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DREAM INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1126)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of directors (the “Board”) of Dream International Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 together with comparative figures for the corresponding period in 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2020 – UNAUDITED

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations			
Revenue	3	1,629,551	1,591,075
Cost of sales		<u>(1,370,461)</u>	<u>(1,277,344)</u>
Gross profit		259,090	313,731
Other revenue		16,626	9,152
Other net gain		1,540	1,192
Gain on bargain purchase	14	16,406	–
Distribution costs		(35,823)	(38,909)
Administrative expenses		<u>(139,271)</u>	<u>(135,409)</u>
Profit from operations		118,568	149,757
Finance costs	4(a)	(4,542)	(2,599)
Share of losses of associates		<u>(475)</u>	<u>–</u>
Profit before taxation	4	113,551	147,158
Income tax	5	<u>(26,103)</u>	<u>(18,707)</u>
Profit for the period from continuing operations		<u>87,448</u>	<u>128,451</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2020 – UNAUDITED

		Six months ended 30 June	
	<i>Notes</i>	2020	2019
		HK\$'000	HK\$'000
Discontinued operations			
Loss for the period from discontinued operations	<i>13</i>	–	(18,182)
Profit for the period		87,448	110,269
Attributable to:			
Equity shareholders of the Company		87,448	112,439
Non-controlling interests		–	(2,170)
Profit for the period		87,448	110,269
Profit/(loss) attributable to equity shareholders of the Company arises from:			
– Continuing operations		87,448	125,945
– Discontinued operations		–	(13,506)
		87,448	112,439
Earnings per share attributable to equity shareholders of the Company for the period			
Basic and diluted	<i>7</i>		
– From continuing operations		HK\$0.129	HK\$0.186
– From discontinued operations		–	HK\$(0.020)
Earnings per share for the period		HK\$0.129	HK\$0.166

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020 – UNAUDITED

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	87,448	110,269
Other comprehensive income for the period (after tax and reclassification adjustments):		
Item that will not be reclassified to profit or loss:		
Unlisted equity security at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	(347)	(829)
	<u>(347)</u>	<u>(829)</u>
Items that may be or are reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	(14,151)	(5,416)
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)	451	87
	<u>(13,700)</u>	<u>(4,937)</u>
Other comprehensive income for the period	<u>(14,047)</u>	<u>(5,766)</u>
Total comprehensive income for the period	<u><u>73,401</u></u>	<u><u>104,503</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2020 – UNAUDITED

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Attributable to:		
Equity shareholders of the Company	73,401	106,991
Non-controlling interests	<u>–</u>	<u>(2,488)</u>
Total comprehensive income for the period	<u>73,401</u>	<u>104,503</u>
Total comprehensive income attributable to equity shareholders of the Company		
– Continuing operations	73,401	120,497
– Discontinued operations	<u>–</u>	<u>(13,506)</u>
	<u>73,401</u>	<u>106,991</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020 – UNAUDITED

		At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Investment properties		3,313	3,981
Other property, plant and equipment	9	1,329,203	1,251,019
Long term receivables and prepayments		32,225	34,497
Other intangible assets		5,919	6,063
Goodwill		2,753	2,753
Interests in associates		13,193	7,360
Deferred tax assets		5,955	5,767
Other financial assets	8	4,121	4,583
		<u>1,396,682</u>	<u>1,316,023</u>
Current assets			
Inventories	10	660,046	594,541
Trade and other receivables	11	675,070	681,849
Current tax recoverable		123	86
Time deposits		79,710	85,647
Cash and cash equivalents		465,915	583,063
		<u>1,880,864</u>	<u>1,945,186</u>
Current liabilities			
Trade and other payables and contract liabilities	12	581,621	636,635
Bank loans		245,782	125,334
Lease liabilities		11,795	13,459
Current tax payable		42,999	97,121
		<u>882,197</u>	<u>872,549</u>
Net current assets		<u>998,667</u>	<u>1,072,637</u>
Total assets less current liabilities		<u>2,395,349</u>	<u>2,388,660</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*AS AT 30 JUNE 2020 – UNAUDITED*

