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DREAM INTERNATIONAL LIMITED

德林國際有限公司

(Incorporation in Hong Kong with limited liability)

WAIVER APPLICATION FOR ON-GOING CONNECTED TRANSACTIONS

Pursuant to an approval letter issued by the Stock Exchange on 25 January 2002, the Company has been granted the Connected Transactions Waiver until 31 December 2004 in relation to, among others, purchases made by the Group from C & H Korea Group subject to certain conditions. One of such conditions is that the Group's total purchases from C & H Korea Group will not exceed the Cap.

In the course of conducting its internal audit procedures in preparation for the audit of its financial statements for the year ended 31 December 2002, it was brought to the attention of the Directors that the Group's total purchases from C & H Korea Group for the 2002 Financial Year exceeded the Cap.

The breach of the Cap constituted a breach of the Connected Transactions Waiver conditions and the Stock Exchange has revoked the Connected Transactions Waiver and the Stock Exchange reserves its right to take further action against the Company in relation to the breach of the Connected Transactions Waiver condition.

Given the on-going nature of the Connected Transactions, the Directors consider that disclosure and approval of the Connected Transactions on a recurring basis to be impractical, unduly onerous and not of benefit to the shareholders of the Company. As such, the Extraordinary General Meeting will be held and the Independent Shareholders will consider, and if think fit, approve the application for the New Connected Transactions Waiver.

The independent non-executive Directors will advise the Independent Shareholders in respect of the application of the New Connected Transactions Waiver for the three years ending 31 December 2005. A circular containing, among others, details of the application for the New Connected Transactions Waiver, the recommendation of the independent non-executive Directors, the letter of advice from First Shanghai Capital Limited, an independent financial adviser to the independent non-executive Directors as to the fairness and reasonableness of the Connected Transactions, together with the notice of the Extraordinary General Meeting will be sent to the shareholders of the Company on or before 1 May 2003.

ON-GOING CONNECTED TRANSACTIONS

(a) Sales to C & H Korea Group

The Group, in its normal course of business, has been selling plush stuffed toys and steel and plastic toys to C & H Korea Group, who in turn sold those products to the ultimate customers of C & H Korea Group. The Group also sourced raw materials such as fabrics for C & H Korea Group.

For the three years ended 31 December 2002, the amount of sales to C & H Korea Group amounted to approximately HK\$439,405,000, HK\$407,209,000 and HK\$440,239,000, respectively, which accounted for approximately 50.3%, 49.0% and 48.4% of the total turnover of the Group for the respective periods.

Under the Connected Transactions Waiver, the cap for sales of raw material, plush stuffed toys and steel and plastic toys by the Group to C & H Korea Group is 50% of the Group's total turnover for one financial year. The Directors expect that the sales of raw material, plush stuffed toys and steel and plastic toys by the Group to C & H Korea Group for each financial year for the three years ending 31 December 2005 will amount to not more than 50% of the Group's total turnover, as such the Directors do not consider necessary to make any change to the cap.

The table below illustrate the total sales by the Group to C & H Korea Group for the three years ended 31 December 2002 and the proposed cap for the three years ending 31 December 2005:

	Year ended 31 December 2000 (approximately)	Year ended 31 December 2001 (approximately)	Year ended 31 December 2002 (approximately)	Proposed cap for 3 years ending 31 December 2005
Total sales to C & H Korea Group	HK\$439,405,000	HK\$407,209,000	HK\$440,239,000	
Turnover of the Group	HK\$874,401,000	HK\$830,893,000	HK\$910,370,000	
Total sales to C & H Korea Group as a percentage of the Group's total turnover	50.3%	49.0%	48.4%	50%

(b) Referral of sales orders to the Group for production of products

Pursuant to a commission agreement entered into between the Company and C & H Korea dated 28 January 2002, C & H Korea refers sales orders for plush stuffed toys and steel and plastic toys such as tricycles and steel truck toys to the Group for production and the Group pays C & H Korea a commission for the referral of such sales orders.

