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DREAM INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1126)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018, together with the comparative figures for the previous financial year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	*3 & 4*	**3,536,936**	2,896,435
Cost of sales		**(2,793,931)**	(2,063,667)
Gross profit		**743,005**	832,768
Other revenue	*5(a)*	**19,872**	14,214
Other net loss	*5(b)*	**(1,075)**	(20,108)
Distribution costs		**(92,285)**	(65,162)
Administrative expenses		**(280,708)**	(273,851)
Profit from operations		**388,809**	487,861
Finance costs	*6(a)*	**(3,757)**	(530)
Profit before taxation	*6*	**385,052**	487,331
Income tax	*7*	**(64,527)**	(85,120)
Profit for the year		**320,525**	402,211
Attributable to:			
Equity shareholders of the Company		**332,498**	406,338
Non-controlling interests		**(11,973)**	(4,127)
Profit for the year		**320,525**	402,211
Earnings per share	*8*		
Basic and diluted		**HK49.12 ¢**	HK60.03 ¢

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
Profit for the year		**320,525**	402,211
Other comprehensive income for the year (after tax and reclassification adjustments):			
Items that will not be reclassified to profit or loss:			
– Remeasurement of net defined benefit retirement obligation		**(923)**	(570)
– Unlisted equity security at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)		**(174)**	–
Items that may be or are reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**(6,968)**	29,870
– Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary		**–**	(705)
– Investment in debt security at fair value through other comprehensive income – net movement in fair value reserve (recycling)		**255**	–
– Available-for-sale securities – net movement in fair value reserve (recycling)		**–**	(673)
		(6,713)	28,492
Other comprehensive income for the year		**(7,810)**	27,922
Total comprehensive income for the year		**312,715**	430,133
Attributable to:			
Equity shareholders of the Company		**324,575**	434,231
Non-controlling interests		**(11,860)**	(4,098)
Total comprehensive income for the year		**312,715**	430,133

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Investment properties		**3,900**	1,272
Interests in leasehold land held for own use under operating leases		**107,250**	97,906
Other property, plant and equipment		**1,057,977**	739,661
Long term receivables and prepayments		**23,090**	17,953
Other intangible assets		**7,046**	7,255
Goodwill		**2,753**	2,753
Deferred tax assets		**4,511**	4,154
Other financial assets	*9*	**5,843**	14,134
		1,212,370	885,088
Current assets			
Inventories		**459,210**	323,938
Trade and other receivables	*10*	**633,121**	654,531
Current tax recoverable		**206**	196
Other financial assets	*9*	**–**	7,644
Time deposits		**53,705**	76,470
Cash and cash equivalents		**378,503**	316,739
		1,524,745	1,379,518
Current liabilities			
Trade and other payables and contract liabilities	*11*	**592,124**	492,729
Bank loans		**116,895**	15,621
Current tax payable		**44,046**	47,544
		753,065	555,894
Net current assets		**771,680**	823,624
Total assets less current liabilities		**1,984,050**	1,708,712

	2018	2017
	HK$'000	*HK$'000*
Non-current liabilities		
Deferred tax liabilities	**8,627**	11,009
Provision for reinstatement costs	**–**	1,247
Net defined benefit retirement obligation	**–**	1,514
	8,627	13,770
NET ASSETS	**1,975,423**	1,694,942
CAPITAL AND RESERVES		
Share capital	**236,474**	236,474
Reserves	**1,762,125**	1,469,750
Total equity attributable to equity shareholders of the Company	**1,998,599**	1,706,224
Non-controlling interests	**(23,176)**	(11,282)
TOTAL EQUITY	**1,975,423**	1,694,942

NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

The financial information relating to the years ended 31 December 2018 and 2017 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 2017 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 2018 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 investments in debt and equity securities, derivative financial instruments and certain employee benefits are stated at their fair values.

2. Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

(i) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained profits and reserves at 1 January 2018.

