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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)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the “Board”) of Dream International Limited (the “Company” or “Dream International”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2016, together with the comparative figures for the previous financial year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue	3 & 4	2,151,268	1,814,469
Cost of sales		(1,541,581)	(1,387,778)
Gross profit		609,687	426,691
Other revenue	5(a)	11,394	13,763
Other net income/(loss)	5(b)	15,558	(1,412)
Distribution costs		(57,383)	(46,101)
Administrative expenses		(225,003)	(191,798)
Profit from operations		354,253	201,143
Finance costs	6(a)	(385)	(524)
Profit before taxation	6	353,868	200,619
Income tax	7	(59,755)	(51,231)
Profit for the year		294,113	149,388
Attributable to:			
Equity shareholders of the Company		295,500	150,783
Non-controlling interests		(1,387)	(1,395)
Profit for the year		294,113	149,388
Earnings per share	8		
Basic and diluted		HK43.66 ¢	HK22.28 ¢

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

<i>Notes</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
Profit for the year	294,113	149,388
Other comprehensive income for the year (after tax adjustments):		
Item that will not be reclassified to profit or loss:		
– Remeasurement of net defined benefit retirement obligation	(758)	(583)
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	(10,955)	(15,325)
– Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary	(8,037)	–
– Available-for-sale securities: net movement in fair value reserve	185	197
	(18,807)	(15,128)
Other comprehensive income for the year	(19,565)	(15,711)
Total comprehensive income for the year	274,548	133,677
Attributable to:		
Equity shareholders of the Company	275,929	135,030
Non-controlling interests	(1,381)	(1,353)
Total comprehensive income for the year	274,548	133,677

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	<i>Notes</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
Non-current assets			
Investment property		1,313	–
Interests in leasehold land held for own use under operating leases		86,042	53,778
Other property, plant and equipment		512,914	379,369
Long term receivables and prepayments		28,509	16,105
Other intangible assets		6,688	7,618
Goodwill		2,753	2,753
Deferred tax assets		3,779	7,603
Other financial assets	<i>9</i>	20,852	21,099
		662,850	488,325
Current assets			
Inventories		240,300	201,752
Trade and other receivables	<i>10</i>	348,376	334,816
Current tax recoverable		1,418	28
Other financial assets	<i>9</i>	–	6,591
Time deposits		108,232	25,123
Cash and cash equivalents		316,370	251,476
		1,014,696	819,786
Current liabilities			
Trade and other payables	<i>11</i>	330,802	253,425
Bank loans		23,252	3,916
Current tax payable		27,864	22,758
		381,918	280,099
Net current assets		632,778	539,687
Total assets less current liabilities		1,295,628	1,028,012

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current liabilities			
Deferred tax liabilities		1,147	–
Provision for reinstatement costs		1,154	–
Net defined benefit retirement obligation		1,443	1,126
		<u>3,744</u>	<u>1,126</u>
NET ASSETS		<u>1,291,884</u>	<u>1,026,886</u>
CAPITAL AND RESERVES			
Share capital		236,474	236,474
Reserves		1,062,594	793,434
Total equity attributable to equity shareholders of the Company		1,299,068	1,029,908
Non-controlling interests		(7,184)	(3,022)
TOTAL EQUITY		<u>1,291,884</u>	<u>1,026,886</u>

NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

The financial information relating to the years ended 31 December 2016 and 2015 included in this preliminary announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) ("Companies Ordinance") is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2016 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that financial instruments classified as available-for-sale, financial assets designated at fair value through profit or loss and certain employee benefits are stated at their fair values.

2. Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*
- Amendments to HKAS 16, *Property, plant and equipment* and HKAS 38, *Intangible assets: Clarification of acceptable methods of depreciation and amortisation*

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Revenue

The principal activities of the Group are the design, development, manufacture and sale of plush stuffed toys, plastic figures and ride-on toys. Revenue represents the sales value of goods supplied to customers and excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The Group's customer base is diversified and includes three (2015: three) customers with whom the value of transactions have exceeded 10% of the Group's revenues. During the year ended 31 December 2016, the revenues from sales of plush stuffed toys and plastic figures to these customers, amounted to approximately HK\$549,127,000, HK\$531,579,000 and HK\$491,667,000 (2015: HK\$571,877,000, HK\$555,590,000 and HK\$278,355,000) respectively and arose in Hong Kong, the People's Republic of China (the "PRC"), North America, Japan and Europe (2015: Hong Kong, the PRC, North America, Japan and Europe) geographical regions in which the plush stuffed toys and plastic figures segments are active.

