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## DREAM INTERNATIONAL LIMITED

### 德林國際有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1126)

#### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of directors (the “Board”) of Dream International Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014 together with comparative figures for the corresponding period in 2013, as follows:

#### CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2014 – UNAUDITED

	Notes	Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
<b>Turnover</b>	3	<b>662,977</b>	554,040
Cost of sales		<u>(519,386)</u>	<u>(394,035)</u>
<b>Gross profit</b>		<b>143,591</b>	160,005
Other revenue		<b>13,394</b>	5,367
Other net (loss)/income		<b>(4,158)</b>	897
Distribution costs		<b>(21,225)</b>	(19,035)
Administrative expenses		<b>(87,894)</b>	(85,863)
<b>Profit from operations</b>		<b>43,708</b>	61,371
Finance costs	4(a)	<b>(393)</b>	(435)
Share of profits less losses of associates		<b>(243)</b>	649
<b>Profit before taxation</b>	4	<b>43,072</b>	61,585
Income tax	7	<b>(15,173)</b>	(15,810)
<b>Profit for the period</b>		<b><u>27,899</u></b>	<u>45,775</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>31,199</b>	50,245
Non-controlling interests		<b>(3,300)</b>	(4,470)
<b>Profit for the period</b>		<b><u>27,899</u></b>	<u>45,775</u>
<b>Earnings per share</b>	9		
Basic and diluted		<b><u>HK4.6 cents</u></b>	<u>HK7.5 cents</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2014 – UNAUDITED**

		<b>Six months ended 30 June</b>	
		<b>2014</b>	<b>2013</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Profit for the period</b>		<b>27,899</b>	45,775
<b>Other comprehensive income for the period</b> <b>(after tax and reclassification adjustments):</b>			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit retirement obligation		(114)	105
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		3,797	(9,651)
Available-for-sale security: net movement in the fair value reserve	6	(49)	(8)
		<u>3,748</u>	<u>(9,659)</u>
<b>Other comprehensive income for the period</b>		<u>3,634</u>	<u>(9,554)</u>
<b>Total comprehensive income for the period</b>		<u><b>31,533</b></u>	<u><b>36,221</b></u>
<b>Attributable to:</b>			
Equity shareholders of the Company		34,808	40,643
Non-controlling interests		(3,275)	(4,422)
<b>Total comprehensive income for the period</b>		<u><b>31,533</b></u>	<u><b>36,221</b></u>

**CONSOLIDATED BALANCE SHEET**  
**AS AT 30 JUNE 2014 – UNAUDITED**

		At 30 June 2014 <i>HK\$'000</i>	At 31 December 2013 <i>HK\$'000</i>
	<i>Notes</i>		
<b>Non-current assets</b>			
Fixed assets	<i>11</i>		
– Interests in leasehold land held for own use under operating leases		41,455	31,314
– Other property, plant and equipment		<u>230,503</u>	<u>184,778</u>
		<b>271,958</b>	216,092
Long term receivables		7,273	6,368
Goodwill		2,753	2,753
Other intangible assets		9,874	9,583
Interest in associates		249	502
Deferred tax assets		7,786	7,697
Other financial assets	<i>10</i>	<u>12,173</u>	<u>28,980</u>
		<u><b>312,066</b></u>	<u>271,975</u>
<b>Current assets</b>			
Inventories	<i>12</i>	227,882	175,854
Trade and other receivables	<i>13</i>	242,860	263,718
Current tax recoverable		106	45
Other financial assets	<i>10</i>	19,440	11,035
Time deposits		102,122	79,476
Cash and cash equivalents		<u>239,137</u>	<u>320,617</u>
		<u><b>831,547</b></u>	<u>850,745</u>
<b>Current liabilities</b>			
Trade and other payables	<i>14</i>	203,027	186,714
Bank loans		25,341	22,274
Current tax payable		<u>28,319</u>	<u>27,541</u>
		<u><b>256,687</b></u>	<u>236,529</u>
<b>Net current assets</b>		<u><b>574,860</b></u>	<u>614,216</u>
<b>Total assets less current liabilities</b>		<u><b>886,926</b></u>	<u>886,191</u>

