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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 2020

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 2020, together with the comparative figures for the previous financial year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Continuing operations			
Revenue	3	3,779,619	3,973,461
Cost of sales		<u>(3,119,010)</u>	<u>(3,015,954)</u>
Gross profit		660,609	957,507
Other revenue		30,163	24,412
Other net income		182	3,834
Gain on bargain purchase		16,406	–
Distribution costs		(84,742)	(98,955)
Administrative expenses		<u>(282,887)</u>	<u>(286,458)</u>
Profit from operations		339,731	600,340
Finance costs	4(a)	(8,011)	(6,647)
Share of losses of associates		<u>(1,017)</u>	<u>–</u>
Profit before taxation	4	330,703	593,693
Income tax	5	<u>(57,927)</u>	<u>(97,064)</u>
Profit for the year from continuing operations		<u>272,776</u>	<u>496,629</u>

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
Discontinued operations			
Loss for the year from discontinued operations	12	—	(18,182)
Profit for the year		272,776	478,447
Attributable to:			
Equity shareholders of the Company		272,776	477,469
Non-controlling interests		—	978
Profit for the year		272,776	478,447
Profit/(loss) attributable to equity shareholders of the Company arises from:			
– Continuing operations		272,776	490,975
– Discontinued operations	12	—	(13,506)
		272,776	477,469
Earnings/(loss) per share attributable to equity shareholders of the Company for the year			
Basic and diluted			
	6		
– From continuing operations		HK40.30 ¢	HK72.54 ¢
– From discontinued operations		—	HK(2.00) ¢
Earnings per share for the year		HK40.30 ¢	HK70.54 ¢

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit for the year	272,776	478,447
Other comprehensive income for the year (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)	(310)	(665)
	(310)	(665)
Items that may be or are reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	4,696	(14,772)
– Reclassification of fair value reserve to profit or loss upon disposal of a debt security at fair value through other comprehensive income	(92)	–
– Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary	–	392
– Debt security at fair value through other comprehensive income – net movement in fair value reserve (recycling)	–	128
	4,604	(14,252)
Other comprehensive income for the year	4,294	(14,917)
Total comprehensive income for the year	277,070	463,530
Attributable to:		
Equity shareholders of the Company	277,070	462,845
Non-controlling interests	–	685
Total comprehensive income for the year	277,070	463,530
Total comprehensive income attributable to equity shareholders of the Company		
– Continuing operations	277,070	476,351
– Discontinued operations	–	(13,506)
	277,070	462,845

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
Non-current assets			
Investment properties		3,387	3,981
Other property, plant and equipment	8	1,356,286	1,251,019
Long term receivables and prepayments		30,358	34,497
Other intangible assets		15,313	6,063
Goodwill		2,753	2,753
Interest in associates		12,673	7,360
Deferred tax assets		5,565	5,767
Time deposits		3,024	–
Other financial assets	7	3,327	4,583
		<u>1,432,686</u>	<u>1,316,023</u>
Current assets			
Inventories		666,110	594,541
Trade and other receivables	9	772,426	681,849
Current tax recoverable		10,087	86
Time deposits		176,328	85,647
Cash and cash equivalents		489,071	583,063
		<u>2,114,022</u>	<u>1,945,186</u>
Current liabilities			
Trade and other payables and contract liabilities	10	647,225	636,635
Bank loans		254,417	125,334
Lease liabilities		15,814	13,459
Current tax payable		28,897	97,121
		<u>946,353</u>	<u>872,549</u>
Net current assets		<u>1,167,669</u>	<u>1,072,637</u>
Total assets less current liabilities		<u>2,600,355</u>	<u>2,388,660</u>

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current liabilities			
Lease liabilities		29,384	14,470
Deferred tax liabilities		10,627	9,692
		<u>40,011</u>	<u>24,162</u>
NET ASSETS		<u>2,560,344</u>	<u>2,364,498</u>
CAPITAL AND RESERVES			
Share capital		236,474	236,474
Reserves		2,323,870	2,150,515
Total equity attributable to equity shareholders of the Company		2,560,344	2,386,989
Non-controlling interests		–	(22,491)
TOTAL EQUITY		<u>2,560,344</u>	<u>2,364,498</u>

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The financial information relating to the years ended 31 December 2020 and 2019 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 2019 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 2020 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 Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2020.