4. 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 presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Plush stuffed toys: this segment is involved in the design, development, manufacture and sale of plush stuffed toys. These products are either sourced externally or are manufactured in the Group's manufacturing facilities located primarily in the PRC and Vietnam.
- Plastic figures: this segment is involved in design, development, manufacture and sale of plastic figures. These products are manufactured in the Group's manufacturing facilities located primarily in the PRC and Vietnam.
- Ride-on toys: this segment is involved in the design, development, manufacture and sale of ride-on toys. These products are manufactured in Vietnam and sold to customers mainly located in Japan and the United States.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources among segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, other intangible assets, goodwill and current assets with the exception of club memberships, investments in financial assets, deferred tax assets, current tax recoverable and other corporate assets. Segment liabilities include trade creditors and accruals attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

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 specially attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning the adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

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 years ended 31 December 2016 and 2015 is set out below.

	Plush stuffed toys		Plastic figures		Ride-on toys		Total	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue from external customers	1,487,615	1,278,942	629,837	525,534	33,816	9,993	2,151,268	1,814,469
Inter-segment revenue	31,773	41,149	2,851	3,501	–	2,107	34,624	46,757
Reportable segment revenue	1,519,388	1,320,091	632,688	529,035	33,816	12,100	2,185,892	1,861,226
Reportable segment profit/(loss) (adjusted EBITDA)	320,841	178,250	100,333	84,301	8,330	(2,008)	429,504	260,543
Bank interest income	3,770	4,143	11	23	23	107	3,804	4,273
Interest expense	(385)	(524)	–	–	–	–	(385)	(524)
Depreciation and amortisation for the year	(34,158)	(21,008)	(12,048)	(12,902)	(2,420)	(2,986)	(48,626)	(36,896)
Impairment loss on club memberships	(210)	(496)	–	–	–	–	(210)	(496)
Reportable segment assets	1,013,740	862,234	444,686	323,300	75,685	39,517	1,534,111	1,225,051
Additions to non-current segment assets during the year	134,081	101,244	80,561	34,766	19,913	15,100	234,555	151,110
Reportable segment liabilities	308,175	248,281	248,166	197,369	90,962	45,379	647,303	491,029

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue		
Reportable segment revenue	2,185,892	1,861,226
Elimination of inter-segment revenue	(34,624)	(46,757)
Consolidated revenue	2,151,268	1,814,469
Profit		
Reportable segment profit	429,504	260,543
Interest income	4,998	5,378
Depreciation and amortisation	(48,626)	(36,896)
Finance costs	(385)	(524)
Impairment loss on club memberships	(210)	(496)
Unallocated head office and corporate expenses	(31,413)	(27,386)
Consolidated profit before taxation	353,868	200,619

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Assets		
Reportable segment assets	1,534,111	1,225,051
Elimination of inter-segment receivables	<u>(313,904)</u>	<u>(236,478)</u>
	1,220,207	988,573
Club memberships	6,688	7,618
Other financial assets	20,852	27,690
Deferred tax assets	3,779	7,603
Current tax recoverable	1,418	28
Unallocated head office and corporate assets	<u>424,602</u>	<u>276,599</u>
Consolidated total assets	<u><u>1,677,546</u></u>	<u><u>1,308,111</u></u>
Liabilities		
Reportable segment liabilities	647,303	491,029
Elimination of inter-segment payables	<u>(313,904)</u>	<u>(236,478)</u>
	333,399	254,551
Deferred tax liabilities	1,147	–
Current tax payable	27,864	22,758
Unallocated head office and corporate liabilities	<u>23,252</u>	<u>3,916</u>
Consolidated total liabilities	<u><u>385,662</u></u>	<u><u>281,225</u></u>

(c) **Geographical information**

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment property, interests in leasehold land held for own use under operating leases, other property, plant and equipment, other intangible assets, prepayments for leasehold land and other property, plant and equipment and goodwill ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of investment property, leasehold land and other property, plant and equipment, and the location of the operation to which they are allocated in the case of other intangible assets, prepayments for leasehold land and other property, plant and equipment and goodwill.