**CONSOLIDATED BALANCE SHEET (CONTINUED)**  
**AS AT 30 JUNE 2014 – UNAUDITED**

	At <b>30 June 2014</b> <i>HK\$'000</i>	At 31 December 2013 <i>HK\$'000</i>
<i>Notes</i>		
<b>Non-current liabilities</b>		
Bank loans	777	777
Net defined benefit retirement obligation	<u>1,294</u>	<u>439</u>
	<u>2,071</u>	<u>1,216</u>
<b>NET ASSETS</b>	<b><u>884,855</u></b>	<b><u>884,975</u></b>
<b>CAPITAL AND RESERVES</b>		
Share capital: nominal value	–	52,303
Other statutory capital reserves	<u>–</u>	<u>181,013</u>
Share capital and other statutory capital reserves	<b>236,474</b>	233,316
Other reserves	<u>654,109</u>	<u>654,112</u>
<b>Total equity attributable to equity shareholders of the Company</b>	<b>890,583</b>	887,428
<b>Non-controlling interests</b>	<u>(5,728)</u>	<u>(2,453)</u>
<b>TOTAL EQUITY</b>	<b><u>884,855</u></b>	<b><u>884,975</u></b>

## NOTES TO THE INTERIM FINANCIAL RESULTS

### 1. General information and basis of preparation

The principal activities of the Group are design, development, manufacture and sale of plush stuffed toys, ride-on toys and plastic figures.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Unit 501 & 6th Floor, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 27 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in note 2.

### 2. Changes in accounting policies

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group’s financial statements:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### **Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities**

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group’s interim financial report as the Company does not qualify to be an investment entity.

#### **Amendments to HKAS 32, Offsetting financial assets and financial liabilities**

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group’s interim financial report as they are consistent with the policies already adopted by the Group.

## Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's interim financial report.

### 3. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified three reportable segments. No operating segments have been aggregated to form the following reportable segments.

#### (a) Information about profit or loss, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2014 is set out below.

	Plush stuffed toys		Ride-on toys		Plastic figures		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>For the six months ended 30 June</i>								
Revenue from external customers	572,201	508,027	24,544	21,983	66,232	24,030	662,977	554,040
Inter-segment revenue	14,513	6,141	-	-	431	-	14,944	6,141
<b>Reportable segment revenue</b>	<b>586,714</b>	<b>514,168</b>	<b>24,544</b>	<b>21,983</b>	<b>66,663</b>	<b>24,030</b>	<b>677,921</b>	<b>560,181</b>
<b>Reportable segment profit/(loss)(adjusted EBITDA)</b>	<b>85,589</b>	<b>102,333</b>	<b>(8,823)</b>	<b>(13,869)</b>	<b>(12,709)</b>	<b>(4,610)</b>	<b>64,057</b>	<b>83,854</b>
<i>As at 30 June/31 December</i>								
<b>Reportable segment assets</b>	<b>708,764</b>	<b>594,761</b>	<b>67,142</b>	<b>72,656</b>	<b>179,116</b>	<b>128,158</b>	<b>955,022</b>	<b>795,575</b>
<b>Reportable segment liabilities</b>	<b>192,160</b>	<b>140,029</b>	<b>82,610</b>	<b>74,499</b>	<b>131,848</b>	<b>103,415</b>	<b>406,618</b>	<b>317,943</b>

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at the adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Reportable segment profit	64,057	83,854
Share of profits less losses of associates	(243)	649
Impairment loss on club memberships	(5)	–
Interest income	5,835	3,321
Depreciation and amortisation	(14,762)	(11,792)
Finance costs	(393)	(435)
Unallocated head office and corporate expenses	(11,417)	(14,012)
	<u>43,072</u>	<u>61,585</u>
Consolidated profit before taxation	<u>43,072</u>	<u>61,585</u>

4. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
(a) Finance costs		
Interest expense on bank borrowings wholly repayable within five years	<u>393</u>	<u>435</u>
(b) Other items		
Amortisation of land lease premium	380	279
Depreciation	14,382	11,513
Operating lease charges: minimum lease payments in respect of property rentals	14,208	12,890
Inventories write-down and losses	4,203	5,909
Reversal of write-down of inventories	(5,402)	(5,045)
Reversal of provision for custom duties (note)	–	(13,426)
Bank interest income	(5,213)	(3,180)
Interest income from other financial assets	(622)	(141)
Net realised and unrealised loss/(gain) on other financial assets	<u>40</u>	<u>(2,806)</u>

Note: The Company operated a processing factory in Shenzhen, the People's Republic of China (the "PRC"). In May 2012, the Company set up a subsidiary to transform its processing factory into a wholly-owned foreign enterprise. Upon the receipt of clearance document from relevant government authority, provision for custom duties amounting to HK\$13,426,000 recorded in prior years in the Group's financial statements was reversed and was included in "cost of sales" in the consolidated income statement for the six months ended 30 June 2013.

## 5. Claim settlement

In March 2012, a customer (the “Customer”) initiated a claim in the Hong Kong High Court (the “Court”) against the Company and two subsidiaries of the Company including one subsidiary in the PRC (the “PRC Subsidiary”) and requested compensation in respect of products manufactured by the PRC Subsidiary and sold to the Customer mostly during the year ended 31 December 2010 (the “Claim”).

The subsidiaries filed and served their defence and counterclaim on 30 January 2013, denying liability in respect of the Claim and counterclaiming against the Customer for US\$78,000 (equivalent to approximately HK\$605,000), being the sum of various outstanding invoices and debit notes rendered to the Customer in 2010 and 2011, plus interest and costs.

On 20 February 2013, the Company applied to strike out the Claim against it (but not against the subsidiaries) on the basis that the Claim discloses no reasonable cause of action against the Company. The Customer agreed to discontinue its Claim against the Company and pay the Company’s costs incurred in the action. On 9 April 2013, the Customer and the Company made a joint application to the Court for leave for the Customer to discontinue the Claim against the Company. The Court made an order in terms of both parties’ application on striking out the Claim against the Company on 15 April 2013.

In late July 2013, the Customer and the subsidiaries entered into a commercial settlement, which was recorded in the form of a Tomlin Order filed with the Court on 29 July 2013. Upon performance of the Tomlin Order, the Claim was fully and finally settled. Claim settlement of US\$250,000 (equivalent to approximately HK\$1,939,000) was included in “administrative expenses” in the consolidated income statement for the six months ended 30 June 2013.

In accordance with the Tomlin Order, the outstanding Claim settlement is payable as follows:

	At 30 June 2014 <i>HK\$’000</i>	At 31 December 2013 <i>HK\$’000</i>
Within 1 year ( <i>note 14</i> )	<u>388</u>	<u>1,163</u>

## 6. Other comprehensive income

### Available-for-sale security

	Six months ended 30 June	
	2014 <i>HK\$’000</i>	2013 <i>HK\$’000</i>
Changes in fair value recognised during the period	–	(8)
Reclassification adjustment for amounts transferred to profit or loss:		
– disposal	<u>(49)</u>	<u>–</u>
Net movement in the fair value reserve during the period recognised in other comprehensive income	<u>(49)</u>	<u>(8)</u>



## 7. Income tax

	Six months ended 30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax – Hong Kong Profits Tax	7,705	1,829
Current tax – Outside Hong Kong	7,349	12,490
Deferred taxation	119	1,491
	<u>15,173</u>	<u>15,810</u>

## 8. Dividends

### (a) Dividends payable to equity shareholders of the Company attributable to the interim period

	Six months ended 30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared and paid after the interim period of HK 3 cents per ordinary share (six months ended 30 June 2013: HK 3 cents per ordinary share)	<u>20,306</u>	<u>20,165</u>

The interim dividend has not been recognised as a liability at the balance sheet date.

