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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 2021

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 2021 together with comparative figures for the corresponding period in 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2021 – UNAUDITED

	Notes	Six months ended 30 June	
		2021 HK\$'000	2020 HK\$'000
Revenue	3	1,959,471	1,629,551
Cost of sales		(1,708,908)	(1,370,461)
Gross profit		250,563	259,090
Other revenue		17,855	16,626
Other net gain		17	1,540
Gain on bargain purchase	13(a)	–	16,406
Distribution costs		(45,581)	(35,823)
Administrative expenses		(145,904)	(139,271)
Profit from operations		76,950	118,568
Finance costs	4(a)	(3,667)	(4,542)
Share of profits/(losses) of associates		358	(475)
Profit before taxation	4	73,641	113,551
Income tax	5	(28,249)	(26,103)
Profit for the period		45,392	87,448
Earnings per share			
Basic and diluted	7	HK\$0.067	HK\$0.129

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2021 – UNAUDITED

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Profit for the period	<u>45,392</u>	<u>87,448</u>
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)	<u>710</u>	<u>(347)</u>
	<u>710</u>	<u>(347)</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	3,369	(14,151)
Investment in debt security at fair value through other comprehensive income – net movement in fair value reserve (recycling)	<u>–</u>	<u>451</u>
	<u>3,369</u>	<u>(13,700)</u>
Other comprehensive income for the period	<u>4,079</u>	<u>(14,047)</u>
Total comprehensive income for the period	<u>49,471</u>	<u>73,401</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021 – UNAUDITED

		At 30 June 2021 <i>HK\$'000</i>	At 31 December 2020 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	8	1,387,592	1,356,286
Investment properties		4,495	3,387
Long term receivables and prepayments		9,866	30,358
Other intangible assets		27,227	15,313
Goodwill		2,753	2,753
Interests in associates		5,553	12,673
Deferred tax assets		5,982	5,565
Time deposits		–	3,024
Other financial asset	9	3,723	3,327
		<u>1,447,191</u>	<u>1,432,686</u>
Current assets			
Inventories	10	871,537	666,110
Trade and other receivables	11	965,473	772,426
Current tax recoverable		12,508	10,087
Time deposits		161,439	176,328
Cash and cash equivalents		383,652	489,071
		<u>2,394,609</u>	<u>2,114,022</u>
Current liabilities			
Trade and other payables and contract liabilities	12	888,801	647,225
Bank loans		335,939	254,417
Lease liabilities		13,481	15,814
Current tax payable		19,530	28,897
		<u>1,257,751</u>	<u>946,353</u>
Net current assets		<u>1,136,858</u>	<u>1,167,669</u>
Total assets less current liabilities		<u>2,584,049</u>	<u>2,600,355</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*AS AT 30 JUNE 2021 – UNAUDITED*

	At 30 June 2021 <i>Notes</i> HK\$'000	At 31 December 2020 <i>HK\$'000</i>
Non-current liabilities		
Lease liabilities	31,115	29,384
Deferred tax liabilities	10,806	10,627
	<u>41,921</u>	<u>40,011</u>
NET ASSETS	<u>2,542,128</u>	<u>2,560,344</u>
CAPITAL AND RESERVES		
Share capital	236,474	236,474
Reserves	2,305,654	2,323,870
TOTAL EQUITY	<u>2,542,128</u>	<u>2,560,344</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 plastic figures, plush stuffed toys, tarpaulin and die-casting products.

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 2021 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 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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 2020 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 2020 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 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA for the current accounting period:

- Amendments to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

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:

Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021 (2021 amendment)*

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The Group has early adopted the 2021 amendment in this financial year. There is no impact on the opening balance of equity at 1 January 2021.

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 2020: four) reportable segments. No operating segments have been aggregated to form the following reportable segments.