	Revenue from external customers		Specified non-current assets	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Hong Kong (place of domicile)	23,035	39,071	268	784
North America	1,223,359	910,855	199	199
Japan	645,455	646,597	3,325	3,440
Europe	134,293	169,782	–	–
The PRC	34,039	13,679	62,525	57,278
Vietnam	39,609	14,149	562,987	384,597
Korea	49,176	10,675	5,843	7,284
Other countries	2,302	9,661	–	–
	2,128,233	1,775,398	634,879	452,798
	2,151,268	1,814,469	635,147	453,582

5. Other revenue and net income/(loss)

(a) Other revenue

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Bank interest income	3,804	4,273
Interest income from other financial assets	1,194	1,105
Sundry income	6,396	8,385
	11,394	13,763

(b) Other net income/(loss)

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Bargain purchase gain arising from acquisition of a subsidiary	3,240	–
Gain on deregistration of a subsidiary	10,818	–
Net (loss)/gain on disposal of other property, plant and equipment	(1,520)	200
Net gain/(loss) on disposal of other financial assets	95	(553)
Net realised and unrealised gain on other financial assets	154	730
Net loss on disposal of club memberships	–	(733)
Impairment loss on club memberships	(210)	(496)
Net foreign exchange gain/(loss)	3,240	(321)
Others	(259)	(239)
	15,558	(1,412)

6. Profit before taxation

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
(a) Finance costs		
Interest expense on bank borrowings wholly repayable within five years	<u>385</u>	<u>524</u>
(b) Staff costs #		
Expenses recognised in respect of defined benefit retirement plan	1,037	842
Contributions to defined contribution retirement plan	<u>41,816</u>	<u>44,096</u>
Total retirement costs	42,853	44,938
Salaries, wages and other benefits	<u>613,986</u>	<u>515,464</u>
	<u><u>656,839</u></u>	<u><u>560,402</u></u>
(c) Other items		
Amortisation of land lease premium	1,726	1,010
Depreciation #	46,900	35,886
Impairment loss recognised on trade receivables	–	425
Reversal of impairment loss on trade receivables	(1)	(37)
Impairment loss recognised on other receivables	–	329
Reversal of impairment loss on other receivables	(611)	(639)
Auditors' remuneration		
– audit services	4,429	4,453
– other services	1,681	1,368
Operating lease charges: minimum lease payments in respect of property rentals #	27,725	30,701
Cost of inventories #	<u><u>1,541,581</u></u>	<u><u>1,387,778</u></u>

Cost of inventories includes HK\$581,118,000 (2015: HK\$498,506,000) relating to staff costs, depreciation and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7. Income tax in the consolidated statement of profit or loss

Taxation in the consolidated statement of profit or loss represents:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
Provision for the year	21,224	22,850
(Over)/under-provision in respect of prior years	(299)	18
	<u>20,925</u>	<u>22,868</u>
Current tax – Outside Hong Kong		
Provision for the year	34,628	22,749
Under-provision in respect of prior years	537	1,072
	<u>35,165</u>	<u>23,821</u>
Deferred tax		
Origination and reversal of temporary differences	3,665	4,353
Effect on deferred tax balances at 1 January resulting from a change in tax rate	–	189
	<u>3,665</u>	<u>4,542</u>
	<u><u>59,755</u></u>	<u><u>51,231</u></u>

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2015-16 subject to a maximum reduction of HK\$20,000 (2015: a maximum reduction of HK\$20,000 was granted for the year of assessment 2014-15 and was taken into account in calculating the provision for 2015). Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

Current tax outside Hong Kong for the year ended 31 December 2016 includes withholding tax of HK\$1,580,000 paid on dividend income from a subsidiary.

8. 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\$295,500,000 (2015: HK\$150,783,000) and the weighted average number of ordinary shares of 676,865,000 shares (2015: 676,865,000 shares) in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as there were no dilutive potential ordinary shares in existence during the years ended 31 December 2016 and 2015.