### (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK 5 cents per ordinary share (six months ended 30 June 2013: HK 8 cents per ordinary share)	<u>33,843</u>	<u>53,773</u>

## 9. Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$31,199,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$50,245,000) and the weighted average number of ordinary shares of 675,067,000 shares (six months ended 30 June 2013: 672,165,000 shares) in issue during the interim period.

**(b) Diluted earnings per share**

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$31,199,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$50,245,000) and the weighted average number of ordinary shares of 676,865,000 shares for the six months ended 30 June 2014 (six months ended 30 June 2013: 674,237,000 shares).

**10. Other financial assets**

	At 30 June 2014 <i>HK\$'000</i>	At 31 December 2013 <i>HK\$'000</i>
<b><i>Non-current</i></b>		
Equity-linked security ( <i>notes (i) &amp; (vii)</i> )	–	10,927
Structured debt security ( <i>notes (ii) &amp; (vii)</i> )	<b>6,213</b>	5,770
Available-for-sale debt security – unlisted ( <i>note (iii)</i> )	–	6,633
Available-for-sale equity security – unlisted ( <i>note (iv)</i> )	<b>5,960</b>	5,650
	<u>12,173</u>	<u>28,980</u>
<b><i>Current</i></b>		
Equity-linked security ( <i>notes (v) &amp; (vii)</i> )	<b>11,681</b>	3,473
Structured debt security ( <i>notes (vi) &amp; (vii)</i> )	<b>7,759</b>	7,562
	<u>19,440</u>	<u>11,035</u>
	<b>31,613</b>	<b>40,015</b>

*Notes:*

- (i) Equity-linked security as at 31 December 2013 represented an equity-linked bond placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date of 8 May 2015. This security is classified as “current assets” as at 30 June 2014 (see note (v)).
- (ii) Structured debt security represents a debt investment placed with an investment bank in Korea with fixed interest rate at 6.25% per annum and redeemable by the debt issuer on or after 15 April 2024.
- (iii) Available-for-sale debt security – unlisted as at 31 December 2013 represented an investment in bonds issued by an investment bank in Korea with a maturity date of 30 March 2039. The security was disposed of during the six months ended 30 June 2014. No gain or loss on disposal was recognised in the consolidated income statement.
- (iv) Available-for-sale equity security – unlisted represents an investment in a Korean private company and is carried at cost less impairment loss.

- (v) The equity-linked security as at 30 June 2014 represents the security mentioned in note (i).

Equity-linked security as at 31 December 2013 represented a structured fund placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200 and a maturity date of 10 February 2014.

- (vi) Structured debt security represents a debt investment placed with an investment bank in Korea with fixed interest rate at 7.00% per annum and redeemable by the debt issuer on or after 30 July 2013.
- (vii) Structured debt securities and equity-linked securities are hybrid instruments that include non-derivative host contracts and embedded derivatives. Upon inception, the financial instruments are designated as fair value through profit or loss with changes in fair value recognised in the income statement.
- (viii) None of the above other financial assets are past due or impaired, except for available-for-sale equity security (see note (iv)). No impairment loss was recognised during the six months ended 30 June 2014.

## 11. Fixed assets

During the six months ended 30 June 2014, the Group acquired items of fixed assets with a cost of HK\$72,594,000 (six months ended 30 June 2013: HK\$17,610,000). Items of fixed assets with a net book value of HK\$242,000 were disposed of during the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$1,404,000), resulting in a loss on disposal of HK\$31,000 (six months ended 30 June 2013: gain of HK\$50,000).

## 12. Inventories

During the six months ended 30 June 2014, HK\$5,402,000 (six months ended 30 June 2013: HK\$5,045,000) has been recognised as a reversal of write-down of inventories. The reversal arose upon disposal of these inventories.