	At 30 June 2020 <i>Notes</i> HK\$'000	At 31 December 2019 <i>HK\$'000</i>
Non-current liabilities		
Lease liabilities	15,065	14,470
Deferred tax liabilities	10,072	9,692
	<u>25,137</u>	<u>24,162</u>
NET ASSETS	<u>2,370,212</u>	<u>2,364,498</u>
CAPITAL AND RESERVES		
Share capital	236,474	236,474
Reserves	2,133,738	2,150,515
Total equity attributable to equity shareholders of the Company	2,370,212	2,386,989
Non-controlling interests	<u>–</u>	<u>(22,491)</u>
TOTAL EQUITY	<u>2,370,212</u>	<u>2,364,498</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 GENERAL INFORMATION AND BASIS OF PREPARATION

The principal activities of the Group are design, development, manufacture and sale of plush stuffed toys, plastic figures, die-casting products and tarpaulin.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 6/F, South Seas Centre, 75 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong.

The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The interim financial results set out in this announcement do not constitute the Group's interim financial report for the six months ended 30 June 2020 but are extracted from those interim financial report.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 26 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the "Companies Ordinance") is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

2 ACCOUNTING POLICIES ADOPTED IN 2020 FINANCIAL STATEMENTS

(i) Changes in accounting policies

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*

None of these 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 in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to HKFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see note 9(a)). There is no impact on the opening balance of equity at 1 January 2020.

(ii) Revenue and other income

Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

3 REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group’s most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified four (six months ended 30 June 2019: four) reportable segments. No operating segments have been aggregated to form the following reportable segments.

As discussed in note 13, the Group no longer carried on business of ride-on toys segment. The results of this segment have been classified as discontinued operations of the Group for the period ended 30 June 2019.

(a) **Disaggregation of revenue**

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

	Six months ended 30 June		
	Continuing operations		Discontinued operations
	2020	2019	2019
	HK\$'000	HK\$'000	HK\$'000
Revenue from sales of goods			
within the scope of HKFRS 15			
Disaggregated by major product lines			
– Plush stuffed toys	653,773	775,420	–
– Plastic figures	799,901	770,175	–
– Die-casting products	75,492	45,480	–
– Tarpaulin	100,385	–	–
– Ride-on toys	–	–	18,377
	<u>1,629,551</u>	<u>1,591,075</u>	<u>18,377</u>

	Six months ended 30 June		
	Continuing operations		Discontinued operations
	2020	2019	2019
	HK\$'000	HK\$'000	HK\$'000
Disaggregated by geographical location of customers			
– Hong Kong (place of domicile)	15,204	23,840	–
– North America	1,099,709	943,838	18,377
– Japan	336,437	349,718	–
– The PRC	72,795	104,642	–
– Europe	53,053	80,616	–
– Vietnam	38,179	65,278	–
– Korea	10,040	18,932	–
– Other countries	4,134	4,211	–
	<u>1,629,551</u>	<u>1,591,075</u>	<u>18,377</u>

(b) **Information about profit or loss, assets and liabilities**

Disaggregation of revenue from 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 period is set out below.

	Plush stuffed toys		Plastic figures		Die-casting products		Tarpaulin		Continuing operations sub-total		Ride-on toys - discontinued operations		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>For the six months ended 30 June</i>														
Revenue from external customers	653,773	775,420	799,901	770,175	75,492	45,480	100,385	-	1,629,551	1,591,075	-	18,377	1,629,551	1,609,452
Inter-segment revenue	8,902	9,930	11,834	4,907	23,798	15,670	-	-	44,534	30,507	-	-	44,534	30,507
Reportable segment revenue	662,675	785,350	811,735	775,082	99,290	61,150	100,385	-	1,674,085	1,621,582	-	18,377	1,674,085	1,639,959
Reportable segment profit/(loss) (adjusted EBITDA)	120,046	112,223	41,264	94,048	8,926	15,196	8,794	-	179,030	221,467	-	(18,117)	179,030	203,350
<i>As at 30 June/31 December</i>														
Reportable segment assets	1,235,435	1,261,817	1,180,623	1,043,586	256,674	324,556	189,035	-	2,861,767	2,629,959	-	-	2,861,767	2,629,959
Reportable segment liabilities	213,970	275,676	379,954	336,087	335,795	328,634	31,568	-	961,287	940,397	-	-	961,287	940,397

