimize the impact of the price increases on its operations. These strategies have proved effective in the year under review.



截至二零零四年十二月三十一日止年度，原材料成本上漲及勞工短缺為集團首要關注的問題。然而，作為全球最大的毛絨玩具生產商，集團的原材料成本已較競爭對手為低。此外，集團亦有儲存原材料，並與供應商訂立較長年期的定價合約，盡量減低原料價格上升對業務造成的影響。此等策略於回顧年度已被證實相當奏效。

During the year, labour shortages were serious in the coastal cities in the PRC, especially in Shanghai. The Group implemented a series of policies to lessen the impact of these difficulties, such as improving the working and living environment of workers, recruiting workers from western China and diversifying production facilities. The Group also reallocated resources and redeployed manpower among the nine plants in the PRC to maintain normal operations. In the second half of 2004, the impact of labour shortages on the Group began to ease and the utilization rate of the Shanghai plant rebounded to over 80%.

年內，中國沿岸城市的勞工短缺問題頗為嚴重，其中以上海尤甚。集團實施了一系列政策，例如改善員工的工作和生活環境、於中國西部招聘員工，以及增加生產設施，以減低此困難對集團業務的衝擊。集團亦從新調配國內九間廠房的資源及人手，以維持正常運作。在二零零四年下半年，勞工短缺對集團的影響開始緩和，而上海廠房的使用率亦回升至超過80%。

In January 2004, the relocated plant in Fuyong commenced full operations, boosting the Group's total production by 9,000,000 pieces per year. This plant played a crucial role in helping to release the labour shortage pressure on the Group by absorbing extra orders from the Shanghai plant. A new plant equipped with 400 sewing machines was also set up in Shuyang, a northern city in Jiangsu province of PRC, to focus

於二零零四年一月，於福永鎮重置的廠房全面投產，將集團的總年產量提升9,000,000件。該廠房處理來自上海廠房的額外訂單，為集團舒緩勞工短缺帶來的壓力擔當重要角色。集團亦於中國江蘇省北部的沭陽市興建一所新廠房，設有400部縫紉機，主要從事縫紉工序，以應付勞工短缺的問題。於沭陽的廠房預計可於二零零五年第二季度開始投產。

mainly on the sewing process to cope with the labour shortage problem. The plant in Shuyang is expected to operate in the second quarter of 2005.



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The trial run in Vietnam finished successfully during the year and the plant started to receive regular orders in the fourth quarter of 2004. Equipped with 330 sewing machines, the Vietnam plant will take over the production of accessories, such as backpacks, slippers and costumes for children that have previously been produced by subcontracted manufacturers. The Vietnamese plant not only provides the Group with skilled workers at a lower labour cost, but also helps the Group to reduce the risk of concentrating all production facilities in one country.



While achieving economies of scale in production, the Group also see benefits in utilizing outside subcontractors to optimise its manufacturing capacity, hence sparing resources for product design and R&D. With a quality control team containing more than 600 staff, in which 150 are responsible for supervising the manufacturing procedure of subcontractors, the quality and safety standard of products can be guaranteed. During the course of the year, in excess of 20% of the Group's production was subcontracted. The majority of subcontractation related to ODM products.

PROSPECTS

Looking forward, the recovery of the global economy is expected to translate into promising developments for the Group in the coming years. However, as the labour shortage problem and high raw material costs still persist, the Group will keep a close eye on its internal operations in the coming six months to ensure that they run smoothly and cost effectively. The Group targets to raise the average utilization rate of production facilities to over 90%.

In the near future, the Group is committed to expanding its market share. Though the Group is the largest manufacturer of plush stuffed toys in the world, it only accounts for a small portion of the fragmented industry. Consequently there is still much room for the Group's expansion in the market. We believe that after the market completes consolidation in

年內，於越南進行的試產成功完成，該廠房亦於二零零四年第四季正式投產。越南廠房設有330部縫紉機，將接手過往由外判生產商生產的配件，如背包、拖鞋及兒童的節日服飾等。越南廠房不僅為集團提供成本相宜的熟手技工，亦有助減低集團將所有生產設施集中於一個國家的風險。

集團除坐享規模效益外，亦利用外判生產商優化集團的生產規劃，騰出資源作產品設計及研發用途。為確保產品的質素及安全標準，集團設有一支由超過600名員工組成的品質控制隊伍，當中有150人負責監督外判生產商的生產程序。於本年度，集團將超過20%的產品外判生產。大部分外判生產的產品與ODM產品有關。

展望

展望未來，全球經濟復甦預期有利集團未來數年的發展。然而，由於勞工短缺問題和原料價格高企情況持續，集團將於往後六個月密切留意內部營運，力求運作暢行無阻，並符合成本效益。集團的目標在於把生產設備的平均使用率提升至逾90%。

短期而言，集團將致力擴大市場佔有率。儘管集團是全球最大的毛絨玩具生產商，但業界百家爭鳴，集團僅佔業內的一小部分。因此，集團在市場上仍有擴展空間。集團相信，待市場於兩、三年內完成整固後，將發

two to three years, the Group will grow to an even more influential scale with stronger bargaining power.