For the three years ended 31 December 2002, the amount of commission paid by the Group to C & H Korea amounted to approximately HK\$8,576,000, HK\$3,020,000 and HK\$1,822,000, respectively, representing approximately 1.0%, 0.4% and 0.2% of the total turnover of the Group in the respective periods.

Under the Connected Transactions Waiver, the cap for the commission payable by the Group to C & H Korea is 2.5% of the Group's total turnover for one financial year. The Directors expect that the total commission payable by the Group to C & H Korea Group for each financial year for the three years ending 31 December 2005 will amount to not more than 2.0% of the Group's total turnover for one financial year.

The table below illustrates the amount of commission paid by the Group to C & H Korea for the three years ended 31 December 2002 and the proposed cap for the three years ending 31 December 2005:

	Year ended 31 December 2000 (approximately)	Year ended 31 December 2001 (approximately)	Year ended 31 December 2002 (approximately)	Proposed cap for 3 years ending 31 December 2005
Commission paid by the Group to C & H Korea Group	HK\$8,576,000	HK\$3,020,000	HK\$1,822,000	
Turnover of the Group	HK\$874,401,000	HK\$830,893,000	HK\$910,370,000	
Commission paid by the Group to C & H Korea Group as a percentage of the Group's total turnover	1.0%	0.4%	0.2%	2.0%

Based on the revenue forecast of C & H Korea for 2003 to 2005, C & H Korea anticipates that commissions received by the Group will be between US\$1.35 million to US\$1.8 million (equivalent to approximately HK\$10.5 million to HK\$14 million) for 2003 to 2005. Based on the turnover of the Group for the year ended 31 December 2002 of approximately HK\$910 million, the anticipated commissions paid to C & H Korea for 2003 to 2005 would equal to approximately 1.15% to 1.53% of the Group's turnover for the year ended 31 December 2002. As such, the Directors consider that taking into account market fluctuations to the Group's business, commission paid by the Group to C & H Korea for each financial year in the three years ending 31 December 2005 will not be more than 2% of the Group's total turnover.

(c) Referral of sales orders to C & H Korea Group for production of products

The Group, in its normal course of business, refers sales orders to C & H Korea Group for the production of certain toy products and the Group charges C & H Korea Group a commission for the referral of such sales orders.

For the three years ended 31 December 2002, the amount of commission paid to the Group by C & H Korea Group amounted to approximately HK\$8,735,000, HK\$9,812,000 and HK\$4,838,000, respectively, which represent approximately 3.3%, 3.4% and 0.9% of the Group's net asset value for the relevant financial year, respectively. The Directors confirmed that the commission rate payable by C & H Korea Group to the Group is comparable to the commission rate received by the Group from independent third parties and are on terms comparable to the prevailing market rate or practice.

Under the Connected Transactions Waiver, the cap for commission received by the Group from C & H Korea Group for any one financial year is 3% of the Group's net asset value. The Directors consider that the fall in the amount of commission paid to the Group by C & H Korea Group for the year ended 31 December 2002 was an exceptional case caused by a decrease in the demand for the type of products which required production by C & H Korea Group. However as the net asset value of the Group had increased after the listing of the Company's shares on the Stock Exchange, the Directors anticipate that for the three years ending 31 December 2005, total commission paid to the Group by C & H Korea Group for each financial year will amount to approximately 2% of the Group's net asset value.

The table below illustrates the amount of commission received by the Group from C & H Korea Group for the three years ended 31 December 2002 and the proposed cap for the three years ending 31 December 2005:

	Year ended 31 December 2000 (approximately)	Year ended 31 December 2001 (approximately)	Year ended 31 December 2002 (approximately)	Proposed cap for 3 years ending 31 December 2005
Commission paid to the Group by C & H Korea Group	HK\$8,735,000	HK\$9,812,000	HK\$4,838,000	
Net asset value of the Group	HK\$261,325,000	HK\$292,662,000	HK\$521,425,000	
Commission paid by C & H Korea Group as a percentage of the Group's net asset value	3.3%	3.4%	0.9%	2.0%

(d) Purchases from C & H Korea Group

The Group sources certain raw materials and components necessary for the production of plush stuffed toys and steel and plastic toys from C & H Korea Group in its normal course of business. The Group also, in its normal course of business, sub-contracts orders to C & H Korea Group for the production of certain toy products in the event that orders for toy products received by the Group exceeds its production capacity or are unable to be handled by the Group.