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

(c) **Reconciliations of reportable segment profit or loss**

	Six months ended 30 June		
	Continuing operations		Discontinued operations
	2020	2019	2019
	HK\$'000	HK\$'000	HK\$'000
Reportable segment profit/(loss)	179,030	221,467	(18,117)
Interest income	7,672	4,539	-
Depreciation	(68,950)	(61,411)	(30)
Gain on bargain purchase	16,406	-	-
Finance costs	(4,542)	(2,599)	-
Share of losses of associates	(475)	-	-
Unallocated head office and corporate expenses	(15,590)	(14,838)	(35)
Consolidated profit/(loss) before taxation	113,551	147,158	(18,182)

4 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June		
	Continuing operations		Discontinued operations
	2020	2019	2019
	HK\$'000	HK\$'000	HK\$'000
Interest expense on bank borrowings	3,403	1,609	–
Interest on lease liabilities	1,139	990	–
	<u>4,542</u>	<u>2,599</u>	<u>–</u>

(b) Other items

	Six months ended 30 June		
	Continuing operations		Discontinued operations
	2020	2019	2019
	HK\$'000	HK\$'000	HK\$'000
Depreciation charge			
– owned property, plant and equipment	59,360	53,797	–
– leasehold land held for own use	1,186	1,245	30
– right-of-use assets	8,404	6,369	–
Total minimum lease payments for short-term leases	4,280	6,260	–
Inventories write-down (note 10)	–	7,424	–
Reversal of write-down of inventories (note 10)	(566)	(307)	(3,672)
Bank interest income	(7,543)	(4,479)	–
Interest income from other financial assets	(129)	(60)	–
Net gain on disposal of other property, plant and equipment	(1,171)	(316)	(82)
Net gain on disposal of other intangible assets	(7)	–	–
	<u>(1,171)</u>	<u>(4,479)</u>	<u>(3,672)</u>

5 INCOME TAX

	Six months ended 30 June		
	Continuing operations		Discontinued operations
	2020	2019	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax – Hong Kong Profits Tax	9,943	12,554	–
Current tax – Outside Hong Kong	21,720	8,289	–
Deferred taxation	(5,560)	(2,136)	–
	<u>26,103</u>	<u>18,707</u>	<u>–</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30 June 2019: 16.5%) to the six months ended 30 June 2020 except for the Company which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For the Company, the first HK\$2,000,000 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 2019.

Taxation for subsidiaries outside Hong Kong is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

Current tax outside Hong Kong for the six months ended 30 June 2020 includes withholding tax of HK\$4,571,000 (six months ended 30 June 2019: HK\$Nil) paid on dividend income from subsidiaries.

6 DIVIDENDS

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

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared and paid after the interim period of HK2 cents per ordinary share (six months ended 30 June 2019: HK3 cents per ordinary share)	<u>13,537</u>	<u>20,306</u>

The interim dividend 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 following interim period

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK10 cents per ordinary share (six months ended 30 June 2019: HK8 cents per ordinary share)	<u>67,687</u>	<u>54,149</u>

7 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\$87,448,000 (six months ended 30 June 2019: HK\$112,439,000) and the weighted average number of ordinary shares of 676,865,000 shares (six months ended 30 June 2019: 676,865,000 shares) in issue during the interim period.

	Six months ended 30 June	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit/(loss) attributable to equity shareholders of the Company arises from:		
– Continuing operations	87,448	125,945
– Discontinued operations	–	(13,506)
	87,448	112,439

(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 six months ended 30 June 2020 and 2019.

8 OTHER FINANCIAL ASSETS

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
	Debt securities measured at FVOCI (recycling) (<i>note (i)</i>)	1,615
Unlisted equity security measured at FVOCI (non-recycling) (<i>note (ii)</i>)	2,506	2,974
	4,121	4,583

Notes:

- (i) Debt securities represents an investment in bond amounting to HK\$1,615,000 (31 December 2019: HK\$1,609,000) with fixed interest rate at 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 fair value through other comprehensive income (“FVOCI”) (non-recycling), as the investment is held for strategic purpose. No dividends were received on this investment during the period (2019: HK\$Nil).

9 OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2020, the Group entered into a number of lease agreements and therefore recognised the additions to right-of-use assets of HK\$13,822,000.