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19-related rent concessions”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. 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. There is no impact on the opening balance of equity at 1 January 2020.

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 tarpaulin. 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 (2019: four) reportable segments. No operating segments have been aggregated to form the following reportable segments.

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:

	2020	Continuing operations	Discontinued operations
	2019		
	HK\$'000	2019	2019
		HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15			
Disaggregated by major products lines			
– Plush stuffed toys	1,184,017	1,870,502	–
– Plastic figures	1,982,808	1,972,381	–
– Die-casting products	215,749	130,578	–
– Tarpaulin	397,045	–	–
– Ride-on toys	–	–	18,377
	3,779,619	3,973,461	18,377

The Group's customer base is diversified and includes three (2019: four) customers with whom the value of transactions have exceeded 10% (2019: 10%) of the Group's revenues as follows:

	2020	Continuing operations	Discontinued operations
	2019		
	HK\$'000	2019	2019
		HK\$'000	HK\$'000
Customer A	1,165,508	1,372,122	–
Customer B	474,302	615,463	–
Customer C	456,377	466,296	–
Customer D	253,379	549,490	–

These transactions are attributable to the plush stuffed toys, plastic figures and die-casting products 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 associates ("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 associates.

	Revenue from external customers		
		Continuing operations	Discontinued operations
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong (place of domicile)	23,880	82,389	–
North America	2,693,789	2,531,539	18,377
Japan	542,245	805,722	–
Europe	193,521	247,845	–
The PRC	184,698	162,448	–
Vietnam	99,232	94,007	–
Korea	18,554	41,111	–
Other countries	23,700	8,400	–
	3,755,739	3,891,072	18,377
	3,779,619	3,973,461	18,377

	Specified non-current assets	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong (place of domicile)	217,976	225,670
North America	2,961	4,379
Japan	5,385	6,147
The PRC	58,921	56,552
Vietnam	1,095,066	996,673
Korea	29,428	6,790
Singapore	11,033	–
	1,202,794	1,070,541
	1,420,770	1,296,211

(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 2020 and 2019 is set out below.

	Plush stuffed toys		Plastic figures		Die-casting products		Tarpaulin		Continuing operations		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
Revenue from external customers	1,184,017	1,870,502	1,982,808	1,972,381	215,749	130,578	397,045	–	3,779,619	3,973,461	–	18,377	3,779,619	3,991,838
Inter-segment revenue	21,364	11,100	17,448	12,245	60,411	64,363	1	–	99,224	87,708	–	–	99,224	87,708
Reportable segment revenue	1,205,381	1,881,602	2,000,256	1,984,626	276,160	194,941	397,046	–	3,878,843	4,061,169	–	18,377	3,878,843	4,079,546
Reportable segment profit/(loss) (adjusted EBITDA)	199,859	330,967	216,526	383,362	17,695	36,114	65,228	–	499,308	750,443	–	(18,117)	499,308	732,326
Bank interest income	10,988	10,487	1,378	129	5	14	2,774	–	15,145	10,630	–	–	15,145	10,630
Interest expense	(4,901)	(5,841)	(838)	(806)	(238)	–	(2,034)	–	(8,011)	(6,647)	–	–	(8,011)	(6,647)
Depreciation and amortisation for the year	(66,426)	(64,129)	(68,422)	(53,236)	(15,200)	(13,113)	(8,521)	–	(158,569)	(130,478)	–	(30)	(158,569)	(130,508)
Reportable segment assets	1,135,985	1,261,817	1,108,493	1,043,586	346,245	324,556	328,453	–	2,919,176	2,629,959	–	–	2,919,176	2,629,959
Additions to non-current segment assets during the year	71,961	65,388	109,958	93,616	6,601	25,723	38,770	–	227,290	184,727	–	–	227,290	184,727
Reportable segment liabilities	248,220	275,676	329,436	336,087	325,124	328,634	82,324	–	985,104	940,397	–	–	985,104	940,397