## 13. Trade and other receivables

As at 30 June 2014, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date or date of revenue recognition, if earlier and net of allowance for doubtful debts, is as follows:

	At 30 June 2014 <i>HK\$'000</i>	At 31 December 2013 <i>HK\$'000</i>
Within 1 month	83,023	134,697
1 to 2 months	43,950	22,880
2 to 3 months	16,178	12,192
3 to 4 months	2,023	7,884
Over 4 months	13,506	3,669
Trade debtors and bills receivable, net of allowance for doubtful debts	158,680	181,322
Other receivables and prepayments	77,201	68,242
Amounts due from related companies	6,979	14,154
	<b>242,860</b>	<b>263,718</b>

Trade debtors and bills receivable are due within 30 to 60 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted.

#### 14. Trade and other payables

Included in trade and other payables are trade creditors with the following ageing analysis as at 30 June 2014:

	At 30 June 2014 <i>HK\$'000</i>	At 31 December 2013 <i>HK\$'000</i>
Due within 1 month or on demand	75,322	79,079
Due after 1 month but within 3 months	33,628	5,053
Due after 3 months but within 6 months	9	271
Due after 6 months but within 1 year	839	847
	<hr/>	<hr/>
Trade creditors	109,798	85,250
Accrued charges and other payables	92,514	97,272
Claim settlement ( <i>note 5</i> )	388	1,163
Amounts due to related companies	–	68
Amount due to an associate	327	2,961
	<hr/>	<hr/>
	<b>203,027</b>	<b>186,714</b>
	<hr/> <hr/>	<hr/> <hr/>

#### 15. Non-adjusting event after the reporting period

Subsequent to the balance sheet date, a non-wholly owned subsidiary of the Company entered into an asset transfer agreement on 9 July 2014 with a third party to dispose of land and buildings situated in Taicang City, Jiangsu Province, the PRC for a total consideration of RMB58,000,000 (equivalent to approximately HK\$72,500,000).

The Group is in process of assessing the impact of the disposal on the Group's financial statements.

## MANAGEMENT DISCUSSION & ANALYSIS

### Financial Review

During the first half of 2014, the global economy continued to experience a lackluster rate of recovery. The European and US markets have both demonstrated modest improvement in consumer sentiment, which has been reflected in a slight increase in order volumes. However, a relatively stable business environment prevailed in Japan, the largest market for the Group, contributing to the Group's sustained growth during the review period.

For the six months ended 30 June 2014, the Group's turnover grew to HK\$663.0 million (six months ended 30 June 2013: HK\$554.0 million), representing an increase of approximately 19.7% over the previous corresponding period in 2013. Nevertheless, escalating labour and material costs continue to put pressure on the entire toy industry, which has inevitably affected the Group's profitability. Thanks to the Group's established foundation and relentless efforts in cost control, the Group managed to record a gross profit of HK\$143.6 million for the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$160.0 million). The decline was mainly attributable to the absence of the one-off reversal of provisions for custom duties of HK\$13.4 million recorded during the previous corresponding period in 2013 and an increase in materials usage for the plastic figures segment. Gross margin amounted to 21.7% for the six months ended 30 June 2014 (six months ended 30 June 2013: 28.9%). Accordingly, the Group recorded a profit attributable to equity shareholders of HK\$31.2 million (six months ended 30 June 2013: HK\$50.2 million) with a net margin of 4.7% (six months ended 30 June 2013: 9.1%) during the six months ended 30 June 2014.

The Group maintained a healthy financial position with cash and cash equivalents and bank deposits of HK\$341.3 million as at 30 June 2014 (31 December 2013: HK\$400.1 million).

### Business Review

#### *Product Analysis*

##### *Plush stuffed toys segment*

During the period under review, turnover of the plush stuffed toys business rose to HK\$572.2 million (six months ended 30 June 2013: HK\$508.0 million), accounting for approximately 86.3% of the Group's total turnover.