	HK$'000
Retained profits	
Transferred to fair value reserve (non-recycling) relating to cumulative impairment losses on unlisted equity security recognised in profit or loss under HKAS 39 in prior periods	6,696
Recognition of additional expected credit losses on trade receivables under HKFRS 9	(4,449)
Net increase in retained profits at 1 January 2018	2,247
Fair value reserve (non-recycling)	
Transferred from retained profits relating to cumulative impairment losses on unlisted equity security recognised in profit or loss under HKAS 39 in prior periods	(6,696)
Fair value adjustment on unlisted equity security now measured at fair value through other comprehensive income and decrease in fair value reserve (non-recycling) at 1 January 2018	(676)
Net decrease in fair value reserve (non-recycling) at 1 January 2018	(7,372)
Non-controlling interests	
Recognition of additional expected credit losses on trade receivables and decrease in non-controlling interests at 1 January 2018	(34)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	**Reclassification**	**Remeasurement**	**HKFRS 9 carrying amount at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets carried at amortised cost				
Cash and cash equivalents	316,739	–	–	316,739
Time deposits	76,470	–	–	76,470
Trade and other receivables	654,531	–	(4,483)	650,048
Long-term receivables	17,953	–	–	17,953
	1,065,693	–	(4,483)	1,061,210
Financial assets measured at FVOCI (non-recyclable)				
Unlisted equity security *(note (i))*	–	5,650	(676)	4,974
Financial assets measured at FVOCI (recyclable)				
Unlisted debt securities *(note (ii))*	–	8,484	–	8,484
Financial assets carried at FVPL				
Structured debt security *(note (iii))*	7,644	–	–	7,644
Financial assets classified as available-for-sale under HKAS 39 *(notes (i), (ii))*	14,134	(14,134)	–	–

Notes:

(i) Under HKAS 39, unlisted equity security not held for trading was classified as available-for-sale financial asset. At 1 January 2018, the Group designated its investment in a Korean private company as investment measured at FVOCI (non-recycling), as the investment is held for strategic purposes.

(ii) Under HKAS 39, investments in debt securities were classified as available-for-sale financial assets. They are classified as financial assets measured at FVOCI (recycling) under HKFRS 9.

(iii) Structured debt security was classified as financial assets at FVPL under HKAS 39. This asset continues to be measured at FVPL under HKFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables); and

– debt securities measured at FVOCI (recycling).

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	HK$'000
Loss allowance at 31 December 2017 under HKAS 39	1,104
Additional credit loss recognised at 1 January 2018 on:	
– Trade receivables	4,483
Loss allowance at 1 January 2018 under HKFRS 9	5,587

c. **Transition**

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of HKFRS 15 had no material impact on the Group's financial position and performance during the relevant periods.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods.

b. Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred. There has been no impact on the Group as a result of this change in policy.

c. Presentation of contract liabilities

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue.

To reflect these changes in presentation, the Group has reclassified receipt in advance amounting to HK$1,717,000 to contract liabilities at 1 January 2018. Both receipt in advance and contract liabilities are under trade and other payables.

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

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.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018	2017
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major product lines		
– Plush stuffed toys	**1,692,184**	1,497,189
– Plastic figures	**1,774,028**	1,336,240
– Ride-on toys	**70,724**	63,006
	3,536,936	2,896,435

The Group's customer base is diversified and includes four (2017: four) customers with whom the value of transactions have exceeded 10% (2017: 10%) of the Group's revenues as follows:

	2018	2017
	HK$'000	*HK$'000*
Customer A	**1,090,464**	823,449
Customer B	**602,612**	558,686
Customer C	**556,190**	529,288
Customer D	**422,543**	321,676

These transactions are attributable to the plush stuffed toys and plastic figures segments, which arose in Hong Kong, the People's Republic of China (the "PRC"), North America, Japan and Europe.

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, other 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 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 2018 and 2017 is set out below.

	Plush stuffed toys		**Plastic figures**		**Ride-on toys**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Disaggregated by timing of revenue recognition								
Point in time	**1,692,184**	1,497,189	**1,774,028**	1,336,240	**70,724**	63,006	**3,536,936**	2,896,435
Revenue from external customers	**1,692,184**	1,497,189	**1,774,028**	1,336,240	**70,724**	63,006	**3,536,936**	2,896,435
Inter-segment revenue	**36,389**	19,818	**16,473**	6,096	**1,956**	8,514	**54,818**	34,428
Reportable segment revenue	**1,728,573**	1,517,007	**1,790,501**	1,342,336	**72,680**	71,520	**3,591,754**	2,930,863
Reportable segment profit/(loss) (adjusted EBITDA)	**232,162**	249,391	**283,916**	336,403	**(1,236)**	(2,815)	**514,842**	582,979
Bank interest income	**6,198**	7,086	**42**	50	**3**	18	**6,243**	7,154
Interest expense	**(3,757)**	(530)	**–**	–	**–**	–	**(3,757)**	(530)
Depreciation and amortisation for the year	**(45,173)**	(33,466)	**(46,959)**	(26,931)	**(5,543)**	(4,248)	**(97,675)**	(64,645)
Impairment loss on other property, plant and equipment	**–**	–	**–**	–	**(321)**	(8,466)	**(321)**	(8,466)
Reportable segment assets	**1,185,256**	1,016,266	**1,067,704**	922,444	**57,084**	68,478	**2,310,044**	2,007,188
Additions to non-current segment assets during the year	**65,618**	43,604	**138,583**	264,178	**4,864**	2,313	**209,065**	310,095
Reportable segment liabilities	**238,397**	219,982	**420,458**	267,414	**178,122**	177,268	**836,977**	664,664