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

	2020	Continuing operations	Discontinued operations
	<i>HK\$'000</i>	2019 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue			
Reportable segment revenue	3,878,843	4,061,169	18,377
Elimination of inter-segment revenue	(99,224)	(87,708)	–
	<u>3,779,619</u>	<u>3,973,461</u>	<u>18,377</u>
Profit			
Reportable segment profit/(loss)	499,308	750,443	(18,117)
Share of losses of associates	(1,017)	–	–
Gain on bargain purchase	16,406	–	–
Interest income	15,277	10,918	–
Depreciation and amortisation	(158,569)	(130,478)	(30)
Finance costs	(8,011)	(6,647)	–
Unallocated head office and corporate expenses	(32,691)	(30,543)	(35)
	<u>330,703</u>	<u>593,693</u>	<u>(18,182)</u>

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Assets		
Reportable segment assets	2,919,176	2,629,959
Elimination of inter-segment receivables	<u>(292,682)</u>	<u>(275,834)</u>
	2,626,494	2,354,125
Interest in associates	12,673	7,360
Club memberships	13,217	6,063
Other financial assets	3,327	4,583
Deferred tax assets	5,565	5,767
Current tax recoverable	10,087	86
Unallocated head office and corporate assets	<u>875,345</u>	<u>883,225</u>
Consolidated total assets	<u><u>3,546,708</u></u>	<u><u>3,261,209</u></u>
Liabilities		
Reportable segment liabilities	985,104	940,397
Elimination of inter-segment payables	<u>(292,682)</u>	<u>(275,834)</u>
	692,422	664,563
Deferred tax liabilities	10,627	9,692
Current tax payable	28,897	97,121
Unallocated head office and corporate liabilities	<u>254,418</u>	<u>125,335</u>
Consolidated total liabilities	<u><u>986,364</u></u>	<u><u>896,711</u></u>

4. PROFIT BEFORE TAXATION

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

	2020 <i>HK\$'000</i>	Continuing operations 2019 <i>HK\$'000</i>	Discontinued operations 2019 <i>HK\$'000</i>
(a) Finance costs			
Interest expense on bank loans	6,015	3,842	–
Interest expense on lease liabilities	1,996	2,805	–
	<u>8,011</u>	<u>6,647</u>	<u>–</u>
(b) Staff costs			
Contributions to defined contribution retirement plan	68,842	81,017	325
Salaries, wages and other benefits	1,021,606	1,017,559	4,826
	<u>1,090,448</u>	<u>1,098,576</u>	<u>5,151</u>
(c) Other items			
Depreciation charge			
– owned property, plant and equipment	136,981	111,904	–
– leasehold land held for own use	3,188	2,417	30
– right-of-use assets	18,269	16,157	–
Amortisation of other intangible assets	131	–	–
Reversal of loss allowances of trade receivables	(393)	(224)	–
Auditors' remuneration			
– audit services	6,241	4,829	–
– other services	723	526	–
Cost of inventories	<u>3,119,010</u>	<u>3,015,954</u>	<u>34,907</u>

5. INCOME TAX

	2020	Continuing operations	Discontinued operations
	2019		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax – Hong Kong Profits Tax			
Provision for the year	23,138	42,022	–
Under-provision in respect of prior years	442	7	–
	<u>23,580</u>	<u>42,029</u>	<u>–</u>
	-----	-----	-----
Current tax – Outside Hong Kong			
Provision for the year	39,310	55,092	–
(Over)/under-provision in respect of prior years	(414)	2	–
	<u>38,896</u>	<u>55,094</u>	<u>–</u>
	-----	-----	-----
Deferred tax			
Origination and reversal of temporary differences	(4,549)	(59)	–
	<u>57,927</u>	<u>97,064</u>	<u>–</u>
	=====	=====	=====

The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 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 2019.

The provision for Hong Kong Profits Tax for 2020 is taken into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2019/20 subject to a maximum reduction of HK\$20,000 for each business (2019: a maximum reduction of HK\$20,000 was granted for the year of assessment 2018/19 and was taken into account in calculating the provision for 2019).

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 2020 includes withholding tax of HK\$2,939,000 (2019: HK\$1,133,000) paid on dividend income from subsidiaries.