During the six months ended 30 June 2020, the Group received rent concessions in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19 and the amount of COVID-19 rent concessions is HK\$174,000.

As disclosed in note 2, the Group has early adopted the Amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions*, and has applied the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period.

(b) Acquisitions and disposal of owned assets

During the six months ended 30 June 2020, the Group acquired items of other property, plant and equipment with a cost of HK\$105,789,000 (six months ended 30 June 2019: HK\$67,076,000). Items of other property, plant and equipment with a net book value of HK\$6,767,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$1,359,000), resulting in a net gain on disposal of HK\$1,171,000 (six months ended 30 June 2019: HK\$398,000).

10 INVENTORIES

During the six months ended 30 June 2020, there is a reversal of write-down of inventories of HK\$566,000 (six months ended 30 June 2019: HK\$3,979,000). The reversal arose upon utilisation, disposal or an increase in the estimated net realisable value of these inventories.

During the six months ended 30 June 2019, there was a write-down of inventories of HK\$7,424,000. The write-down arose upon a decrease in the estimated net realisable value of these inventories.

11 TRADE AND OTHER RECEIVABLES

As at 30 June 2020, 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:

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Within 1 month	345,381	329,468
1 to 2 months	136,494	171,169
2 to 3 months	16,475	30,939
3 to 4 months	3,464	8,765
Over 4 months	401	3,378
	<hr/>	<hr/>
Trade debtors and bills receivable, net of loss allowance	502,215	543,719
Other receivables and prepayments	141,043	112,647
Loan to associates	20,626	4,080
Amounts due from related companies	11,186	21,403
	<hr/>	<hr/>
	675,070	681,849
	<hr/> <hr/>	<hr/> <hr/>

Trade debtors and bills receivable are due within 30 to 120 days (31 December 2019: 30 to 60 days) from the date of billing.

12 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

As at 30 June 2020, the ageing analysis of trade payables (which are included in trade and other payables and contract liabilities), based on the due date, is as follows:

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Due within 1 month or on demand	329,673	325,091
Due after 1 month but within 3 months	71,864	83,805
Due after 3 months but within 6 months	12,965	2,614
	<hr/>	<hr/>
Trade payables	414,502	411,510
Contract liabilities – sales deposit	9,121	24,055
Salary and welfare payables	113,277	154,935
Value-added tax payable	1,046	3,150
Other payables and accrual	16,292	15,137
Receipt in advance	24,853	27,848
Amount due to an associate	2,530	–
	<hr/>	<hr/>
	581,621	636,635
	<hr/> <hr/>	<hr/> <hr/>

13 DISCONTINUED OPERATIONS

During the six months ended 30 June 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 was considered as a separate major line of business, the corresponding operations had been classified as discontinued operations as a result of the cessation of operations of this segment.

As at 30 June 2019, no assets or liabilities of the ride-on toys segment were held by the Group.

The result of the discontinued operations for the six months ended 30 June 2019 was set out below:

	Six months ended 30 June 2019 <i>HK\$'000</i>
Revenue	18,377
Cost of sales	<u>(34,907)</u>
Gross loss	(16,530)
Other revenue	247
Other net income	186
Distribution costs	(323)
Administrative expenses	<u>(1,762)</u>
Loss from operations	<u>(18,182)</u>
Loss before taxation	(18,182)
Income tax	<u>–</u>
Loss for the period from discontinued operations	<u><u>(18,182)</u></u>
Attributable to:	
Equity shareholders of the Company	(13,506)
Non-controlling interests	<u>(4,676)</u>
	<u><u>(18,182)</u></u>
Cash flow	
Operating cash outflows	(8,423)
Investing cash inflows	<u>82</u>
Net cash outflows	<u><u>(8,341)</u></u>

14 ACQUISITION OF SUBSIDIARIES

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 consideration of US\$11,000,000 (equivalent to HK\$85,793,000). 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. (“C & H Tarps”) with consideration of US\$5,000,000 (equivalent to HK\$38,998,000).

The acquisitions of C & H Vina and C & H Tarps (the “Acquisition”) constituted discloseable and 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. The Acquisition was completed on 31 March 2020 (the “Acquisition Date”). By the Acquisition Date, the acquisition considerations have been settled by cash. Upon completion of the Acquisition, C & H Vina and C & H Tarps became wholly-owned subsidiaries of the Group.