(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	
	2021	2020
	HK\$’000	HK\$’000
Revenue from sales of goods within the scope of HKFRS 15		
Disaggregated by major product lines		
– Plastic figures	1,031,407	799,901
– Plush stuffed toys	556,839	653,773
– Tarpaulin	276,454	100,385
– Die-casting products	94,771	75,492
	<u>1,959,471</u>	<u>1,629,551</u>

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Disaggregated by geographical location of customers		
– Hong Kong (place of domicile)	22,417	15,204
– North America	1,464,417	1,099,709
– Japan	197,947	336,437
– The PRC	116,721	72,795
– Europe	89,352	53,053
– Other countries	68,617	52,353
	1,959,471	1,629,551

(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.

	Plastic figures		Plush stuffed toys		Tarpaulin		Die-casting products		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 June										
Revenue from external customers	1,031,407	799,901	556,839	653,773	276,454	100,385	94,771	75,492	1,959,471	1,629,551
Inter-segment revenue	11,236	11,834	15,837	8,902	–	–	51,610	23,798	78,683	44,534
Reportable segment revenue	1,042,643	811,735	572,676	662,675	276,454	100,385	146,381	99,290	2,038,154	1,674,085
Reportable segment profit (adjusted EBITDA)	63,198	41,264	55,724	120,046	26,285	8,794	13,610	8,926	158,817	179,030
As at 30 June/31 December										
Reportable segment assets	1,469,422	1,108,493	1,225,947	1,135,985	367,925	328,453	358,769	346,245	3,422,063	2,919,176
Reportable segment liabilities	596,850	329,436	264,354	248,220	94,594	82,324	355,448	325,124	1,311,246	985,104

The measure used for reporting segment profit is “adjusted EBITDA” i.e. “adjusted earnings before interest, taxes, depreciation and amortisation”, where “interest” is regarded as including investment income. 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, gain on step acquisition, share of profits/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	
	2021	2020
	HK\$'000	HK\$'000
Reportable segment profit	158,817	179,030
Interest income	9,369	7,672
Depreciation	(74,717)	(68,950)
Gain on bargain purchase	–	16,406
Gain on step acquisition	595	–
Finance costs	(3,667)	(4,542)
Share of profits/(losses) of associates	358	(475)
Unallocated head office and corporate expenses	(17,114)	(15,590)
	<u>73,641</u>	<u>113,551</u>
Consolidated profit before taxation	<u>73,641</u>	<u>113,551</u>

4 **PROFIT BEFORE TAXATION**

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

(a) **Finance costs**

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Interest expense on bank borrowings	2,387	3,403
Interest expense on lease liabilities	1,280	1,139
	<u>3,667</u>	<u>4,542</u>

(b) **Other items**

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Depreciation charge		
– owned property, plant and equipment	61,455	59,360
– leasehold land held for own use	2,083	1,186
– right-of-use assets	11,179	8,404
Expenses related to short-term lease	5,279	4,280
Amortisation of intangible assets	227	14
Inventories write-down (<i>note 10</i>)	2,521	–
Reversal of write-down of inventories (<i>note 10</i>)	(2,245)	(566)
(Reversal)/provision of loss allowance of trade receivables	(233)	48
Bank interest income	(9,356)	(7,543)
Interest income from other financial assets	(13)	(129)
Net loss/(gain) on disposal of other property, plant and equipment	2,040	(1,171)
Net gain on disposal of other intangible assets	(19)	(7)
Gain on step acquisition	(595)	–
	<u>2,040</u>	<u>(1,171)</u>

5 INCOME TAX

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax	8,012	9,943
Current tax – Outside Hong Kong	20,261	21,720
Deferred taxation	(24)	(5,560)
	<u>28,249</u>	<u>26,103</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 2020: 16.5%) to the six months ended 30 June 2021 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 was calculated at the same basis for the six months ended 30 June 2020.