Within this segment, Original Equipment Manufacturing ("OEM") remained the core business of the Group, representing approximately 93.9% of plush stuffed toys' sales. In the first half of 2014, the Group continued to nurture its long-term business collaboration with globally renowned cartoon character owners and licensors, which generated a stable income stream of the Group. Leveraging the success built in the previous years, the Group continued to enhance the brand awareness of its products featuring iconic characters from Japan and Korea at the New York Toy Fair 2014, which enjoyed a good response from the Asian market and US retail stores. A special promotional event is scheduled during the second half of 2014 following the successful launch of one of these plush stuffed toy characters at an upscale retail toy store in New York City. On the other hand, apart from the two US customers secured last year, the Group has secured two more new clients, including a video game publisher and a distributor of infant goods, thereby further diversifying its client base. Product shipments for these two customers to the US, European and Asian markets are scheduled during the second half of 2014. The Group will seize more business opportunities from these new clients in order to sustain growth momentum.

The Original Design Manufacturing (“ODM”) business recorded a turnover of HK\$34.7 million during the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$6.3 million), contributing approximately 6.1% of the sales of plush stuffed toys. With wider awareness of its self-owned “Dream, made to love, made to hug” brand, the Group has fine-tuned its positioning to focus on the mass market which presents a larger room for development. In terms of product mix, the Group has strategically expanded the selection of large-size plush stuffed toys to better utilise production capacity and enhance profitability.

#### *Ride-on toys segment*

During the period under review, sales generated from the ride-on toys segment amounted to HK\$24.5 million (six months ended 30 June 2013: HK\$22.0 million), and accounted for approximately 3.7% of the Group’s total turnover. To maximise the promising sales performance of its high-margin tricycle product line in Japan, the Group has decided to launch an upgraded model in the second half of 2014. A new version of a popular ride-on toy featuring racer characters has been launched in July 2014. Its four-wheel version has just completed trial production and is expected to be launched in Japan in the third quarter. A new tricycle series featuring a famous Japanese cartoon character has reached the final design adjustment stage and is expected to be introduced in Japan in the coming months.

#### *Plastic figures segment*

The successful launch of the plastic figures segment has continued to demonstrate rapid growth, with turnover up almost three-fold year-on-year to HK\$66.2 million during the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$24.0 million), representing approximately 10.0% of the Group’s total turnover. Besides working with its existing top-tier customers which have increased their order size, the Group has secured a distributor of unique feature plastic figures for licensed characters as a new customer. The Group has received the initial order from this customer during the period under review and the first shipment is expected to be made during the second half of 2014.

#### ***Market Analysis***

For the six months ended 30 June 2014, Japan remained the largest market of the Group, accounting for approximately 48.5% of the Group’s total turnover. North America accounted for approximately 32.8% of the total turnover, followed by Europe at approximately 10.4%. China’s contribution grew to approximately 2.7% during the period under review.

#### ***Operational Analysis***

As at 30 June 2014, the Group operated 11 plants in total, five of which were in China and six in Vietnam, and running at an average utilisation rate of approximately 78%. In order to sustain business growth of the plastic figures segment, the Group is constructing the second dedicated plant for this segment which is expected to commence production during the second half of 2014. The Group is building another new plant in Vietnam as it expects to relocate its ride-on toys production facilities from China for better production efficiency.

## ***Prospects***

There are signs of a gradual recovery of the global economy including the US and Europe supported by various economic data, and accordingly the Group is seeing a modest improvement in the volume of orders. This trend is expected to continue in the near future. However, given the challenges of potential international geopolitical issues and rising costs of various aspects still facing the toy industry, the Group maintains a cautiously optimistic view about its prospects in the near future.

