

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



DREAM INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1126)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the “Board”) of Dream International Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2019, together with the comparative figures for the previous financial year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)
Continuing operations			
Revenue	3	3,973,461	3,466,212
Cost of sales		<u>(3,015,954)</u>	<u>(2,722,656)</u>
Gross profit		957,507	743,556
Other revenue		24,412	16,530
Other net income/(loss)		3,834	(714)
Distribution costs		(98,955)	(89,296)
Administrative expenses		<u>(286,458)</u>	<u>(273,513)</u>
Profit from operations		600,340	396,563
Finance costs	4(a)	<u>(6,647)</u>	<u>(3,757)</u>
Profit before taxation	4	593,693	392,806
Income tax	5	<u>(97,064)</u>	<u>(64,527)</u>
Profit for the year from continuing operations		<u>496,629</u>	<u>328,279</u>

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000 (Restated)
Discontinued operations			
Loss for the year from discontinued operations	<i>12</i>	<u>(18,182)</u>	<u>(7,754)</u>
Profit for the year		<u>478,447</u>	<u>320,525</u>
Attributable to:			
Equity shareholders of the Company		477,469	332,498
Non-controlling interests		<u>978</u>	<u>(11,973)</u>
Profit for the year		<u>478,447</u>	<u>320,525</u>
Profit/(loss) attributable to equity shareholders of the Company arises from:			
– Continuing operations		490,975	338,257
– Discontinued operations	<i>12</i>	<u>(13,506)</u>	<u>(5,759)</u>
		<u>477,469</u>	<u>332,498</u>
Earnings/(loss) per share attributable to equity shareholders of the Company for the year			
Basic and diluted			
– From continuing operations	<i>6</i>	HK72.54 ¢	HK49.97 ¢
– From discontinued operations		<u>HK(2.00) ¢</u>	<u>HK(0.85) ¢</u>
Earnings per share for the year		<u>HK70.54 ¢</u>	<u>HK49.12 ¢</u>

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)
Profit for the year	478,447	320,525
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)
– Unlisted equity security at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	(665)	(174)
	(665)	(1,097)
Items that may be or are reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	(14,772)	(6,968)
– Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary	392	–
– Investment in debt security at fair value through other comprehensive income – net movement in fair value reserve (recycling)	128	255
	(14,252)	(6,713)
Other comprehensive income for the year	(14,917)	(7,810)
Total comprehensive income for the year	463,530	312,715
Attributable to:		
Equity shareholders of the Company	462,845	324,575
Non-controlling interests	685	(11,860)
Total comprehensive income for the year	463,530	312,715
Total comprehensive income attributable to equity shareholders of the Company		
– Continuing operations	476,351	330,334
– Discontinued operations	(13,506)	(5,759)
	462,845	324,575

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Non-current assets			
Investment properties		3,981	3,900
Other property, plant and equipment	8	1,251,019	1,165,227
Long term receivables and prepayments		34,497	23,090
Other intangible assets		6,063	7,046
Goodwill		2,753	2,753
Interest in an associate		7,360	–
Deferred tax assets		5,767	4,511
Other financial assets	7	4,583	5,843
		1,316,023	1,212,370
Current assets			
Inventories		594,541	459,210
Trade and other receivables	9	681,849	633,121
Current tax recoverable		86	206
Time deposits		85,647	53,705
Cash and cash equivalents		583,063	378,503
		1,945,186	1,524,745
Current liabilities			
Trade and other payables and contract liabilities	10	636,635	592,124
Bank loans		125,334	116,895
Lease liabilities		13,459	–
Current tax payable		97,121	44,046
		872,549	753,065
Net current assets		1,072,637	771,680
Total assets less current liabilities		2,388,660	1,984,050

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Non-current liabilities			
Lease liabilities		14,470	–
Deferred tax liabilities		9,692	8,627
		<u>24,162</u>	<u>8,627</u>
NET ASSETS		<u>2,364,498</u>	<u>1,975,423</u>
CAPITAL AND RESERVES			
Share capital		236,474	236,474
Reserves		2,150,515	1,762,125
Total equity attributable to equity shareholders of the Company		2,386,989	1,998,599
Non-controlling interests		(22,491)	(23,176)
TOTAL EQUITY		<u>2,364,498</u>	<u>1,975,423</u>

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The financial information relating to the years ended 31 December 2019 and 2018 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 2018 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 2019 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 are stated at their fair values.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have 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.