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\$272,776,000 (2019: HK\$477,469,000) and the weighted average of 676,865,000 ordinary shares (2019: 676,865,000 ordinary shares) in issue during the year.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit/(loss) attributable to equity shareholders of the Company arises from:		
– Continuing operations	272,776	490,975
– Discontinued operations	–	(13,506)
	<u>272,776</u>	<u>477,469</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 2020 and 2019.

7. OTHER FINANCIAL ASSETS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Debt securities measured at fair value through other comprehensive income (“FVOCI”) (recycling) (<i>note (i)</i>)	–	1,609
Unlisted equity security measured at FVOCI (non-recycling) (<i>note (ii)</i>)	<u>3,327</u>	<u>2,974</u>
	<u>3,327</u>	<u>4,583</u>

Notes:

- (i) Debt securities in 2019 represented an investment in bond amounted to HK\$1,609,000 with fixed interest rate at 3.95% per annum. The investment was disposed in 2020.
- (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 (2019: HK\$Nil).

8. OTHER PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2020, the Group acquired items of other property, plant and equipment with a cost of HK\$225,092,000 (2019: HK\$191,960,000), including the additions to right-of-use assets of HK\$45,293,000 (2019: HK\$34,787,000). The additions to right-of-use assets included purchase of leasehold properties of HK\$7,566,000 (2019: HK\$17,911,000), and the remaining primarily related to the capitalised lease payments payable under new tenancy agreements. Items of other property, plant and equipment with a net book value of HK\$7,815,000 (2019: HK\$1,474,000) were disposed of for the year ended 31 December 2020, resulting in a net loss on disposal of HK\$1,275,000 (2019: net gain on disposal of HK\$590,000).

9. TRADE AND OTHER RECEIVABLES

As at 31 December 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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	311,599	329,468
1 to 2 months	216,708	171,169
2 to 3 months	43,811	30,939
3 to 4 months	9,403	8,765
Over 4 months	1,335	3,378
	<u>582,856</u>	<u>543,719</u>

Trade debtors and bills receivable are due within 30 to 120 days (2019: 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 2020, the ageing analysis of trade payables, based on the due dates is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Due within 1 month or on demand	277,788	325,091
Due after 1 month but within 3 months	101,920	83,805
Due after 3 months but within 6 months	23,374	2,614
Due after 6 months but within 1 year	15,028	–
Over 1 year	10,333	–
	<u>428,443</u>	<u>411,510</u>
Trade payables	428,443	411,510
Contract liabilities – sales deposit	25,970	24,055
Salary and welfare payables	134,056	154,935
Value-added tax payable	4,527	3,150
Other payables and accrual	32,954	15,137
Receipt in advance	21,275	27,848
	<u>647,225</u>	<u>636,635</u>

As at 31 December 2020, included in the trade payables balance are amounts due to associates of HK\$15,089,000 (2019: HK\$Nil) which are trade in nature, unsecured and interest-free.

11. DIVIDENDS

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interim dividend declared and paid of HK2 cents per ordinary share (2019: HK3 cents per ordinary share)	13,537	20,306
Final dividend proposed after the end of the reporting period of HK10 cents per ordinary share (2019: HK10 cents per ordinary share)	67,687	67,687
	<u>81,224</u>	<u>87,993</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**

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK10 cents per ordinary share (2019: HK8 cents per ordinary share)	<u>67,687</u>	<u>54,149</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 was 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 was set out below:

	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 before taxation	(18,182)
Income tax	<u>–</u>
Loss for the year 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>

13. 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 31 December 2020 contributed by the Acquisition were HK\$382,782,000 and HK\$61,366,000 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\$3,861,896,000 and HK\$279,034,000 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The toy industry faced a particularly tough operating environment in 2020 due to the unprecedented challenges brought by the novel coronavirus (“COVID-19”) pandemic and the unresolved US-China trade tensions which have adversely impacted the global market. With various lockdown measures introduced around the world in the face of the pandemic, consumption sentiment was significantly affected.