The construction work of the tricycle plant in Jiangsu province is scheduled to be completed and the plant is expected to commence operation by the third quarter of 2005. This plant is expected to attain annual production of worth up to US\$20 million by the end of 2008. Leveraging the Group's established experience and market know-how in the steel and plastic toy business, we expect the contribution of this sector to grow in the coming years and help to diversify its revenue source.

We are also establishing another larger scale plant in Vietnam. As scheduled, the related construction work will be completed in the third quarter of 2005 and the plant will start operation in the fourth quarter. It will be equipped with 2,000 sewing machines and be able to handle sales up to US\$20 million. With this new plant swinging into operation, the Group will be able to meet growing market demands and further reduce the risk of concentrating production facilities in China. Moreover, the Group will be able to hire skilled workers at lower labour costs to produce products for export to the US whilst reducing the risk of any tariffs imposed on Chinese exports. We look forward to the plant contributing a significant portion to our turnover and business growth.

Building on our established reputation and scalable operations, the Group is committed to further expanding both its OEM and ODM businesses. Whilst Japan and the US are its major markets, the Group will seize opportunities to expand in other markets, such as other parts of Asia including Korea and China, particularly for its ODM products. We will also work more closely

展至更具影響力的規模，並擁有更為強大的議價能力。

江蘇省三輪車廠房的建築工程快將完成，並預定於二零零五年第三季開始投產。預計至二零零八年底，廠房年產值可達20,000,000美元。憑藉集團於金屬及塑膠玩具業務的多年經驗和市場知識，集團預期此業務的貢獻於以後數年將有所增長，進一步擴闊集團的收益來源。

集團亦正在越南興建另一座規模更大的廠房，預計相關建築工程將於二零零五年第三季完成，於第四季度投產。廠房將設有2,000部縫紉機，能應付高達20,000,000美元的銷售額。新廠房投產以後，集團將能滿足不斷上升的市場需求，並可進一步減低集中生產設施於國內的風險。此外，集團能以較相宜的勞工成本聘請熟手技工，並降低任何附加於中國出口品的關稅所帶來的風險。集團期望該廠房將為其營業額及業務增長帶來重大的貢獻。

Goal! Goal! Goal!

憑藉集團的良好聲譽以及極具規模的業務，集團致力進一步擴展其OEM及ODM業務。集團仍以日本及美國為主要市場，並將把握機會將業務一尤其是ODM產品一擴展至其他市場，例如亞洲的其他地區，包括韓國及中國。集團在尋找新的商機之餘，亦將與



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with our existing customers while seeking new business opportunities. We believe these plans will facilitate the growth of the Group and bring in fruitful returns to shareholders.

At the same time, the Group has started its review on the diversification of its business with more emphasis on upper stream products with equipment manufacturing concepts. Even though the Group has been successful in increasing market share in the plush toy manufacturing sector under tough market conditions and still pursues further growth in the industry, worse than expected market environment and conditions is forcing management to review additional business areas in order to maintain the growth of the company and achieve higher returns for shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

The Group's liquidity and financial resources position remained strong. The Group's current and non-current cash and bank deposits as at 31 December 2004 amounted to HK\$234.7 million (2003: HK\$267.3 million). As at 31 December 2004, the Company had placed deposits under dual currency option deposit contracts with banks in total amount of US\$1,346,000 (equivalent to HK\$10,461,000) and JPY 100,100,000 (equivalent to HK\$7,580,000) (2003: US\$4,549,000 (equivalent to HK\$35,316,000)).

In view of the strengthening of Japanese Yen during the year under review, the Company has repaid the JPY503,100,000 loan and entered into a HK\$38,000,000 three year term loan on a HIBOR plus basis, so as to reduce its exchange exposure. This added up the total bank loans of the Group as at 31 December 2004 to HK\$53,616,000 (2003: HK\$44,333,000). As a result, the Group's current and non-current net cash and bank position as at 31 December 2004 was maintained at a reasonably strong level of HK\$181,084,000 (2003: HK\$222,967,000).