For the three years ended 31 December 2002, the aggregate amount of raw materials and finished products purchased by the Group from C & H Korea Group amounted to approximately HK\$69,006,000, HK\$69,426,000 and HK\$113,363,000, respectively, which accounted for approximately 10.1%, 10.9% and 16.2% of the Group's total costs of sales, respectively and as one of the conditions to the New Connected Transactions Wavier, the Company proposed that the aggregate of the Group's total purchases from C & H Korea Group shall not exceed 10% of the Group's total costs of sales in any one financial year.

The table below illustrates the aggregate amount of raw materials and finished products purchased by the Group from C & H Korea Group for the three years ended 31 December 2002 and the proposed cap for the three years ending 31 December 2005:

	Year ended 31 December 2000 (approximately)	Year ended 31 December 2001 (approximately)	Year ended 31 December 2002 (approximately)	Proposed cap for 3 years ending 31 December 2005
Total purchases from C & H Korea Group	HK\$69,006,000	HK\$69,426,000	HK\$113,363,000	
Total costs of sales of the Group	HK\$683,744,000	HK\$638,075,000	HK\$698,074,000	
Total purchases from C & H Korea Group as a percentage of the Group's total costs of sales	10.1%	10.9%	16.2%	10%

(e) Research and development and product design services by C & H Korea

C & H Korea provides research and development and product design services to the Group for certain toy products on an as required basis. In the three years ended 31 December 2002, C & H Korea had not provided any research and development and product design services to the Group.

Under the Connected Transactions Waiver, the cap for the amount payable by the Group to C & H Korea Group for the provision of research and development and product design services for any one financial year is 3% of the Group's net asset value. The Directors expect that the total amount payable by the Group to C & H Korea Group for the provision of such services for each financial year for the three years ending 31 December 2005 will amount to not more than 3% of the Group's net asset value, as such the Directors do not consider necessary to make any change to the cap for the New Connected Transactions Waiver. Prior to the listing of the shares of the Company on the Stock Exchange, the Company was then a subsidiary of C & H Korea, C & H Korea did not charge the Group any fee for the provision of such services. In the three years ended 31 December 2002, the Group has not made any payment in relation to the provision of design and product development services by C & H Korea Group. After the listing of the shares of the Company on the Stock Exchange, the Directors considered that there is a need to properly account for the provision of design and product development services by C & H Korea Group, as such, the Company agreed to pay C & H Korea Group a fee for the provision of design and product development services after the listing of the shares of the Company on the Stock Exchange. The Directors consider that the Company may engage C & H Korea Group for the provision of design and product development services in the future, a new waiver from strict compliance with Chapter 14 of the Listing Rules would be in the interests of the shareholders of the Company as a whole.

The Directors expect that certain orders from the Group's customers will involve a high level of design and product development skills which, at the present moment, exceeds the design and product development capabilities of the Group. The Group will engage C & H Korea Group to provide these services and the basis of the cap for this type of Connected Transactions is based on the Directors' estimated number of models/products which may require the provision of design and product development services by C & H Korea Group in one financial year and the fee estimated by C & H Korea Group for the design and development of one model/product.

The financial information for the years ended 31 December 2000 and 2001 has been prepared as if the Group structure at the date of the listing of the Company's shares had been existence and remained unchanged throughout the above periods.