9. Other financial assets

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current		
Structured debt security (<i>notes (i) and (v)</i>)	7,644	7,731
Available-for-sale debt securities – unlisted (<i>note (ii)</i>)	8,255	8,260
Available-for-sale equity security – unlisted (<i>note (iii)</i>)	4,953	5,108
	<u>20,852</u>	<u>21,099</u>
Current		
Equity-linked security (<i>notes (iv) and (v)</i>)	–	6,591
	<u>20,852</u>	<u>27,690</u>

Notes:

- (i) Structured debt security represents a debt investment placed with an investment bank in Korea with fixed interest rate at 4.63% per annum and redeemable by the debt issuer on or after 30 January 2018.
- (ii) Available-for-sale debt securities – unlisted represent: (a) an investment in bond amounting to HK\$1,515,000 (2015: HK\$1,524,000) with fixed interest rate at 3.95% per annum and a maturity date on 11 January 2023, which management has no intention to hold to maturity; and (b) an investment in perpetual bond amounting to HK\$6,740,000 (2015: HK\$6,736,000) with fixed interest rate at 5.88% per annum.

- (iii) Available-for-sale equity security – unlisted represents an investment in a Korean private company and is carried at cost less impairment loss. In prior years, an impairment loss of HK\$8,705,000 was recognised in order to write down the available-for-sale equity security to its recoverable amount. No further impairment loss was recognised during the years ended 31 December 2016 and 2015.
- (iv) Equity-linked security as at 31 December 2015 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 on 6 October 2016.
- (v) Structured debt security and equity-linked security 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 consolidated statement of profit or loss.

10. Trade and other receivables

As at 31 December 2016, 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:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 1 month	130,329	145,400
1 to 2 months	45,723	61,394
2 to 3 months	18,452	22,072
3 to 4 months	12,850	2,661
Over 4 months	17	785
	<hr/>	<hr/>
Trade debtors and bills receivable, net of allowance for doubtful debts	207,371	232,312
Other receivables and prepayments	119,093	90,924
Amounts due from related companies	21,912	11,580
	<hr/>	<hr/>
	348,376	334,816
	<hr/> <hr/>	<hr/> <hr/>

Trade debtors and bills receivable are due within 30 to 60 days from the date of billing.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

11. Trade and other payables

As at 31 December 2016, the ageing analysis of trade payables (which are included in trade and other payables), based on the due dates is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Due within 1 month or on demand	107,947	102,572
Due after 1 month but within 3 months	35,808	1,672
Due after 3 months but within 6 months	15	100
Due after 6 months but within 1 year	499	–
	<hr/>	<hr/>
Trade payables	144,269	104,344
Receipt in advance	34,666	14,905
Salary and welfare payables	117,284	105,040
Value-added tax payable	4,642	4,094
Payable for acquisition of other property, plant and equipment	14,885	8,788
Other payables and accrual	15,056	16,141
Amount due to a related company	–	113
	<hr/>	<hr/>
	330,802	253,425
	<hr/> <hr/>	<hr/> <hr/>

12. Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interim dividend declared and paid of HK1 cent per ordinary share (2015: HK3 cents per ordinary share)	6,769	20,306
Final dividend proposed after the end of the reporting period of HK3 cents per ordinary share (2015: HKNil cents per ordinary share)	20,306	–
	<hr/>	<hr/>
	27,075	20,306
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The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HKNil cents per ordinary share (2015: HK5 cents per ordinary share)	–	33,843
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MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During 2016, confronting various challenges, global economic growth slowed down. Factors including the uncertain stance of the US trading polices with the new president taking office, the weaker economic growth in China and potential political instability in Europe inevitably led to weaker global market sentiment. However, despite these not so favourable market situations, thanks to its strong manufacturing expertise and long-term relationship with customers, and expansion of production capability at the right time, the Group delivered remarkable results.

For the year ended 31 December 2016, the Group's revenue rose by 18.6% year-on-year to HK\$2,151.3 million (2015: HK\$1,814.5 million), attributable to the significant increase in sales volume of the plush stuffed toys and plastic figures segment. Thanks to the lower cost of key materials and improved production efficiency, its gross profit soared by 42.9% to HK\$609.7 million (2015: HK\$426.7 million), with gross profit margin up by 4.8 percentage points to 28.3% (2015: 23.5%). With strict cost control measures in place, selling and distribution expenses and administrative expenses expressed as a percentage of revenue was kept at a stable level, contributing to the notable 76.2% growth of the Group's operating profit to HK\$354.3 million (2015: HK\$201.1 million). As a result, its profit for the year also increased significantly, by 96.9%, to HK\$294.1 million (2015: HK\$149.4 million), and net profit margin was up 5.5 percentage points to 13.7% (2015: 8.2%).