The principal activity of C & H Vina and C & H Tarps is manufacture and sales of tarpaulin. The directors of the Company are of opinion that the Acquisition was made as part of the Group’s strategy to accelerate the growth of the Group’s revenue and profit.

The following table summarises the consideration paid for the Acquisition, the fair values of assets acquired and liabilities assumed at the Acquisition Date.

	<i>HK\$’000</i>
Other property, plant and equipment	48,476
Long-term receivables and prepayments	429
Interest in an associate	6,355
Inventories	53,464
Trade and other receivables	85,439
Time deposits with maturity over three months when placed	35,181
Cash and cash equivalents	20,099
Trade and other payables and contract liabilities	(20,968)
Bank loans	(81,596)
Deferred tax liabilities	(5,682)
	<hr/>
Fair value of identifiable assets acquired and liabilities assumed at the Acquisition Date	141,197
Total consideration	(124,791)
	<hr/>
Gain on bargain purchase recognised in the consolidated statement of profit or loss	16,406
	<hr/>
Consideration paid, satisfied by cash	124,791
Cash and cash equivalents acquired	(20,099)
	<hr/>
Net cash outflow	104,692
	<hr/>

As at the Acquisition Date, the fair values of the receivables were their gross contractual amounts. None of them was expected to be uncollectible. The gain on bargain purchase is attributable to the increase in fair value of the net assets acquired from the date of valuations that the considerations were based on, to the Acquisition Date.

The Group incurred transaction costs of HK\$823,000 in connection with the Acquisition. The transaction costs have been included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the Acquisition is as follows:

	<i>HK\$'000</i>
Net cash consideration and cash outflow included in cash used in investing activities	104,692
Less: transaction costs for the Acquisition included in cash flows from operating activities	<u>(823)</u>
	<u><u>103,869</u></u>

Revenue and net profit attributable to the Group during the period from 31 March 2020, the Acquisition Date, to 30 June 2020 contributed by the Acquisition were HK\$100,385,000 and HK\$9,668,000 respectively. Had the Acquisition taken place and completed at the beginning of the year, revenue and net profit for the Group would have been HK\$1,711,828,000 and HK\$93,706,000, respectively.

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

Given the unprecedented challenges including the outbreak of novel coronavirus (“COVID-19”) pandemic and the escalating tensions of US-China trade war during the first half of 2020, the global market sentiment was inevitably and severely impacted. Nevertheless, leveraging its effective business strategies already in place, particularly the timely diversification of production bases and product portfolios, along with the well-executed cost control strategy, the Group has delivered a reasonable set of results despite the adversity, mitigating risk exposure while strengthening competitive advantages.

For the six months ended 30 June 2020, despite a combination of challenges, the Group managed to maintain revenue growth across most of its business segments with a total half-year revenue of HK\$1,629.6 million, up 1.2% year-on-year (six months ended 30 June 2019: HK\$1,609.5 million). Given the price pressure from existing customers in the midst of such difficult operating environment, gross profit decreased to HK\$259.1 million (six months ended 30 June 2019: HK\$297.2 million) while gross profit margin was 15.9% (six months ended 30 June 2019: 18.5%). Profit of the Group stood at HK\$87.4 million (six months ended 30 June 2019: HK\$110.3 million) and net profit margin was 5.4% (six months ended 30 June 2019: 6.9%).

As at 30 June 2020, the Group was in a healthy financial position with cash and cash equivalents and bank deposits amounting to HK\$545.6 million. The Board has recommended the payment of an interim dividend of HK2 cents per ordinary share for the six month ended 30 June 2020 (2019: HK3 cents per ordinary share).

Business Review

Product Analysis

Plush Stuffed Toys Segment

During the period under review, despite the delay and even cancellation of orders due to the COVID-19 pandemic, the plush stuffed toys segment still recorded a revenue of HK\$653.8 million (six months ended 30 June 2019: HK\$775.4 million), representing 40.1% of the Group’s total revenue. Sales of the Original Equipment Manufacturing business was HK\$608.6 million (six months ended 30 June 2019: HK\$722.1 million), contributing 93.1% of total revenue of plush stuffed toys. Notwithstanding a tough macro environment, the overall sales volume of baby doll business increased compared to the same period last year, thanks to cross-selling opportunities from existing customers and high-standard product quality treasured by top-tier character owners and licensors. The Group also continuously explores the opportunity of expanding the promotional product business to enlarge the revenue stream.