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

	2018	2017
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**3,591,754**	2,930,863
Elimination of inter-segment revenue	**(54,818)**	(34,428)
Consolidated revenue	**3,536,936**	2,896,435
Profit		
Reportable segment profit	**514,842**	582,979
Interest income	**6,634**	8,217
Depreciation and amortisation	**(97,675)**	(64,645)
Finance costs	**(3,757)**	(530)
Impairment loss on other property, plant and equipment	**(321)**	(8,466)
Unallocated head office and corporate expenses	**(34,671)**	(30,224)
Consolidated profit before taxation	**385,052**	487,331
Assets		
Reportable segment assets	**2,310,044**	2,007,188
Elimination of inter-segment receivables	**(244,853)**	(169,174)
	2,065,191	1,838,014
Club memberships	**7,046**	7,255
Other financial assets	**5,843**	21,778
Deferred tax assets	**4,511**	4,154
Current tax recoverable	**206**	196
Unallocated head office and corporate assets	**654,318**	393,209
Consolidated total assets	**2,737,115**	2,264,606
Liabilities		
Reportable segment liabilities	**836,977**	664,664
Elimination of inter-segment payables	**(244,853)**	(169,174)
	592,124	495,490
Deferred tax liabilities	**8,627**	11,009
Current tax payable	**44,046**	47,544
Unallocated head office and corporate liabilities	**116,895**	15,621
Consolidated total liabilities	**761,692**	569,664

(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 properties, 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 properties, 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	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**52,450**	32,868	**229,064**	–
North America	**2,280,047**	1,830,649	**434**	353
Japan	**727,347**	718,123	**3,310**	3,328
Europe	**182,496**	151,455	**–**	–
The PRC	**144,932**	46,154	**59,139**	61,653
Vietnam	**60,489**	54,578	**894,237**	784,722
Korea	**85,605**	61,466	**5,647**	6,178
Other countries	**3,570**	1,142	**–**	–
	3,484,486	2,863,567	**962,767**	856,234
	3,536,936	2,896,435	**1,191,831**	856,234

5. Other revenue and net loss

(a) Other revenue

	2018	2017
	HK$'000	*HK$'000*
Bank interest income	**6,243**	7,154
Interest income from other financial assets	**391**	1,063
Sundry income	**13,238**	5,997
	19,872	14,214

(b) Other net loss

	2018	2017
	HK$'000	*HK$'000*
Gain on deregistration of a subsidiary	**–**	705
Net (loss)/gain on disposal of other property, plant and equipment	**(1,463)**	6
Net loss on disposal of other financial assets	**(235)**	–
Net realised and unrealised loss on other financial assets	**–**	(1,016)
Impairment loss on other property, plant and equipment	**(321)**	(8,466)
Net foreign exchange gain/(loss)	**2,951**	(11,443)
Others	**(2,007)**	106
	(1,075)	(20,108)

6. Profit before taxation

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

	2018	2017
	HK$'000	*HK$'000*
(a) Finance costs		
Interest expense on bank borrowings	**3,757**	530
(b) Staff costs #		
(Income)/expenses recognised in respect of defined benefit retirement plan	**(936)**	911
Contributions to defined contribution retirement plan	**63,868**	46,646
Total retirement costs	**62,932**	47,557
Salaries, wages and other benefits	**944,515**	750,249
	1,007,447	797,806

	2018 *HK$'000*	2017 *HK$'000*
(c) Other items		
Amortisation of land lease premium	**2,431**	2,086
Depreciation #	**95,244**	62,559
Reversal of impairment loss of trade receivables	**(2,940)**	–
Auditors' remuneration		
– audit services	**4,496**	4,355
– other services	**1,051**	1,573
Operating lease charges: minimum lease payments in respect of property rentals #	**28,047**	25,808
Cost of inventories #	**2,793,931**	2,063,667