As at 31 December 2016, the Group was in a sound financial position with cash and cash equivalents and time deposits of HK\$424.6 million (2015: HK\$276.6 million). To thank shareholders for their unwavering support, the Board recommended payment of a final dividend of HK3 cents per ordinary share (2015: Nil).

BUSINESS REVIEW

Product Analysis

Plush stuffed toys segment

During the year under review, the plush stuffed toys segment recorded revenue of HK\$1,487.6 million (2015: HK\$1,278.9 million), representing an increase of 16.3% compared with the prior same period, accounting for 69.1% of the Group's total revenue. The Original Equipment Manufacturing business continued to be the major revenue contributor, with sales up by 11.4% to HK\$1,339.1 million (2015: HK\$1,202.4 million), accounting for 90.0% of the revenue of the plush stuffed toys segment. Building on its leading market position, the Group was able to stand out among its peers and gain recognition from renowned toy companies. At the same time, by developing new plush toy characters to meet customers' demand, it continued to receive increasing orders from existing customers.

Revenue from the Original Design Manufacturing business grew by a sharp 94.1% to HK\$148.5 million (2015: HK\$76.5 million) in the review period, contributing 10.0% of the total revenue of the plush stuffed toys segment. To succeed in the keen market competition, the Group continued to refine its positioning by focusing on large and jumbo size plush stuffed toys, which enabled it to remain cost effective and price competitive. Greater economies of scale and synergies were achieved by using its own fabrics leveraging its vertically-integrated business model. In addition, to meet growing consumer demand, the Group reinforced its competitive advantages by carrying out market research to identify room for improvement and offering new designs to customers.

Plastic figures segment

The plastic figures segment, the Group's major growth driver, saw its sales up by 19.8% to HK\$629.8 million (2015: HK\$525.5 million), accounting for 29.3% of the Group's total revenue for the period under review. The Group continued to receive orders thanks to the strong business ties it has with long-standing customers. A unique feature plastic figures licensor, in particular, increased the volume of its order significantly and that contributed to the notable sales growth of the segment. The customer base of the segment also expanded with the Group starting business with a renowned game developer, which turned into sales contribution in the second half of 2016. Meanwhile, the Group continued to discuss with potential customers and develop new product categories to meet customer demands.

Ride-on toys segment

During the period under review, revenue generated from the ride-on toys segment more than doubled to HK\$33.8 million (2015: HK\$10.0 million), contributing 1.6% of the Group's total revenue. The Group started shipping the ride-on toys products from Vietnam in the second half of 2016 after the production facilities in China were relocated to Vietnam with efficiency improved. Encouraged by the positive feedbacks from customers after receiving the first batch of the new products developed for the US market, it will continue to focus mainly on developing the US market for the ride-on toys business segment.

Geographic Market Analysis

For the year ended 31 December 2016, North America remained as the largest geographic market of the Group, accounting for 56.9% of its total revenue. Contribution from Japan accounted for 30.0%, followed by Europe at 6.2%, and others at 6.9%.

Operational Analysis

As at 31 December 2016, the Group operated 16 plants in total, four of which were in China, and 12 in Vietnam, with average utilisation rate at 88%. The third plant in Hanoi dedicated to manufacturing plastic figures has commenced operation in the first half of 2016 and construction of a fourth plant has been initiated, with the aim of satisfying growing orders. Moreover, a production plant with a designated line for our "Doll Products" division is under construction, and operation is expected to commence in the second quarter of 2017.

Prospects

Looking at 2017, despite that uncertainties continue to loom over the world economy, the Group believes where there are challenges, there are opportunities. Although the market expects pressures from the increase in US interest rate, it also anticipates a steady pick up in speed of growth of the US economy, which would hopefully boost domestic consumption in the US and in turn sales orders of the Group from the market. The success of the Japanese government in promoting economic growth will also help brace sales growth of the Group in the Japan market. Nevertheless, given the more and more intense competition in the manufacturing sector and rising production costs, the Group remains cautiously optimistic about its future development.