HKFRS 16, *Leases*

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and there are no adjustments to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by an amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

At 1 January 2019, right-of-use assets of HK\$30,683,000 and lease liabilities of HK\$28,501,000 were recognised, adjusted by prepaid lease payments of HK\$2,182,000.

3. REVENUE AND SEGMENT REPORTING

The principal activities of the Group are the design, development, manufacture and sale of plush stuffed toys, plastic figures, die-casting products 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 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 four (2018: three) reportable segments. No operating segments have been aggregated to form the following reportable segments.

Effective from 1 January 2019, as a re-alignment of business segments for the purposes of reporting to the Group's senior executive management, segment revenue and results from die-casting products were presented as a separate operating segment. Comparative information presented have been adjusted to conform to current year's presentation.

The Group no longer carried on the business of ride-on toys segment. The results of this segment have been classified as discontinued operations of the Group for the year ended 31 December 2019.

(a) Disaggregation of revenue

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

	Continuing operations		Discontinued operations	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)		(Restated)
Revenue from contract with customers within the scope of HKFRS 15				
Disaggregated by major products lines				
– Plush stuffed toys	1,870,502	1,692,184	–	–
– Plastic figures	1,972,381	1,774,028	–	–
– Die-casting products	130,578	–	–	–
– Ride-on toys	–	–	18,377	70,724
	<u>3,973,461</u>	<u>3,466,212</u>	<u>18,377</u>	<u>70,724</u>

The Group's customer base is diversified and includes four (2018: four) customers with whom the value of transactions have exceeded 10% (2018: 10%) of the Group's revenues as follows:

	Continuing operations		Discontinued operations	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)		(Restated)
Customer A	1,372,122	1,090,464	–	–
Customer B	615,463	602,612	–	–
Customer C	549,490	556,190	–	–
Customer D	466,296	422,543	–	–
	<u>466,296</u>	<u>422,543</u>	<u>–</u>	<u>–</u>

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.

(b) 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, other property, plant and equipment, other intangible assets, goodwill and interest in an associate ("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 and other property, plant and equipment, 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, and the location of operations, in the case of interest in an associate.

	Revenue from external customers			
	Continuing operations		Discontinued operations	
	2019	2018	2019	2018
	HK\$'000	<i>HK\$'000</i> (Restated)	HK\$'000	<i>HK\$'000</i> (Restated)
Hong Kong (place of domicile)	82,389	52,450	-	-
North America	2,531,539	2,228,938	18,377	51,109
Japan	805,722	715,478	-	11,869
Europe	247,845	182,496	-	-
The PRC	162,448	144,932	-	-
Vietnam	94,007	60,489	-	-
Korea	41,111	78,015	-	7,590
Other countries	8,400	3,414	-	156
	3,891,072	3,413,762	18,377	70,724
	3,973,461	3,466,212	18,377	70,724

	Specified non-current assets	
	2019	2018
	HK\$'000	<i>HK\$'000</i>
Hong Kong (place of domicile)	225,670	229,064
North America	4,379	434
Japan	6,147	3,310
The PRC	56,552	59,139
Vietnam	996,673	894,237
Korea	6,790	5,647
	1,070,541	962,767
	1,296,211	1,191,831

(c) **Segment results, 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 years ended 31 December 2019 and 2018 is set out below.