CONNECTED TRANSACTIONS WAIVER

After the listing of the shares of the Company on the Stock Exchange, transactions between the Group and C & H Korea Group became connected transactions by virtue of C & H Korea's shareholdings in the Company. C & H Korea is a substantial shareholder of the Company holding approximately 58.9% of the issued share capital of the Company upon the listing of the shares of the Company on the Stock Exchange. On 25 January 2002, the Stock Exchange granted the Connected Transactions Waiver in relation to the Connected Transactions subject to certain conditions for the three financial years ending 31 December 2004.

Reasons for the breach of the Cap

In the course of conducting its internal audit procedures in preparation for the audit of its financial statements for the year ended 31 December 2002, it was brought to the attention of the Directors that the Group's total purchases from C & H Korea Group for the 2002 Financial Year exceeded the Cap.

The breach of the Cap was due to some exceptionally large urgent orders placed by some customers of the Group in the latter half of the 2002 Financial Year which required certain newly developed fabrics as raw materials. Such newly developed fabrics were only available through C & H Korea Group. The Company made enquiries with approximately 14 regular suppliers of the Group in relation to the supply of these newly developed fabrics and none of those suppliers was able to supply the requisite fabric to the Group in time for production. In order to fulfil those exceptional orders, the Group had to purchase substantial amounts of those newly developed fabrics through C & H Korea Group. As a result, the total purchases by the Group from C & H Korea Group in the 2002 Financial Year exceeded the Cap.

The Directors consider that there were special circumstances relating to the breach. The Cap is based on the yearly total cost of sales, which may only be accurately computed at the end of the 2002 Financial Year. The exceptionally large orders have caused an unexpected surge in the purchases from C & H Korea Group towards the end of the 2002 Financial Year. Due to time constraint, the Company could not negotiate with the customers for alternative raw materials or search for another supplier who could supply the newly developed fabrics and supply them on a timely manner. The Directors consider that the breach of the Cap on this occasion was an isolated event caused by some exceptionally large orders of the Group's customers placed near the end of the 2002 Financial Year, which was beyond the control of the Directors. The Directors were aware of the Cap and the breach of the Cap was an isolated event caused by the inadvertent error of the Directors.

The Company has immediately reported to the Stock Exchange about the breach of the Cap as soon as it became aware of such breach.

The Directors have confirmed that there is no breach of the other conditions of the Connected Transactions Waiver.

The Stock Exchange reserves its right to take further action against the Company in relation to the breach of the Connected Transactions Waiver condition.

BENEFITS OF THE ON-GOING CONNECTED TRANSACTIONS

The Directors consider that the Connected Transactions have been or will be entered into in the ordinary course of business of the Group and on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company taken as a whole are concerned and are in the interests of the Group. The Directors consider it to be in the interests of the Group to engage in the Connected Transactions as these transactions are beneficial to the business and profitability of the Group.

COMPLIANCE WITH THE NEW CONNECTED TRANSACTIONS WAIVER

In order to safeguard against recurrence of any breach of the Connected Transactions Waiver conditions, the Company will adopt the following measures:

- (a) a compliance committee chaired by Mr Y. M. Lee, an executive Director, will be appointed by the Board with specific responsibility of advising on and assisting the Board in implementing the procedures adopted by the Company after the listing of its shares on the Stock Exchange to ensure the Company complies with the Listing Rules and other relevant laws and regulations applicable to the Company and to meet and report to the Board on matters related to compliance issues at quarterly intervals; and
- (b) the internal control procedures of the Group will be reviewed and improved in order to better monitor and ensure compliance with the conditions of the Connected Transactions Waiver, e.g. enhancing the computer programme of the Group so that specific and up-to-date purchase reports may be generated.

After the integration of the enhanced computer programme for the Group, the Directors would be able to track the relevant percentages on a quarterly basis and immediate actions may be taken by the Directors to ensure compliance with the New Connected Transactions Waiver conditions. The Directors are expecting the integration of the enhanced computer programme to be completed in or around November 2003.