The Original Design Manufacturing business under the plush stuffed toys segment recorded revenue totalling HK\$45.2 million (six months ended 30 June 2019: HK\$53.3 million), accounting for 6.9% of the total revenue of the segment. The Group continued to make efforts in communicating with US retailers, the main revenue contributor of this business, so as to assist in the development of new designs and hence generate a higher profit margin.

Plastic Figures Segment

Leveraging its strong customer base, the plastic figures segment remained as a key revenue contributor and achieved growth amidst the challenging market condition. Revenue was HK\$799.9 million (six months ended 30 June 2019: HK\$770.2 million), up by 3.9% and accounted 49.1% of the Group's total revenue. This was partly driven by the positive sales momentum from last year, despite a certain level of price pressure. While the Group actively strengthened its cooperation with existing customers, it has been in contact with potential business partners to drive sales orders. Meanwhile, a new plant started operation at the end of second quarter of this year in Vietnam to support the potential inflow of new orders.

Die-casting Products Segment

Since the ceased production of ride-on toys, the Group has accelerated its expansion in die-casting products segment and secured new customers during the review period. Revenue surged by 66.0% to HK\$75.5 million during the review period, accounting for 4.6% of the Group's total revenue. Driven by the synergies created with plastic figures segment and the substantial increase in order volume from existing customers, this segment has established a strong foundation and is expected to bring greater contributions in the coming years.

Tarpaulin Segment

Given the increasing volatility of global economy, in particular the uncertainty brought by the US-China conflict, the Group acquired the tarpaulin business which could become an attractive investment opportunity to accelerate the Group's revenue and profit growth. The acquisitions were completed on 31 March 2020. As an industrial product, tarpaulin has a less sensitive market compared to the retail sector. This newly acquired business continued to receive more orders from existing customers for the three months operation ended 30 June 2020, with revenue amounting to HK\$100.4 million, accounting for 6.2% of the Group's total revenue.

Geographic Market Analysis

For the six months ended 30 June 2020, despite the pandemic outbreak, North America remained the largest geographical market of the Group, accounting for 67.5% of total revenue. Japan accounted for 20.6%, remaining the second largest market of revenue contribution. Contributions from China accounted for 4.5% of total revenue, followed by Europe at 3.3% and others at 4.1%.

Operational Analysis

As at 30 June 2020, the Group operated 21 plants in total, four of which were in China and 17 in Vietnam, achieving an average utilisation rate of approximately 69.6%. Construction of the plant located in Ninh Binh Province was completed during the second quarter of this year, commencing its operation now. Among the 17 plants in Vietnam, two plants were operated for the newly acquired tarpaulin business.

Prospects

The COVID-19 outbreak has dealt a blow to most industries worldwide yet there is still no sign of improvement. Inevitably, the overall market sentiment will be adversely affected in the near future. Besides, the tension of US-China conflict has been escalating, thus driving a growing number of customers to look for alternative production bases outside China. As an industry pioneer with well-established facilities in Vietnam and potential for further expansion, the Group is able to benefit from this situation, which will partly offset the impacts from the COVID-19 pandemic. Having said that, the Group remains cautious as the market outlook is fraught with uncertainties to say the least.

The persistently changing market environment has led to growing uncertainties in the toy industry. For example, customers exert additional pressure from price cuts as well as the delay or cancellation of orders, while the US-China dispute imposes further burdens on toy manufacturers that solely rely on their production bases in the PRC. Such trends result in the deterioration of operating environment and accelerate industry consolidation that will oust the weaker players. As an industry leader with a strong financial position to weather the tough period, the Group will be able to seize a larger market share in the medium to long-term. The Group will closely monitor the market and remain prudent and flexible in its capacity expansion plan with a parcel of land previously acquired in Vietnam.