	Plush stuffed toys		Plastic figures		Die-casting products		Continuing operations sub-total		Ride-on toys – discontinued operations		Total	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000 (Restated)	2019 HK\$'000	2018 HK\$'000 (Restated)	2019 HK\$'000	2018 HK\$'000
Revenue from external customers	1,870,502	1,692,184	1,972,381	1,774,028	130,578	–	3,973,461	3,466,212	18,377	70,724	3,991,838	3,536,936
Inter-segment revenue	11,100	36,389	12,245	16,473	64,363	–	87,708	52,862	–	1,956	87,708	54,818
Reportable segment revenue	1,881,602	1,728,573	1,984,626	1,790,501	194,941	–	4,061,169	3,519,074	18,377	72,680	4,079,546	3,591,754
Reportable segment profit/(loss) (adjusted EBITDA)	330,967	232,162	383,362	283,916	36,114	–	750,443	516,078	(18,117)	(1,236)	732,326	514,842
Bank interest income	10,487	6,198	129	42	14	–	10,630	6,240	–	3	10,630	6,243
Interest expense	(5,841)	(3,757)	(806)	–	–	–	(6,647)	(3,757)	–	–	(6,647)	(3,757)
Depreciation for the year	(64,129)	(45,173)	(53,236)	(46,959)	(13,113)	–	(130,478)	(92,132)	(30)	(5,543)	(130,508)	(97,675)
Impairment loss on other property, plant and equipment	–	–	–	–	–	–	–	–	–	(321)	–	(321)
Reportable segment assets	1,261,817	1,185,256	1,043,586	1,067,704	324,556	–	2,629,959	2,252,960	–	57,084	2,629,959	2,310,044
Additions to non-current segment assets during the year	65,388	65,618	93,616	138,583	25,723	–	184,727	204,201	–	4,864	184,727	209,065
Reportable segment liabilities	275,676	238,397	336,087	420,458	328,634	–	940,397	658,855	–	178,122	940,397	836,977

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

	Continuing operations		Discontinued operations	
	2019 HK\$'000	2018 HK\$'000 (Restated)	2019 HK\$'000	2018 HK\$'000 (Restated)
Revenue				
Reportable segment revenue	4,061,169	3,519,074	18,377	72,680
Elimination of inter-segment revenue	(87,708)	(52,862)	–	(1,956)
Consolidated revenue	3,973,461	3,466,212	18,377	70,724
Profit				
Reportable segment profit/(loss)	750,443	516,078	(18,117)	(1,236)
Interest income	10,918	6,631	–	3
Depreciation	(130,478)	(92,132)	(30)	(5,543)
Finance costs	(6,647)	(3,757)	–	–
Impairment loss on other property, plant and equipment	–	–	–	(321)
Unallocated head office and corporate expenses	(30,543)	(34,014)	(35)	(657)
Consolidated profit/(loss) before taxation	593,693	392,806	(18,182)	(7,754)

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Assets		
Reportable segment assets	2,629,959	2,310,044
Elimination of inter-segment receivables	<u>(275,834)</u>	<u>(244,853)</u>
	2,354,125	2,065,191
Interest in an associate	7,360	–
Club memberships	6,063	7,046
Other financial assets	4,583	5,843
Deferred tax assets	5,767	4,511
Current tax recoverable	86	206
Unallocated head office and corporate assets	<u>883,225</u>	<u>654,318</u>
Consolidated total assets	<u><u>3,261,209</u></u>	<u><u>2,737,115</u></u>
Liabilities		
Reportable segment liabilities	940,397	836,977
Elimination of inter-segment payables	<u>(275,834)</u>	<u>(244,853)</u>
	664,563	592,124
Deferred tax liabilities	9,692	8,627
Current tax payable	97,121	44,046
Unallocated head office and corporate liabilities	<u>125,335</u>	<u>116,895</u>
Consolidated total liabilities	<u><u>896,711</u></u>	<u><u>761,692</u></u>