NEW CONNECTED TRANSACTIONS WAIVER

Application for the New Connected Transactions Waiver

The breach of the Cap constituted a breach of one of the Connected Transactions Waiver conditions and the Stock Exchange has revoked the Connected Transactions Waiver. Pursuant to the Listing Rules, each of the Connected Transactions would normally require disclosure and subject to the nature and value of the transactions, approved by the Independent Shareholders. Given the on-going nature of the Connected Transactions the Directors consider that disclosure and approval of the Connected Transactions on a recurring basis to be impractical, unduly onerous and not of benefit to the shareholders of the Company. The Extraordinary General Meeting will therefore be held and the Independent Shareholders will consider, and if think fit, approve the application for the New Connected Transactions Wavier.

New Connected Transactions Waiver conditions

The Directors consider that large orders placed by those customers in the latter half of 2002 Financial Year were very exceptional and did not follow the usual pattern of business. The Directors therefore do not believe that such exceptionally large sales order to recur in the three financial years ending 31 December 2005 which will require the Group to purchase an exceptionally large amount of raw materials from C & H Korea Group and consider that the respective annual caps for each of the other Connected Transactions under the Connected Transactions Waiver would be sufficient for each of the three financial years ending 31 December 2005. The Directors will use their best endeavours to ensure that the annual caps for each of the Connected Transactions will not be exceeded in the future. As such, the Company proposes that the New Connected Transactions Waiver be granted under the same conditions as the Connected Transactions Waiver save as to certain annual caps and the conditions are as follows:

- (i) the Connected Transactions are and will be:
 - (a) entered into by the Group in its ordinary and usual course of business;
 - (b) entered into by the Group on normal commercial terms (to the extent that there are comparable transactions) or, where there is no available or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable to the Group than those available to or from (where appropriate) independent third parties; and
 - (c) on terms that are fair and reasonable and in the interest of the Independent Shareholders as a whole;
- (ii) in any financial year, the respective consideration for each type of Connected Transactions entered into between the Group and C & H Korea Group does not exceed the respective caps set out below:

<i>Connected Transactions</i>	<i>Cap</i>
Sale of raw materials, plush stuffed toys and steel and plastic toys by the Group to the C & H Korea Group	50% of the Group's total turnover for one financial year
Commission paid on referral of sales orders by C & H Korea to the Group for production of plush stuffed toys and steel and plastic toys	2% of the Group's total turnover for one financial year
Commission received on referral of sales orders by the Group to the C & H Korea Group for production of toy products	2% of the Group's net asset value as at the end of the financial year
Purchases by the Group from C & H Korea Group	10% of the Group's total cost of sales in one financial year
Research and development and product design services to be provided by C & H Korea to the Group	3% of the Group's net asset value as at the end of the financial year

- (iii) details of the Connected Transactions shall be disclosed in the Company's annual report and accounts in accordance with Rule 14.25(1)(A) to (D) of the Listing Rules;
- (iv) the independent non-executive Directors shall review the Connected Transactions annually and confirm in the Company's annual report and accounts of the relevant years that the Connected Transactions have been entered into in the manner as stated in paragraph (i) above;

- (v) the auditors of the Company shall carry out review procedures annually on the Connected Transactions and shall provide a letter to the Board, details of which will be set out in the Company’s annual report, stating that the Connected Transactions:
- (a) have received the approval of the Board;
 - (b) have been entered into in accordance with the relevant agreements governing the Connected Transactions;
 - (c) are in accordance with the pricing policies of the Group, if any; and
 - (d) the respective consideration in respect of each category of the Connected Transactions has not exceeded their respective caps as mentioned in paragraph (ii) above; and
- (vi) the Company shall promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters set out in paragraphs (iv) and/or (v) above, and in such circumstances, the Company may have to re-comply with the reporting, announcement and shareholders’ approval requirements set out in Chapter 14 of the Listing Rules and any other conditions the Stock Exchange considers appropriate.

In the event that there is any amendments to the Listing Rules imposing more stringent compliance requirements in respect of the Connected Transactions set out in this announcement, the Company will comply with the applicable requirements.