Amid the challenging environment, the Group demonstrated its resilience underpinned by its leading position in the industry, effective business strategies and diversified production bases. For the year ended 31 December 2020, the Group managed to maintain its business scale, recording revenue of HK\$3,779.6 million (2019: HK\$3,991.8 million, including both continuing and discontinued operations). Gross profit was HK\$660.6 million (2019: HK\$941.0 million), mainly due to a reduction in overall order volume and keen competition within the industry during the year. Gross profit margin was 17.4% (2019: 23.6%). Profit attributable to equity shareholders was HK\$272.8 million (2019: HK\$477.5 million), with net profit margin at 7.2% (2019: 12.0%).

As at 31 December 2020, the Group was in a healthy financial position with cash and cash equivalents and time deposits in current assets maintained at a similar level at HK\$665.4 million (2019: HK\$668.7 million). The Board has recommended the payment of a final dividend of HK10 cents per ordinary share for the year ended 31 December 2020 (2019: HK10 cents per ordinary share).

Business Review

Product Analysis

Plastic Figures Segment

Despite the difficult market conditions, the plastic figures segment still achieved modest growth with revenue increasing to HK\$1,982.8 million (2019: HK\$1,972.4 million). This segment remained a key contributor to the Group’s total revenue, accounting for 52.5%. During the year under review, theme parks were closed around the world, and film productions were cancelled or postponed, leading to a decline in demand for products within the segment. Against such a backdrop, the Group managed to secure an international toy company as a new customer for two separate product lines, with the first order having been delivered in December 2020. The Group was also committed to product development and engagement with new customers to further expand revenue streams. In view of increasing raw material costs, the Group has exercised caution in managing the inventory level and working capital and has been taking steps to improve capacity utilization. This exercise will be one of the major factors in improving the segment’s profit in the future.

Plush Stuffed Toys Segment

The plush stuffed toys segment experienced a decline in revenue to HK\$1,184.0 million (2019: HK\$1,870.5 million) during the year under review, accounting for 31.3% of the Group's total revenue. Revenue of the Original Equipment Manufacturing business was HK\$1,137.5 million (2019: HK\$1,748.3 million), accounting for 96.1% of this segment's revenue. Due to the pandemic, the Group's orders and revenue from top-tier toy companies, especially those related to international theme parks, were inevitably affected. Meanwhile, the Original Design Manufacturing business recorded revenue totaling HK\$46.5 million (2019: HK\$122.2 million), representing 3.9% of the total segment revenue. The Group continued to work on new designs and has kept close cooperation with renowned US retailers.

Die-casting Products Segment

As a segment established approximately two years ago, the Group has been exerting efforts to expand its business scale by enriching new product categories and maintaining close ties with top-tier customers. During the year under review, the segment's revenue soared by 65.2% to HK\$215.7 million (2019: HK\$130.6 million), accounting for 5.7% of the Group's total revenue, mainly attributable to stable orders from major customers and the contribution from non-seasonal toys. In 2020, the Group further expanded the non-seasonal toy portfolio by producing remote controlled cars and walkie-talkie items and was in discussion with customers regarding new products with growth potential. The Group is mindful of the advantages of automation in enhancing productivity and achieving greater efficiency, resulting ultimately in higher profit level, and will therefore continue its investment in this aspect.

Tarpaulin Segment

Foreseeing the increasing volatility of the global economy, in March 2020, the Group acquired the tarpaulin business which is an industrial product and is comparably less sensitive than the customer-driven market. Aside from business diversification, the tarpaulin business has also provided an immediate sales contribution to the Group. During the year under review, this segment recorded revenue of HK\$397.0 million, accounting for 10.5% of the Group's total revenue. Benefiting from the defensive nature of this segment, the Group has completed the expansion to meet stable market demand, and also to counter the adverse impacts seen in the retail market.

Geographic Market Analysis

For the year ended 31 December 2020, North America remained the largest geographical market of the Group, accounting for 71.2% of the Group's total revenue. Japan accounted for 14.3%, thus remaining the second largest market. Contributions from Europe accounted for 5.1%, followed by PRC and Vietnam at 4.8% and 2.6% respectively.