4. PROFIT BEFORE TAXATION

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

(a) Finance costs

	Continuing operations		Discontinued operations	
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)
Interest expense on bank loans	3,842	3,757	–	–
Interest on lease liabilities	<u>2,805</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u><u>6,647</u></u>	<u><u>3,757</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

(b) Staff costs

	Continuing operations		Discontinued operations	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)		(Restated)
Income recognised in respect of defined benefit retirement plan	–	(936)	–	–
Contributions to defined contribution retirement plan	81,017	62,565	325	1,303
Total retirement costs	81,017	61,629	325	1,303
Salaries, wages and other benefits	1,017,559	917,785	4,826	26,730
	1,098,576	979,414	5,151	28,033

(c) Other items

	Continuing operations		Discontinued operations	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)		(Restated)
Depreciation charge				
– owned property, plant and equipment	111,904	89,877	–	5,367
– leasehold land held for own use	2,417	2,255	30	176
– right-of-use assets	16,157	–	–	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	27,604	–	443
Total minimum lease payments for short-term leases	8,528	–	–	–
Reversal of loss allowances of trade receivables	(224)	(2,940)	–	–
Auditors' remuneration				
– audit services	4,829	3,841	–	655
– other services	526	1,051	–	–
Cost of inventories	3,015,954	2,722,656	34,907	71,275

5. INCOME TAX

	Continuing operations		Discontinued operations	
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i> (Restated)
Current tax – Hong Kong Profits Tax				
Provision for the year	42,022	31,934	–	–
Under/(over)-provision in respect of prior years	7	(8,829)	–	–
	<u>42,029</u>	<u>23,105</u>	<u>–</u>	<u>–</u>
Current tax – Outside Hong Kong				
Provision for the year	55,092	46,098	–	–
Under/(over)-provision in respect of prior years	2	(2,046)	–	–
	<u>55,094</u>	<u>44,052</u>	<u>–</u>	<u>–</u>
Deferred tax				
Origination and reversal of temporary differences	(59)	(2,630)	–	–
	<u>97,064</u>	<u>64,527</u>	<u>–</u>	<u>–</u>

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for the Company which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For the Company, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated at the same basis in 2018.

Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

The provision for Hong Kong Profits Tax for 2019 is taken into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2018-19 subject to a maximum reduction of HK\$20,000 for each business (2018: a maximum reduction of HK\$30,000 was granted for the year of assessment 2017-18 and was taken into account in calculating the provision for 2018).

Current tax outside Hong Kong for the year ended 31 December 2019 includes withholding tax of HK\$1,133,000 (2018: HK\$4,479,000) paid on dividend income from a subsidiary.

6. 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\$477,469,000 (2018: HK\$332,498,000) and the weighted average number of 676,865,000 ordinary shares (2018: 676,865,000 ordinary shares) in issue during the year.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit/(loss) attributable to equity shareholders of the Company arises from:		
– Continuing operations	490,975	338,257
– Discontinued operations	<u>(13,506)</u>	<u>(5,759)</u>
	<u>477,469</u>	<u>332,498</u>

(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 2019 and 2018.

7. OTHER FINANCIAL ASSETS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Debt securities measured at fair value through other comprehensive income (“FVOCI”) (recycling) (note (i))	1,609	1,538
Unlisted equity security measured at FVOCI (non-recycling) (note (ii))	<u>2,974</u>	<u>4,305</u>
	<u>4,583</u>	<u>5,843</u>

Notes:

- (i) Debt securities represents an investment in bond amounting to HK\$1,609,000 (2018: HK\$1,538,000) with fixed interest rate at 3.95% (2018: 3.95%) per annum.
- (ii) 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 (2018: HK\$Nil).

8. OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

As discussed in note 2, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17.

During the year, additions to right-of-use assets were HK\$34,787,000. This amount included the purchase of a leasehold property of HK\$17,911,000 (2018: HK\$11,937,000), and the remaining primarily related to the capitalised lease payments payable under new tenancy agreements.