Taxation for subsidiaries outside Hong Kong is calculated similarly 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 included withholding tax of HK\$4,571,000 paid on dividend income from subsidiaries. No withholding tax was paid during the six months ended 30 June 2021.

6 DIVIDENDS

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

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Interim dividend declared and paid after the interim period of HK2 cents per ordinary share (six months ended 30 June 2020: HK2 cents per ordinary share)	<u>13,537</u>	<u>13,537</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	
	2021	2020
	HK\$'000	HK\$'000
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 2020: HK10 cents per ordinary share)	<u>67,687</u>	<u>67,687</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\$45,392,000 (six months ended 30 June 2020: HK\$87,448,000) and the weighted average number of ordinary shares of 676,865,000 shares (six months ended 30 June 2020: 676,865,000 shares) in issue during the interim period.

(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 2021 and 2020.

8 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2021, the Group entered into a number of lease agreements and therefore recognised additions to right-of-use assets of HK\$8,779,000 (six months ended 30 June 2020: 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 was HK\$174,000. No rent concession was received during the six months ended 30 June 2021.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2021, the Group acquired items of other property, plant and equipment with a cost of HK\$79,456,000 (six months ended 30 June 2020: HK\$105,789,000). Items of other property, plant and equipment with a net book value of HK\$2,132,000 were disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$6,767,000), resulting in a net loss on disposal of HK\$2,040,000 (six months ended 30 June 2020: net gain on disposal of HK\$1,171,000).

9 OTHER FINANCIAL ASSET

	At 30 June 2021 <i>HK\$'000</i>	At 31 December 2020 <i>HK\$'000</i>
Unlisted equity security measured at FVOCI (non-recycling) (<i>Note</i>)	<u>3,723</u>	<u>3,327</u>

Note:

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 (2020: HK\$Nil).

10 INVENTORIES

During the six months ended 30 June 2021, there is a reversal of write-down of inventories of HK\$2,245,000 (six months ended 30 June 2020: HK\$566,000). 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 2021, there was a write-down of inventories of HK\$2,521,000 (six months ended 30 June 2020: HK\$Nil). 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 2021, 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 2021 HK\$'000	At 31 December 2020 HK\$'000
Within 1 month	379,830	311,599
1 to 2 months	290,155	216,708
2 to 3 months	62,206	43,811
3 to 4 months	22,919	9,403
Over 4 months	14,554	1,335
	<hr/>	<hr/>
Trade debtors and bills receivable, net of loss allowance	769,664	582,856
Other receivables and prepayments	191,752	164,601
Loan to associates	4,057	19,138
Amounts due from related companies (<i>Note</i>)	–	5,831
	<hr/>	<hr/>
	965,473	772,426

Trade debtors and bills receivable are due within 30 to 120 days (31 December 2020: 30 to 120 days) from the date of billing.

Note:

As at 31 December 2020, the outstanding balances were trading balances with C & H Creative Co., Ltd (“C & H Creative”). A director of the Company has significant influence over C & H Creative.

12 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

As at 30 June 2021, 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 2021 <i>HK\$'000</i>	At 31 December 2020 <i>HK\$'000</i>
Due within 1 month or on demand	554,335	277,788
Due after 1 month but within 3 months	71,520	101,920
Due after 3 months but within 6 months	20,821	23,374
Due after 6 months but within 1 year	11,775	15,028
Over 1 year	9,975	10,333
	<hr/>	<hr/>
Trade payables	668,426	428,443
Contract liabilities – sales deposit	44,217	25,970
Salary and welfare payables	117,049	134,056
Value-added tax payable	3,037	4,527
Other payables and accrual	34,599	32,954
Receipt in advance	21,473	21,275
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	888,801	647,225
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13 ACQUISITION OF SUBSIDIARIES

(a) Acquisitions of C & H Vina Joint Stock Company (“C & H Vina”) and C & H Tarps Co., Ltd. (“C & H Tarps”)

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 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 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
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Consideration paid, satisfied by cash	124,791
Cash and cash equivalents acquired	(20,099)
	<hr/>
Net cash outflow	104,692
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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 was 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 were 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	(823)
	<hr/>
	103,869
	<hr/> <hr/>

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 six months ended 30 June 2020, revenue and net profit attributable to the Group would have been HK\$1,711,828,000 and HK\$93,706,000, respectively.