While the well-established business segments of plush stuffed toys and plastic figures have provided a solid foundation for the Group to further pursue and explore new opportunities, it is worth noting that the newly acquired tarpaulin business, which is less sensitive to the retail market sentiment, has witnessed a growing demand from the existing customers. Alongside with that, the Group sees the growth potential of the new die-casting products segment, and will nurture the business with existing customers as well as grasp the cross-selling opportunities with its top-tier customers from other segments.

Leveraging its well-established facilities in both Vietnam and China, the top-tier international customer base, its extensive product portfolios as well as proven track record in the toy industry, the Group remains resilient against the adverse impact brought by the COVID-19 pandemic, as it has surmounted the market ups and downs over the previous decades. What is more, the management of the Company will closely monitor the market and look for potential targets on a timely basis, all in a bid to create the best possible value for shareholders.

Number and Remuneration of Employees

As at 30 June 2020, the Group had 24,445 (31 December 2019: 26,717) 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 are awarded based on individual performance.

Liquidity and Financial Resources and Gearing

The Group continued to maintain a reasonable liquidity position. As at 30 June 2020, the Group had net current assets of HK\$998.7 million (31 December 2019: HK\$1,072.6 million). The Group's total cash and cash equivalents as at 30 June 2020 amounted to HK\$465.9 million (31 December 2019: HK\$583.1 million). The total bank loans of the Group as at 30 June 2020 amounted to HK\$245.8 million (31 December 2019: HK\$125.3 million).

The Group's gearing ratio, calculated on the basis of total bank loans over total equity, was 10.4% at 30 June 2020 (31 December 2019: 5.3%).

Pledge on Group Assets

A property of the Group with carrying amount of HK\$210.7 million (31 December 2019: HK\$214.5 million) as at 30 June 2020 was pledged as security for a mortgage instalment loan of the Group of HK\$67.0 million (31 December 2019: HK\$70.7 million).

Factory buildings, certain leasehold land and other property, plant and equipment of the Group with an aggregate carrying amount of HK\$155.1 million (31 December 2019: HK\$99.0 million) as at 30 June 2020 were pledged as security for bank loans of the Group of HK\$45.7 million (31 December 2019: HK\$40.7 million).

Bank deposits of the Group with an aggregate carrying amount of HK\$60.9 million (31 December 2019: HK\$6.7 million) as at 30 June 2020 were pledged as security for bank loans of the Group of HK\$94.3 million (31 December 2019: HK\$6.5 million).

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

During the six months ended 30 June 2020, 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 (“C & H Vina”) with total consideration of US\$11,000,000 (equivalent to HK\$85,793,000). 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. (“C & H Tarps”) with consideration of US\$5,000,000 (equivalent to HK\$38,998,000). 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 been completed as at 31 March 2020. Upon the completion of the transactions, C & H Vina and C & H Tarps became wholly-owned subsidiaries of the Company.

CORPORATE GOVERNANCE

During the six months ended 30 June 2020, the Board considered that the Company has complied with the code provisions set out in the Corporate Governance Code (the “CG Code”) contained 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 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”) on terms no less exacting than the required standard. The Company has made specific enquires of all the 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 six months ended 30 June 2020.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board declared an interim dividend of HK2 cents per ordinary share for the six months ended 30 June 2020 (six months ended 30 June 2019: HK3 cents per ordinary share). The interim dividend of HK\$13,537,000 (six months ended 30 June 2019: HK\$20,306,000) will be paid on 13 October 2020 to shareholders registered at the close of business on the record date, 29 September 2020.

The register of members will be closed for one day on 30 September 2020, during that day no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 29 September 2020.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee of the Company (the "Audit Committee") has reviewed with management of the Company with respect to the accounting principles and practices adopted by the Group and discussed risk management and internal control systems and financial reporting matters, including a review of the unaudited interim results for the six months ended 30 June 2020. The Audit Committee considered that the unaudited interim results for the six months ended 30 June 2020 were in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made. The interim results for the six months ended 30 June 2020 have not been audited, but have been reviewed by KPMG, the Company's auditor, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF 2020 INTERIM RESULTS AND INTERIM REPORT

The electronic version of this interim results announcement is published on the websites of the Company (www.dream-i.com.hk) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). An interim report for the six months ended 30 June 2020 prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and published on the above websites in due course.

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

Hong Kong, 26 August 2020

As 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