(b) Acquisitions and disposal of owned assets

For the year ended 31 December 2019, the Group acquired items of other property, plant and equipment with a cost of HK\$157,173,000 (2018: HK\$419,658,000). Items of other property, plant and equipment with a net book value of HK\$1,474,000 (2018: HK\$2,068,000) were disposed of for the year ended 31 December 2019, resulting in a net gain on disposal of HK\$590,000 (2018: net loss on disposal of HK\$1,463,000).

9. TRADE AND OTHER RECEIVABLES

As at 31 December 2019, 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:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 1 month	329,468	277,047
1 to 2 months	171,169	156,745
2 to 3 months	30,939	31,091
3 to 4 months	8,765	18,914
Over 4 months	3,378	2,300
	<hr/>	<hr/>
Trade debtors and bills receivable, net of loss allowance	543,719	486,097
Other receivables and prepayments	112,647	128,932
Loan to an associate	4,080	–
Amounts due from related companies	21,403	18,092
	<hr/>	<hr/>
	681,849	633,121

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

10. 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 2019, the ageing analysis of trade payables, based on the due dates is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Due within 1 month or on demand	325,091	250,005
Due after 1 month but within 3 months	83,805	137,310
Due after 3 months but within 6 months	<u>2,614</u>	<u>138</u>
Trade payables	411,510	387,453
Contract liabilities – sales deposit	24,055	8,440
Salary and welfare payables	154,935	143,241
Value-added tax payable	3,150	4,778
Payable for acquisition of other property, plant and equipment	–	1,285
Other payables and accrual	15,137	18,285
Receipt in advance	<u>27,848</u>	<u>28,642</u>
	<u><u>636,635</u></u>	<u><u>592,124</u></u>

11. DIVIDENDS

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interim dividend declared and paid of HK3 cents per ordinary share (2018: HK1 cent per ordinary share)	20,306	6,769
Final dividend proposed after the end of the reporting period of HK10 cents per ordinary share (2018: HK8 cents per ordinary share)	<u>67,687</u>	<u>54,149</u>
	<u><u>87,993</u></u>	<u><u>60,918</u></u>

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**

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK8 cents per ordinary share (2018: HK3 cents per ordinary share)	<u>54,149</u>	<u>20,306</u>

12. DISCONTINUED OPERATIONS

During the year ended 31 December 2019, the Group ceased the operations and scrapped all of the plant and equipment, with full impairment loss made as at 31 December 2018, of the ride-on toys segment. As the ride-on toys segment is considered as a separate major line of business, the corresponding operations have been classified as discontinued operations as a result of the cessation of operations of this segment.

As at 31 December 2019, no assets or liabilities of the ride-on toys segment were held by the Group.

The result of the discontinued operations for the year ended 31 December 2019 is set out below:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	18,377	70,724
Cost of sales	<u>(34,907)</u>	<u>(71,275)</u>
Gross loss	(16,530)	(551)
Other revenue	247	3,342
Other net income/(loss)	186	(361)
Distribution costs	(323)	(2,989)
Administrative expenses	<u>(1,762)</u>	<u>(7,195)</u>
Loss before taxation	(18,182)	(7,754)
Income tax	<u>-</u>	<u>-</u>
Loss for the year from discontinued operations	<u>(18,182)</u>	<u>(7,754)</u>
Attributable to:		
Equity shareholders of the Company	(13,506)	(5,759)
Non-controlling interests	<u>(4,676)</u>	<u>(1,995)</u>
	<u>(18,182)</u>	<u>(7,754)</u>
Cash flow		
Operating cash outflows	(8,423)	(4,573)
Investing cash inflows/(outflows)	<u>82</u>	<u>(2,551)</u>
Net cash outflows	<u>(8,341)</u>	<u>(7,124)</u>

13. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

- a) On 29 November 2019, the Company entered into an agreement with C & H Co., Ltd (“C & H”) and two independent third parties to acquire 100% of the interests in C & H Vina Joint Stock Company (“C & H Vina”) with considerations of US\$11,000,000 (equivalent to HK\$86,130,000). On the same date, the Company entered into an agreement with C & H to acquire 100% of the interests in C & H Tarps Co., Ltd with considerations of US\$5,000,000 (equivalent to HK\$39,150,000). C & H is an associate of Mr. Kyoo Yoon Choi, Executive Director and controlling shareholder of the Company. These transactions constitute connected transactions as defined in Chapter 14A of the Listing Rules and were approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 23 March 2020. These transactions have not been completed as at the date of this announcement.
- b) On 6 January 2020, the Company acquired 25.71% shareholding of C & H HK Corp., Ltd (“CHHK”), from non-controlling interests of CHHK. CHHK becomes a wholly-owned subsidiary of the Company since then.

14. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to the disclosure requirement in respect of the discontinued operations set out in note 12. Accordingly, the comparative figures in the consolidated statement of profit or loss have been restated.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The global economy faced a combination of challenges in 2019, including an unresolved US-China trade conflict, followed by the outbreak of the novel coronavirus (COVID-19) at the end of the year. The global economy and the market sentiment were continuously struggled throughout the year and now are facing another uncertainty caused by the virus epidemic. Nevertheless, the Group has managed to achieve revenue growth during the year by employing effective strategies, such as expanding production capacity to capture growing market opportunities, which helped to sustain growth momentum.

For the year ended 31 December 2019, the Group's revenue including both continuing and discontinued operations increased by 12.9% year-on-year to HK\$3,991.8 million (2018: HK\$3,536.9 million), due primarily to an increase in sales volume from both plush stuffed toys and plastic figures segments as well as the successful conversion of the loss making ride-on toys manufacturing operation into producing popular die-casting products and processing plastic figures. Gross profit rose by 26.6% to HK\$941.0 million (2018: HK\$743.0 million), with the gross profit margin at 23.6% (2018: 21.0%). The combination of an elimination of capacity reserve and less start-up cost factor for a new factory for the plastic figures segment and the achievement of producing more profitable die-casting products from the discontinued ride-on toy segment. Profit attributable to equity shareholders soared by 43.6% to HK\$477.5 million (2018: HK\$332.5 million), with net profit margin climbing to 12.0% (2018: 9.1%).

As at 31 December 2019, the Group was in a healthy financial position with cash and cash equivalents and time deposits of HK\$668.7 million (2018: HK\$432.2 million). The Board has recommended the payment of a final dividend of HK10 cents per ordinary share for the year ended 31 December 2019 (2018: HK8 cents per ordinary share).

Business Review

Product Analysis

Plush Stuffed Toys Segment

The plush stuffed toys segment recorded revenue totaling HK\$1,870.5 million (2018: HK\$1,692.2 million) during the year, accounting for 46.9% of the Group's total revenue. The Original Equipment Manufacturing business under the segment achieved revenue growth of 15.2% year-on-year to HK\$1,748.3 million (2018: HK\$1,518.0 million), and thus accounted for 93.5% of segment sales. Owing to strong relations with existing customers, the Group continued to receive orders from top-tier toy companies, resulting in stable income to the Group. Meanwhile, the baby doll business achieved further growth, serving as an additional income stream. To expand the promotional product business, the Group secured few new customers and is evaluating opportunities for developing separate production lines for this business to enhance profitability.

The Original Design Manufacturing business recorded revenue totaling HK\$122.2 million (2018: HK\$174.2 million), down 29.9% year-on-year, and accounted for 6.5% of total sales of plush stuffed toys. With US retailers as major customers of this business, the Group worked on developing new designs to address their needs as well as to cope with stiff competition in the generic toy market, consequently strengthening its foothold in the industry.