The Group has consistently adhered to its prudent treasury policy. Most of the Group's liquid funds are placed in

現有客戶保持緊密合作。集團相信，此等計劃不僅有助集團增長，更可為股東帶來豐碩的回報。

與此同時，集團已開始就業務多元化進行檢討，在設備生產概念下，將重點投放於上游產品。儘管集團於嚴峻的市場環境下仍能成功擴大於毛絨玩具市場的佔有率，於業內繼續成長；惟因市場環境及情況遜於預期，故管理層評估其他業務範疇，以維持增長及為股東帶來更高的回報為準則。

流動資金、財務資源及負債資本

本集團之流動資金及財務資源狀況維持強勁。本集團於二零零四年十二月三十一日之流動及非流動現金及銀行存款為234,700,000港元（二零零三年：267,300,000港元）。於二零零四年十二月三十一日，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1,346,000美元（相當於10,461,000港元）及100,100,000日圓（相當於7,580,000港元）（二零零三年：4,549,000美元（相當於35,316,000港元））。

鑒於回顧年內日圓強勁，為降低外匯風險，本公司已償還503,100,000日圓貸款，而另借38,000,000港元的三年期貸款，該貸款是按香港銀行同業拆息加基差的息率計息。此舉使本集團於二零零四年十二月三十一日的總銀行借貸上升至53,616,000港元（二零零三年：44,333,000港元）。因此，本集團於二零零四年十二月三十一日的流動及非流動現金淨額及銀行存款維持於181,084,000港元（二零零三年：222,967,000港元）的強勁水平。

本集團一向貫徹奉行審慎的庫務政策。本集團流動資金大部分均作為保本短期雙種貨幣

principal guaranteed short-term dual currency deposits with various banks. The Group also made use of the financial tools of a long-term structured deposit, foreign currency options and a foreign currency loan to reduce the Japanese Yen accounts receivable exposure and to enhance return from the liquid assets of the Group. The Japanese Yen loan was repaid during the year.

A long-term structured deposit contract was early terminated by the Group subsequent to 31 December 2004 due to expected unfavourable future movements in interest rates. A loss on revaluation of the deposit contract of HK\$8 million has been reflected in the consolidated income statement for the year ended 31 December 2004. However, the loss on revaluation was partly offset by the accumulated interest income of HK\$7,490,000 from October 2003, the date of the deposit contract, up to 31 December 2004.

The Group's gearing ratio, calculated on the basis of total bank borrowings over the total shareholders' equity, was increased from 7.4% to 8.9%. In year 2004, the Group has spent approximately US\$1.6 million on setting up Vietnamese operations including land purchase for the new plant, US\$1 million on additional equipment to cope with the increase in the required manufacturing capacity and US\$1 million on a new plant in Shuyang; in addition to the normal US\$1.4 million capital expenditure for the year. The Group is planning to spend another US\$12 million on setting up a major scale plant in Vietnam, tricycle plant in Jiangsu, an additional polyester fabric manufacturing line and the expansion of existing Shuyang plant. The major portion of the spending will be financed from the Group's internal cash and the gearing ratio is also expected to increase slightly as a result.

存款存放於多間銀行。本集團亦會利用長期組合式存款、外幣期權及外幣貸款等金融工具，藉此減低日圓應收賬款的外匯風險，並提高流動資產的回報。日圓貸款已於年內償還。

鑒於預期未來息率將出現不利變動，本集團已於二零零四年十二月三十一日後提早終止長期組合式存款合約。存款合約重估虧損8,000,000港元已反映於截至二零零四年十二月三十一日止年度的綜合損益表中。然而，部分重估虧損已被二零零三年十月（存款合約日期）至二零零四年十二月三十一日止期間的累計利息收入7,490,000港元對銷。

本集團的負債資本比率（按本集團的總銀行借貸除以總股東資金計算）由7.4%增至8.9%。於二零零四年，本集團動用約1,600,000美元設立越南業務（包括購置新廠房）；動用1,000,000美元添置設備，以應付生產力上升之需求；動用1,000,000美元於沱陽設立新廠房；以及1,400,000美元作為年度的一般資本開支。本集團計劃動用12,000,000美元，分別用作於越南設立大型廠房、於江蘇設立三輪腳踏車廠房、增設聚酯纖維布生產線，以及擴充現有的沐陽廠房。上述款項的大部分將由本集團的內部現金撥付，因此負債資本比率預期亦將會輕微上升。



Hello!