(b) Step acquisitions of C & H Mekong Company Limited (“C & H Mekong”) from an associate to a subsidiary

On 29 November 2019, the Company entered into an agreement with C & H and two independent third parties to acquire 100% of the interests in C & H Vina, which held 48.98% equity interests of C & H Mekong. The acquisition was completed on 31 March 2020. C & H Mekong was classified as an associate as the Group had significant influence in C & H Mekong.

On 29 April 2021 (the “Step Acquisition Date”), C & H Vina completed the acquisition of the remaining 51.02% of the interests in C & H Mekong at cash consideration of US\$917,000 (equivalent to HK\$7,195,000) (the “Step Acquisition”) from an independent third party. By the Step Acquisition Date, the acquisition consideration has been settled. Upon the completion of the Step Acquisition, C & H Mekong became a wholly-owned subsidiary of the Group.

The principal activity of C & H Mekong is manufacture of tarpaulin. The directors of the Company are of opinion that the Step Acquisition was made to achieve synergies in saving cost of manufacturing of tarpaulin.

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

	<i>HK\$'000</i>
Consideration paid, satisfied by cash	7,195
Fair value of pre-existing equity interests in C & H Mekong at the Step Acquisition Date	<u>7,479</u>
Total consideration	<u><u>14,674</u></u>
	<i>HK\$'000</i>
Other property, plant and equipment	23,277
Trade and other receivables	9,033
Cash and cash equivalents	1,933
Trade and other payables and contract liabilities	(3,413)
Loans from shareholders	<u>(15,561)</u>
Fair value of identifiable assets acquired and liabilities assumed at the Step Acquisition Date	15,269
Total consideration	<u>(14,674)</u>
Gain on step acquisition	<u><u>595</u></u>
Consideration paid, satisfied by cash	7,195
Cash and cash equivalents acquired	<u>(1,933)</u>
Net cash outflow	<u><u>5,262</u></u>

As at the Step Acquisition Date, the fair values of the receivables were their gross contractual amounts. None of them was expected to be uncollectible. The gain on step acquisition of HK\$595,000 has been included in “other net gain” of the consolidated statement of profit or loss for the six months ended 30 June 2021.

Revenue and net profit attributable to the Group during the period from 29 April 2021 (the Step Acquisition Date) to 30 June 2021 contributed by the Step Acquisition were HK\$Nil and HK\$739,000 respectively. Had the Step Acquisition taken place and completed at the beginning of the six months ended 30 June 2021, revenue and net profit attributable to the Group would have been HK\$1,959,471,000 and HK\$46,092,000, respectively.

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

With vaccination rates increasing worldwide and the situation becoming relatively more stable, the pressure from the novel coronavirus (“COVID-19”) was somewhat alleviated and the economy gradually adapted to the new normal of the late-pandemic era, with the consumer market demonstrating early signs of recovery. Nonetheless, the manufacturing industry still encountered challenges on the operation front, as material supply and logistics arrangements were still inevitably impacted. Nevertheless, the Group continued to draw on its competitive advantage as a market leader with dual manufacturing bases to seize business opportunities and doubled its efforts in cost control to navigate this challenging time.

For the six months ended 30 June 2021 (the “Period”), on the back of its established customer base and diversified product portfolio, the Group was able to grasp the opportunities from the market recovery and recorded a 20.2% growth in total revenue to HK\$1,959.5 million (six months ended 30 June 2020: HK\$1,629.6 million). Despite the prices of raw materials having skyrocketed, gross profit was maintained at HK\$250.6 million (six months ended 30 June 2020: HK\$259.1 million), while gross profit margin was 12.8% (six months ended 30 June 2020: 15.9%). Profit for the period was HK\$45.4 million (six months ended 30 June 2020: HK\$87.4 million).