Plastic Figures Segment

During the year, the plastic figures segment revenue rose 11.2% to HK\$1,972.4 million (2018: HK\$1,774.0 million), and thus accounted for 49.4% of the Group's total revenue, thus remaining a primary revenue stream. The upturn was mainly due to increased orders from its existing customers, all of whom the Group has built close and longstanding cooperative ties. The Addendum to Master Sourcing Agreement signed by the Group in 2018 has successfully enhanced capacity utilisation as well as gross margin. The Group will continue to boost ties with its existing customers, as well as explore cross-selling opportunities from its plush stuff toys customers, in order to raise revenue contributions.

Die-casting Products Segment

Further to the restructuring of production facilities for ride-on toys to manufacture die-casting products in March 2019, the Group's die-casting products segment has expanded rapidly, recording revenue of HK\$130.6 million during the year, and accounting for 3.3% of the Group's total revenue. The successful conversion of the product change and the addition of processing lines for plastic figures made the operation possible to go above the break even level much quicker than managements' expectation and became profitable for the first time since the relocation from the PRC. Addition of few new customers in this product category together with some expansion of manufacturing capacity should be able to lead the operation to play more important role in the Group's business performances with a bigger contribution in revenue and profits.

Discontinued Operation

Ride-on Toys Segment

Due to the cessation of production of ride-on toys, the segmental revenue for this segment decreased to HK\$18.4 million (2018: HK\$70.7 million) during the year.

Geographical Analysis

For the year ended 31 December 2019, North America continued to be the largest geographical market of the Group, accounting for 63.9% of its total revenue including both continuing and discontinued operations. Contributions from Japan accounted for 20.2% of total revenue, followed by Europe at 6.2%, the PRC at 4.1% and others at 5.6%.

Operational Analysis

As at 31 December 2019, the Group operated 19 plants in total, 4 of which were in the PRC and 15 in Vietnam, which achieved an average utilisation rate of approximately 89%. The fifth plant for plastic figures which has commenced operation during the first half of 2018 has become one of the major production facilities of the Group with production efficiency expected to further improve through automation. In preparation for the higher demand for the production in Vietnam, the Group had acquired the lands in Ninh Binh province for additional capacity and the construction for one additional factory is in progress.

Prospects

Though headwinds, especially unsettled Coronavirus epidemic situation, is expected to have some impact on the market sentiment and the global economy. Nonetheless, the Group remains cautiously optimistic about its prospects since the Group is well positioned with its production facilities in both Vietnam and the PRC and 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 outside the PRC increases, 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.

While executing its two-pronged strategy of developing the plastic figures and plush stuffed toys businesses concurrently, the Group has been seeking product diversification. For the former, in order to meet growing demand by customers, the Group has acquired two additional parcel of land in Vietnam for building additional facilities to produce plastic figures. The construction for one facility is estimated to be completed and expected to be in operation at the end of first half 2020. The Group will subsequently evaluate whether further capacity build out is necessary later this year based on market demand. The Group is also in process of setting up separate production facility specializing in promotional product or product with simple design by more automation and reduction of headcounts to enhance the profitability.

The successful conversion of ride-on toys manufacturing operation into production of die-casting product and processing plastic figures products by utilising vacant space will create further room for expansion while doll products segment has continued its revenue growth. As the Group is in negotiation with few new customers for die-casting products, and thus increasing contributions from this product segment is expected.

It is worth noting that in the face of the current coronavirus epidemic, the demand for materials from the Group's newly acquired tarpaulin businesses will be increased as the majority of global supply is located in the PRC, which, since the Chinese New Year holidays, has been limited as industry players have found it difficult to resume operations according to their schedule. Consequently, the Group's new business is expected to deliver immediate contribution from the date that acquisition is finalised.