Cost of inventories includes HK$931,965,000 (2017: HK$704,769,000) 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

(a) Taxation in the consolidated statement of profit or loss represents:

	2018 *HK$'000*	2017 *HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**31,934**	26,795
Over-provision in respect of prior years	**(8,829)**	(4,434)
	23,105	22,361
Current tax – Outside Hong Kong		
Provision for the year	**46,098**	56,724
Over-provision in respect of prior years	**(2,046)**	(3,814)
	44,052	52,910
Deferred tax		
Origination and reversal of temporary differences	**(2,630)**	9,849
	64,527	85,120

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 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 2017-18 subject to a maximum reduction of HK$30,000 for each business (2017: a maximum reduction of HK$20,000 was granted for the year of assessment 2016-17 and was taken into account in calculating the provision for 2017). 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 2018 includes withholding tax of HK$4,479,000 (2017: HK$7,771,000) 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$332,498,000 (2017: HK$406,338,000) and the weighted average number of ordinary shares of 676,865,000 shares (2017: 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 2018 and 2017.

9. Other financial assets

	2018	2017
	HK$'000	*HK$'000*
Non-current		
Debt securities measured at FVOCI (recyclable) *(note (ii))*	**1,538**	–
Unlisted equity security measured at FVOCI (non-recyclable) *(note (iv))*	**4,305**	–
Available-for-sale financial assets		
– Debt securities - unlisted *(note (ii) and (iii))*	**–**	8,484
– Equity security - unlisted *(note (iv))*	**–**	5,650
	5,843	14,134
Current		
Financial assets measured at FVPL		
– Structured debt security *(notes (i) and (v))*	**–**	7,644
	5,843	21,778

Notes:

(i) Structured debt security as at 31 December 2017 represented 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. The security was redeemed during the year ended 31 December 2018.

(ii) Debt securities represent an investment in bond amounting to HK$1,538,000 (2017: HK$1,582,000) with fixed interest rate at 3.95% per annum.

(iii) Available-for-sale debt securities – unlisted as at 31 December 2017 represented the debt securities mentioned in note (ii) above and an investment in perpetual bond amounting to HK$6,902,000 with fixed interest rate at 5.88% per annum. The investment in perpetual bond was redeemed during the year ended 31 December 2018.

(iv) Unlisted equity security represents an investment in Joongang Tongyang Broadcasting Company ("JTBC"), a company incorporated in Korea and engaged in multimedia and broadcasting. The Group designated its investment in JTBC at FVOCI (non-recycling), as the investment is held for strategic purpose. No dividends were received on this investment during the year (2017: Nil).

Prior to 1 January 2018, this unlisted equity security was classified as available-for-sale equity security and measured at cost less impairment loss.

(v) Structured debt security is a hybrid instrument that includes non-derivative host contracts and embedded derivatives. Upon inception, the financial instrument is designated as FVPL with changes in fair value recognised in the consolidated statement of profit or loss.

(vi) The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

10. Trade and other receivables

As at 31 December 2018, 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 loss allowance, is as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Within 1 month	**277,047**	215,610
1 to 2 months	**156,745**	143,598
2 to 3 months	**31,091**	100,178
3 to 4 months	**18,914**	31,852
Over 4 months	**2,300**	14,162
Trade debtors and bills receivable, net of loss allowance	**486,097**	505,400
Other receivables and prepayments	**128,932**	129,430
Amount due from related companies	**18,092**	19,701
	633,121	654,531

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

11. Trade and other payables and contract liabilities

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

As at 31 December 2018, the ageing analysis of trade payables (which are included in trade and other payables), based on the due dates is as follows:

	31 December 2018	1 January 2018	31 December 2017
	HK$'000	*HK$'000*	*HK$'000*
Due within 1 month or on demand	**250,005**	203,445	203,445
Due after 1 month but within 3 months	**137,310**	50,912	50,912
Due after 3 months but within 6 months	**138**	491	491
Trade payables	**387,453**	254,848	254,848
Contract liabilities-sales deposit	**8,440**	1,717	–
Salary and welfare payables	**143,241**	134,333	134,333
Value-added tax payable	**4,778**	3,805	3,805
Payable for acquisition of other property, plant and equipment	**1,285**	18,771	18,771
Other payables and accrual	**18,285**	12,280	12,280
Receipt in advance	**28,642**	66,975	68,692
	592,124	492,729	492,729