Operational Analysis

As at 31 December 2020, the Group operated 22 plants in total, four of which were in China and 18 in Vietnam, with an average utilization rate of approximately 77.8%. The plant in Ninh Binh Province, Vietnam for the production of plastic figures commenced operation during the second quarter of 2020. Among the 18 plants in Vietnam, three plants were operated for the newly acquired tarpaulin business.

Prospects

Despite getting weighed down by uncertainties in the global economy and far-reaching implications of the pandemic, the Group's diversified business model has provided it with a solid foundation for sustainable operations. With the rollout of COVID-19 vaccines having commenced in countries across the world, there have been some initial signs of recovery. The Group is therefore cautiously optimistic about the prospects and remains confident about its ability to maintain stable business performance.

In the past year, the Group's priority was to strengthen internal controls in order to manage costs and enhance efficiency while keeping a reasonable utilization rate of the production capacity. Going forward, the Group will continue to execute its two-pronged strategy, with the established plastic figures and plush stuffed toys businesses providing a strong foundation while supporting further growth with newly added elements, such as the die-casting products. In addition to the current product portfolio, the Group will fully utilize its existing resources and step up efforts in product diversification, such as to include home and living products like cushions and blankets. The first shipment of these new products is expected to be completed in the first half of 2021. The Group will nurture the business with existing customers as well as grasp cross-selling opportunities with its top-tier customers from other segments.

With scalable manufacturing capabilities in Vietnam, the Group has advantages under the unsettled US-China trade war, specifically, the ability to cater for customers seeking production capacity outside China. The Group will continue to expand its capacity, as evidenced by a new plant for plush stuffed toys at An Giang Province, Vietnam that will commence operation in the first half of 2021. The Group will also closely monitor the market conditions and proceed with its timely expansion plan when the market is revived.

Backed by the well-established facilities in both Vietnam and China, together with an international customer base and sound financial position, the Group is well-positioned to weather further challenges and capture emerging opportunities. The Group will continue to monitor the market and explore other potential business opportunities, so as to maximize value for shareholders.

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2020, the Group had 23,928 (2019: 26,717) employees in Hong Kong, the PRC, Korea, the US, Japan and Vietnam. The total cost of employees for the year ended 31 December 2020 amounted to HK\$1,090.4 million (2019: HK\$1,103.7 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 2020, the Group had net current assets of HK\$1,167.7 million (2019: HK\$1,072.6 million). The Group's total cash and cash equivalents as at 31 December 2020 amounted to HK\$489.1 million (2019: HK\$583.1 million). The bank loans of the Group as at 31 December 2020 amounted to HK\$254.4 million (2019: HK\$125.3 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 9.9% at 31 December 2020 (2019: 5.3%).

PLEDGE ON GROUP ASSETS

A property of the Group with carrying amount of HK\$206.9 million (2019: HK\$214.5 million) as at 31 December 2020 was pledged as security for a mortgage instalment loan of the Group of HK\$62.8 million (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\$147.2 million (2019: HK\$81.6 million) as at 31 December 2020 were pledged as security for bank loans of the Group of HK\$65.6 million (2019: HK\$40.7 million).

Bank deposits of the Group with an aggregate carrying amount of HK\$59.7 million (2019: HK\$6.7 million) as at 31 December 2020 were pledged as security for bank loans of the Group of HK\$125.9 million (2019: HK\$6.5 million).

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

During the year ended 31 December 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 year ended 31 December 2020, 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 2020.

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 2020. 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 (2019: HK10 cents) per ordinary share in respect of the year ended 31 December 2020. The proposed final dividend which totals HK\$67,687,000 (2019: HK\$67,687,000), if approved at the forthcoming annual general meeting, will be paid on 28 May 2021 to the shareholders on the register of members as at 14 May 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 4 May 2021 to 7 May 2021, 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 7 May 2021 are entitled to attend the forthcoming annual general meeting scheduled on 7 May 2021. 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 3 May 2021.

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 14 May 2021, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 13 May 2021.

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 2020.

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

Hong Kong, 26 March 2021

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
Mr. Min Jung Lee

Independent non-executive Directors:

Professor Cheong Heon Yi
Dr. Chan Yoo
Mr. Jong Hun Lim