Looking ahead, the Group will further consolidate its three different business arms to maintain sustainable revenue growth in the long run. Emerging as a significant growth driver, the plastic figures segment has expanded rapidly after only a short period of time in operation. In order to better meet the enormous demand from the global market, the Group is constructing the second factory for the segment which is expected to be completed in the second half of 2014. With operation becoming more mature and backed by a stronger capacity, the Group should not only be able to support the rapid growth of this segment but also benefit from greater economies of scale and better production efficiency.

Leveraging its leading position in the plush toy industry, the Group continues to strengthen its well-established business foundation and to foster new business relationships in order to expand its reach into different geographic regions as well as to enhance its product mix. The Group is currently in the process of negotiating product development opportunities for large-scale upcoming events such as the Olympics in Brazil in order to expand its income sources. For the ride-on toys segment, the Group continues its focus on targeting the high-end market so as to enhance segment profitability. After the ramp-up of the production base in Vietnam, the Group expects to enhance its operational efficiency in this segment.

With a clear development roadmap set for the future, the Group is confident that it can sustain growth in the long run and strengthen its leading position in the industry.

## **Number and Remuneration of Employees**

As at 30 June 2014, the Group had 11,215 (31 December 2013: 7,811) employees in Hong Kong, China, Korea, the US, Japan and Vietnam. The Group values its human resources and recognises the importance of attracting and retaining quality staff for its continuing success. Staff bonuses and share options are awarded based on individual performance.

## **Liquidity and Financial Resources and Gearing**

The Group continued to maintain a reasonable liquidity position. As at 30 June 2014, the Group had net current assets of HK\$574.9 million (31 December 2013: HK\$614.2 million). The Group's total cash and cash equivalents as at 30 June 2014 amounted to HK\$239.1 million (31 December 2013: HK\$320.6 million). The total bank loans of the Group as at 30 June 2014 amounted to HK\$26.1 million (31 December 2013: HK\$23.1 million).

The Group's gearing ratio, calculated on the basis of total bank loans over total equity, was 3.0% at 30 June 2014 (31 December 2013: 2.6%).

## **Pledge on Group Assets**

Bank loans are secured on the Group's buildings, plant and machinery and land use rights with a net carrying value as at 30 June 2014 of HK\$22.3 million (31 December 2013: HK\$24.4 million).

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

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

During the six months ended 30 June 2014, the Board considered that the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules, save for the deviation from the code provision A.2.1.

Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separated and should not held by the same individual. Mr. Kyoo Yoon Choi has been appointed as the CEO on 4 October 2012 and has performed both the roles as the chairman and CEO of the Company. The Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Kyoo Yoon Choi to hold both the positions as it helps to maintain the continuity of the policies and stability of the operations of the Company. The Board including three independent non-executive directors has a fairly independent element in the composition and will play an active role to ensure a balance of power and authority.

## **COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listing Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions on terms no less exacting than the required standard. Based on specific enquires of all the directors of the Company, the Company has confirmed that they had complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2014.

## **INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS**

The Board declared an interim dividend of HK 3 cents per ordinary share (2013: HK 3 cents per ordinary share) for the six months ended 30 June 2014. The interim dividend of HK\$20,306,000 (2013: HK\$ 20,165,000) will be paid on 24 September 2014 to shareholders registered at the close of business on the record date, 15 September 2014.

The register of members will be closed for one day on 16 September 2014, during that day no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Abacus Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 15 September 2014.



## AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management of the Company with respect to the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the unaudited interim results for the six months ended 30 June 2014. The audit committee considered that the unaudited interim results for the six months ended 30 June 2014 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

By order of the Board  
**Dream International Limited**  
**Kyoo Yoon Choi**  
*Chairman*

Hong Kong, 27 August 2014

As at the date of this announcement, the directors of the Company are:

*Executive Directors*

Mr. Kyoo Yoon Choi (*Chairman*)  
Mr. Young M. Lee  
Mr. James Chuan Yung Wang  
Mr. Hyun Ho Kim

*Independent Non-executive Directors*

Professor Cheong Heon Yi  
Professor Byong Hun Ahn  
Mr. Tae Woong Kang