Against such a backdrop, the Group will continue to adhere to its two-pronged approach. With its core business growing steadily, the timely expansion of manufacturing capacity and affording top quality products at competitive prices, it is confident of standing out among its peers in the market and maintaining its competitiveness. The Group will also explore markets with room for growth leveraging the close relationship it has with existing customers and also push to widen customer sources. Replicating its success in the plastic figures segment, satisfactory results have been achieved by the newly added “Doll Products” category. Therefore, the Group will keep expanding this category with obvious potential, grooming it into another growth driver in the near future.

As for cost control, it will continue to relocate its production facilities to regions where labour costs are lower and also strictly implement cost control measures already in place. It will seek to maximise utilisation of its existing production capacities and consider boosting them further to accommodate the increasing order volume, aiming for greater economies of scale to support its long-term development.

Facing a global economy still fraught with challenges, the Group will keep a close watch on market situations. Continuing its proven two-pronged business development strategy and applying its first mover advantage in the industry, it will continue to strive for long-term sustainable growth and to present lucrative rewards to shareholders.

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2016, the Group had 16,997 (2015: 15,267) 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 31 December 2016, the Group had net current assets of HK\$632.8 million (2015: HK\$539.7 million). The Group's total cash and cash equivalents as at 31 December 2016 amounted to HK\$316.4 million (2015: HK\$251.5 million). The total bank loans of the Group as at 31 December 2016 amounted to HK\$23.3 million (2015: HK\$3.9 million). The Group's borrowings are on a fixed rate basis.

The Group financed its operations by internally generated cashflows and banking facilities provided by its bankers. The Group maintains a prudent approach in managing its financial requirements.

The Group also maintains a conservative approach to foreign exchange exposure management. The Group is exposed to currency risk primarily through income and expenditure streams denominated in United States Dollar, Renminbi Yuan, Vietnamese Dong and Japanese Yen. To manage currency risks, non-Hong Kong Dollar assets are financed primarily by matching local currency debts as far as possible.

The Group's gearing ratio, calculated on the basis of total bank loans over the total equity, was at 1.8% at 31 December 2016 (2015: 0.4%).

PLEDGE ON GROUP ASSETS

Certain leasehold land and other property, plant and equipment of the Group with an aggregate carrying amount of HK\$20,129,000 as at 31 December 2016 (2015: HK\$19,370,000) were pledged as security for an unutilised bank facility of the Group of HK\$11,626,000 (2015: HK\$11,627,000).

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

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the year ended 31 December 2016, the Company has complied with Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules, save for the deviation from the code provision A.2.1.

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer (“CEO”) should be separated and should not be 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 Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the securities transactions by the Company’s directors (the “Directors”). The Company has made specific enquires of all Directors, and all Directors have confirmed that they had complied with the required standard as set out in the Model Code at all applicable times during the year ended 31 December 2016.

SCOPE OF WORK OF KPMG

The financial figures in this announcement have been agreed by the Group’s external auditor, KPMG, to the amounts set out in the Group’s consolidated financial statements for the year ended 31 December 2016. The work performed by KPMG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently no assurance has been expressed by KPMG on this announcement.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK3 cents per ordinary share in respect of the year ended 31 December 2016 (2015: Nil). The proposed final dividend which totals HK\$20,306,000 (2015: HK\$Nil), if approved at the forthcoming annual general meeting, will be paid on 24 May 2017 to the shareholders on the register of members as at 10 May 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 27 April 2017 to 4 May 2017, both days inclusive. During this period, no transfer of shares will be registered. Shareholders whose names appear on the register of members of the Company on 26 April 2017 are entitled to attend the forthcoming annual general meeting scheduled on 4 May 2017. In order to qualify for the right to vote for and/or attend the forthcoming annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 26 April 2017.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the forthcoming annual general meeting. For determining the entitlement to the proposed final dividend, the register of members will be closed for one day on 10 May 2017, during that day no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 9 May 2017.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management of the Company with respect to the accounting policies, principles and practices adopted by the Group and discussed risk management and internal control system, and financial reporting matters, including a review of the annual results for the year ended 31 December 2016.

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

Hong Kong, 27 March 2017

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
Mr. Tae Woong Kang
Dr. Chan Yoo