12. Dividends

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

	2018	2017
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK1 cent per ordinary share (2017: HK1 cent per ordinary share)	**6,769**	6,769
Final dividend proposed after the end of the reporting period of HK8 cents per ordinary share (2017: HK3 cents per ordinary share)	**54,149**	20,306
	60,918	27,075

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

	2018	2017
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3 cents per ordinary share (2017: HK3 cents per ordinary share)	**20,306**	20,306

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

In 2018, the global economy and market sentiment were shaken by a number of factors, including the unresolved US-China trade war and Brexit. Nevertheless, the Group has managed to deliver positive revenue growth during the year by leveraging its established competitive advantages in the toy industry as well as its timely expansion of production capacity.

For the year ended 31 December 2018, the Group's revenue increased by 22.1% year-on-year to HK$3,536.9 million (2017: HK$2,896.4 million), which was mainly attributable to the continuous increase in sales volume by the plastic figures and plush stuffed toys segments. However, as part of the business strategy to secure top-tier global customers for facilitating strong and stable order inflow in the mid- to long-term, the Group offered a competitive package entailing cross-selling to internationally leading toy brands. The packages, together with the impact from the ride-on toys segment, resulted in a drop in gross profit to HK$743.0 million (2017: HK$832.8 million), with the gross profit margin at 21.0% (2017: 28.8%). Furthermore, profit for the year amounted to HK$320.5 million (2017: HK$402.2 million), with net profit margin at 9.1% (2017: 13.9%).

As at 31 December 2018, the Group was in a healthy financial position with cash and cash equivalents and time deposits of HK$432.2 million (2017: HK$393.2 million). The Board of Directors (the "Board") has recommended the payment of a final dividend of HK8 cents per ordinary share (2017: HK3 cents per ordinary share).

Business Review

Product Analysis

Plush Stuffed Toys Segment

The plush stuffed toys segment recorded revenue totaling HK$1,692.2 million (2017: HK$1,497.2 million) during the year, accounting for 47.8% of the Group's total revenue. The Original Equipment Manufacturing business under the segment generated HK$1,518.0 million (2017: HK$1,381.0 million) in revenue, accounting for 89.7% of segment sales. Capitalizing on its reputation in the industry for high-quality and strong manufacturing capacity, the Group continued to receive growing orders from top-tier toy companies, while securing more orders for popular toy products through a marketing company. The plush stuffed toys segment has therefore continued to deliver stable income to the Group. Meanwhile, the newly set-up baby doll business has been receiving a gradually growing number of orders through cross-selling opportunities from existing customers, resulting in greater revenue contributions to this segment.

The Original Design Manufacturing business recorded revenue totaling HK$174.2 million, up 49.9% year-on-year (2017: HK$116.2 million), and accounted for 10.3% of total sales of plush stuffed toys. The increase in revenue was mainly attributable to sales from a leading US retail chain in US. To tackle the intense competition in the generic toy market, the Group will keep exploring new designs and materials, and strengthen cooperation with existing customers.

Plastic Figures Segment

During the year, the plastic figures segment remained the Group's growth driver, and has become another major revenue contributor as well. Revenue grew by 32.8% to HK$1,774.0 million (2017: HK$1,336.2 million), and thus accounted for 50.2% of the Group's total revenue. This was due in part to increased orders from a unique-feature plastic figures licensor and an international theme park. Over the years, the Group has built very close cooperative ties with customers under this segment and has become their preferred partner. Consequently, this has enabled the Group to receive more orders from such customers when new products are set for launch. Such healthy ties are also exemplified by the Group's entry into an addendum to an existing master sourcing agreement with a major customer during the year. On top of new pricing, other terms in relation to ordering have been added, including incentives for making certain annual volume thresholds for different products. A long-term sourcing agreement is relatively rare in the toy-manufacturing industry, hence is testimony to the strong and trusting ties that the Group shares with this customer. The Group has nonetheless continued to broaden its customer mix, including globally renowned play and entertainment companies, during the year.

Ride-on Toys Segment

The ride-on toys segment generated revenue of HK$70.7 million (2017: HK$63.0 million) during the year, thus accounting for 2.0% of the Group's total revenue. Taking into account the deteriorating performance of the segment, the Group will cease to produce ride-on toys products. Certain facilities will be utilised to manufacture other products of the Group.