INFORMATION ON THE GROUP

The Group is principally engaged in the design, development, manufacturing and sales of a wide range of plush stuffed toys as well as steel and plastic toys on an OEM and ODM basis. The Board is of the view that the Connected Transactions had been conducted in the ordinary and usual course of business of the Group and on normal commercial terms. The Board (including the independent non-executive Directors) also considers that the terms of the Connected Transactions were fair and reasonable and in the interests of the Company and its shareholders as a whole.

INFORMATION ON C & H KOREA GROUP

C & H Korea is a company incorporated in the Republic of Korea and is owned as to approximately 84.57% by Mr K.Y. Choi and his family members and the remaining shares in C & H Korea are held by various management staff of C & H Korea Group, Mr Chul Hong Min, a Director and Mr Sung Sick Kim, an ex-Director. C & H Korea Group is principally engaged in the manufacture, marketing and distribution of, among others, plush stuffed toys and acrylic knitted fabric. Under the Listing Rules, C & H Korea Group is a connected person with the Company.

GENERAL

The Extraordinary General Meeting will be held to approve the application for the New Connected Transactions Waiver. C & H Korea and Uni-Link and their respective associates will abstain from voting in the Extraordinary General Meeting. The independent non-executive Directors will advise the Independent Shareholders in respect of the application of the New Connected Transactions Waiver. First Shanghai Capital Limited, an independent financial adviser has been appointed to advise the independent non-executive Directors in respect of the application of the New Connected Transactions Waiver.

A circular containing, among others, details of the application for the New Connected Transactions Waiver, the recommendation of the independent non-executive Directors, the letter of advice from First Shanghai Capital Limited, an independent financial adviser to the independent non-executive Directors as to the fairness and reasonableness of the Connected Transactions, together with a notice of the Extraordinary General Meeting will be sent to the shareholders of the Company as soon as practicable.

DEFINITIONS

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“C & H Korea”	C & H Co., Ltd., a company incorporated in the Republic of Korea and the substantial shareholder of the Company
“C & H Korea Group”	C & H Korea and its subsidiaries (other than the Group)

“Cap”	the annual cap on aggregate value of the Group’s total purchase from C & H Korea Group being 10 per cent. of the Group’s total cost of sales for that financial year
“Company”	Dream International Limited
“Connected Transactions”	the transactions between the Group and C & H Korea Group as briefly described under the paragraph headed “On-going connected transactions” in this announcement
“Connected Transactions Waiver”	the waiver granted by the Stock Exchange on 25 January 2002 to the Company waiving the Company’s obligation from strict compliance with provisions of Chapter 14 of the Listing Rules subject to certain conditions in respect of the Connected Transactions
“Directors”	the directors of the Company
“Extraordinary General Meeting”	the extraordinary general meeting to be held by the Company
“Group”	the Company and its subsidiaries
“Independent Shareholders”	the shareholders of the Company other than C & H Korea and Uni-Link and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“ODM”	original design manufacturing, under which the manufacturer creates and owns both the circuitry pattern and cosmetic design of the products which are sold under the brandname of the customer or the Group
“OEM”	original equipment manufacturing, under which products are designed and manufactured in whole or in part in accordance with customer’s specifications and are marketed under the customer’s brandname using the customer’s character licensed products
“New Connected Transactions Waiver”	the new waiver to be applied by the Company for waiving the Company’s obligation from strict compliance with provisions of Chapter 14 of the Listing Rules subject to certain conditions in respect of the Connected Transactions for the three years ending 31 December 2005
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“2002 Financial Year”	the year ended 31 December 2002
“Uni-Link”	Uni-Link Technology Limited, a company incorporated in Hong Kong and its issued share capital is beneficially owned as to approximately 76% by Mr K.Y. Choi and the remaining of its shares are beneficially owned by various senior management staff of C & H Korea Group and the Group
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“US\$”	United States of America dollar, the lawful currency of the United States of America
“%”	per cent.

By Order of the Board
Dream International Limited
Y. M. LEE
Director

10 April 2003, Hong Kong

Please also refer to the published version of this announcement in The Standard.