By capitalising on its in-depth industry knowledge and tremendous experience in the toy manufacturing industry, timely capacity expansion in Vietnam to meet rising market demand, and ongoing efforts to diversify business operations, the management believes the Group is well prepared to cope with market fluctuations, grasp emerging opportunities and achieve continuous growth, leading ultimately to value creation for the shareholders of the Company (the "Shareholders").

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2019, the Group had 26,717 (2018: 23,242) employees in Hong Kong, the PRC, Korea, the US, Japan and Vietnam. The total cost of employees for the year ended 31 December 2019 amounted to HK\$1,103.7 million (2018: HK\$1,007.4 million). The Group values its human resources and recognises the importance of attracting and retaining quality staff for its continuing success. Staff bonuses 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 2019, the Group had net current assets of HK\$1,072.6 million (2018: HK\$771.7 million). The Group's total cash and cash equivalents as at 31 December 2019 amounted to HK\$583.1 million (2018: HK\$378.5 million). The bank loans of the Group as at 31 December 2019 amounted to HK\$125.3 million (2018: HK\$116.9 million). The Group financed its operations by internally generated cashflows and banking facilities provided by the banks. 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 5.3% at 31 December 2019 (2018: 5.9%).

PLEDGE ON GROUP ASSETS

Certain leasehold land and other property, plant and equipment of the Group with an aggregate carrying amount of HK\$17.4 million (2018: HK\$17.7 million) as at 31 December 2019 were pledged as security for an unutilised banking facility of the Group of HK\$11.7 million (2018: HK\$11.7 million).

A property of the Group with carrying amount of HK\$214.5 million (2018: HK\$222.1 million) as at 31 December 2019 was pledged as security for a mortgage instalment loan of the Group of HK\$70.7 million (2018: HK\$77.8 million).

Factory buildings of the Group with an aggregate carrying amount of HK\$81.6 million (2018: HK\$Nil) as at 31 December 2019 was pledged as security for a bank loan of the Group of HK\$40.7 million (2018: HK\$Nil).

Bank deposits of the Group with an aggregate carrying amount of HK\$6.7 million (2018: HK\$Nil) as at 31 December 2019 was pledged as security for a bank loan of the Group of HK\$6.5 million (2018: HK\$Nil).

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 29 November 2019, the Company entered into an agreement with C & H Co., Ltd. (“C & H”) and two independent third parties to acquire 100% of the interests in C & H Vina Joint Stock Company with total consideration of US\$11,000,000 (equivalent to HK\$86,130,000). On the same date, the Company entered into an agreement with C & H to acquire 100% of the interests in C & H Tarps Co., Ltd. with consideration of US\$5,000,000 (equivalent to HK\$39,150,000). C & H is an associate of Mr. Kyoo Yoon Choi, Executive Director and controlling shareholder of the Company. These transactions constitute connected transactions as defined in Chapter 14A of the Listing Rules and were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 23 March 2020. These transactions have not been completed as at the date of this announcement.

EVENT AFTER REPORTING PERIOD

On 6 January 2020, the Company acquired 25.71% shareholding of C & H HK Corp., Ltd. (“CHHK”) from non-controlling interests of CHHK and CHHK becomes a wholly-owned subsidiary of the Company.

CORPORATE GOVERNANCE

During the year ended 31 December 2019, 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 2019.

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 2019. 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 HK10 cents per ordinary share in respect of the year ended 31 December 2019 (2018: HK8 cents). The proposed final dividend which totals HK\$67,687,000 (2018: HK\$54,149,000), if approved at the forthcoming annual general meeting, will be paid on 5 June 2020 to the shareholders on the register of members as at 22 May 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 11 May 2020 to 15 May 2020, 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 8 May 2020 are entitled to attend the forthcoming annual general meeting scheduled on 15 May 2020. 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 8 May 2020.

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 22 May 2020, 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 21 May 2020.

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 2019.

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

Hong Kong, 27 March 2020

At the date of this announcement, the Directors 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