Geographical Analysis

For the year ended 31 December 2018, North America remained as the largest geographical market of the Group, accounting for 64.5% of its total revenue. Contributions from Japan accounted for 20.6% of total revenue, followed by Europe at 5.2%, China at 4.1% and others at 5.6%.

Operational Analysis

As at 31 December 2018, the Group operated 19 plants in total, 4 of which were in China and 15 in Vietnam, with the average utilization rate at around 92%. The first phase of the fifth plant for plastic figures commenced operation during the first half of 2018 while the second phase, which is mainly for doll products, is being prepared for operation.

Prospects

Looking ahead, the trade conflict between China and the United States will continue to bring uncertainty to the global economy. Nonetheless, the Group remains cautiously optimistic about its prospects since there are opportunities coming not just from the US, but also toy companies worldwide seeking manufactures with facilities outside China. With its well-established production bases in both Vietnam and China, the Group is able to stand out from its peers to attract new customers while maintaining good relations with existing customers. As the demand for toy manufacturing capacity in China declines, industry consolidation is expected to intensify which will eject less competitive players, and in turn enable the Group to capture greater market share. The Group has been well prepared to grasp the tremendous opportunities by continuously expanding its production facility. To meet growing demand, the Group is setting up a dedicated production line in phase two of its fifth plant for the baby doll business. By closely monitoring market conditions, the Group will continue to review and adjust its production capacity in a timely manner to accelerate its development pace.

While executing its two-pronged strategy of developing the plastic figures and plush stuffed toys businesses concurrently, the Group will at the same time seek product diversification. This follows an ongoing practice that has led to the addition of plastic figures, baby dolls and die-casting products to its product divisions over time, and consequently the expansion of the Group's revenue stream. Going forwards, the Group will also continue to examine new opportunities that broaden its customer base and create new income sources. In addition, it will effectively control production costs and enhance overall operational efficiency in order to generate greater synergies, with the aim of driving long-term development.

Leveraging years of extensive industry experience, the management believes the Group can seize market opportunities for facilitating long-term growth, and ultimately, bringing satisfactory returns to its shareholders.

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2018, the Group had 23,242 (2017: 21,403) 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 2018, the Group had net current assets of HK$771.7 million (2017: HK$823.6 million). The Group's total cash and cash equivalents as at 31 December 2018 amounted to HK$378.5 million (2017: HK$316.7 million). The bank loans of the Group as at 31 December 2018 amounted to HK$116.9 million (2017: HK$15.6 million).

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 loan over the total equity, was at 5.9% at 31 December 2018 (2017: 0.9%).

PLEDGE ON GROUP ASSETS

Certain leasehold land and other property, plant and equipment of the Group with an aggregate carrying amount of HK$17.7 million as at 31 December 2018 (2017: HK$19.0 million) were pledged as security for an unutilised bank facility of the Group of HK$11.7 million (2017: HK$11.7 million). A property with carrying amount of HK$222.1 million as at 31 December 2018 was pledged as security for a mortgage instalment loan of HK$77.8 million (2017: Nil).

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

During the year ended 31 December 2018, 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 2018, 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 provisions A.2.1 and A.6.7.

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.

Code provision A.6.7 of the CG Code provides that the independent non-executive directors should attend general meetings of the Company. Due to personal family issue, one independent non-executive Director, Professor Cheong Heon Yi was unable to attend the annual general meeting of the Company held on 4 May 2018.

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 2018.

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 2018. 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 HK8 cents per ordinary share in respect of the year ended 31 December 2018 (2017: HK3 cents). The proposed final dividend which totals HK$54,149,000 (2017: HK$20,306,000), if approved at the forthcoming annual general meeting, will be paid on 31 May 2019 to the shareholders on the register of members as at 17 May 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 6 May 2019 to 10 May 2019, 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 3 May 2019 are entitled to attend the forthcoming annual general meeting scheduled on 10 May 2019. 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 3 May 2019.

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 17 May 2019, 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 16 May 2019.

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 2018.

By order of the Board
Dream International Limited
Young M. Lee
Executive Director

Hong Kong, 25 March 2019

At the date of this announcement, the directors of the Company are:

Executive Directors:
Mr. Kyoo Yoon Choi *(Chairman)*
Mr. Young M. Lee
Mr. Hyun Ho Kim
Mr. Sung Sick Kim

Independent non-executive Directors:
Professor Cheong Heon Yi
Mr. Tae Woong Kang
Dr. Chan Yoo