As at 30 June 2021, the Group was in a healthy financial position with cash and cash equivalents and time deposits in current assets amounting to HK\$545.1 million (31 December 2020: HK\$665.4 million). The Board of Directors has recommended the payment of an interim dividend of HK2 cents per ordinary share for the six months ended 30 June 2021 (six months ended 30 June 2020: HK2 cents per ordinary share).

Business Review

Product Analysis

Plastic Figures Segment

Leveraging its long-term and stable business relationships with customers, the plastic figures segment was able to maintain its momentum and continued to be the Group’s major growth driver. Despite the price pressure caused by intensified competition and an unprecedented market environment, the segmental revenue increased by 28.9% to HK\$1,031.4 million during the Period (six months ended 30 June 2020: HK\$799.9 million) and accounted for 52.7% of the Group’s total revenue. While actively strengthening its cooperation with its existing strong clientele, the Group also continued to step up efforts in reaching out to new customers for potential projects to enhance its portfolio. Meanwhile, the strategic bundle business of the fashion doll business has enabled the Group to estimate the anticipated order volume, allowing it to better prepare its production plan. In addition, the Group closely monitored the supply chain and inventory level while also endeavored to maximize operational efficiency.

Plush Stuffed Toys Segment

With various lockdown and strict anti-epidemic measures affecting the operation of theme parks, the Group experienced a decline in sales and thus recorded segmental revenue of HK\$556.8 million during the Period (six months ended 30 June 2020: HK\$653.8 million), representing 28.4% of the Group's total revenue. Sales of the Original Equipment Manufacturing ("OEM") business totaled HK\$535.2 million (six months ended 30 June 2020: HK\$608.6 million), contributing 96.1% of the total revenue of plush stuffed toys. Thanks to the timely review of production capacity of the existing production lines, the Group was able to reorganize its existing production lines for promotional items in order to maximize output and cater for larger order volume. As part of product diversification, the home-living product was introduced towards the end of 2020, with the first shipment completed during the first half of 2021, and has been ramping up its operations during the Period, with smooth product delivery.

The Original Design Manufacturing ("ODM") business, on the other hand, recorded revenue totaled HK\$21.6 million (six months ended 30 June 2020: HK\$45.2 million), accounting for 3.9% of the segment's total revenue. The Group continued to make every possible effort to maintain its close connections with renowned US retailers, so as to be able to cater for a sophisticated customer base and address their diverse needs.

Tarpaulin Segment

The tarpaulin segment provided the Group with yet another impressive set of results during the Period, with revenue amounting to HK\$276.5 million (six months ended 30 June 2020: HK\$100.4 million), up by 175.4% as compared with the three-month operation period ended 30 June 2020 since the completion of acquisition of this business on 31 March 2020, accounting for 14.1% of the Group's total revenue. The encouraging result was attributable to the low-sensitivity nature of the business, alongside the commencement of operation of two plants, which subsequently expanded the production capacity of the segment. This segment is expected to continue to bring stable contributions to the Group in the near future.

Die-casting Products Segment

Two years since its establishment, this segment is showing positive development, having achieved growth of 25.5% in revenue during the Period, amounted to HK\$94.8 million (six months ended 30 June 2020: HK\$75.5 million) and accounted for 4.8% of the total revenue of the Group. The Group continued its efforts to introduce non-seasonal items to clients during the Period, which allowed the Group to secure an increased order volume from new and existing clients and strengthened its revenue stream. It also pursued automation in manufacturing processes to enhance cost-efficiency during the Period.

Geographic Market Analysis

For the six months ended 30 June 2021, North America remained the Group's largest geographical market, accounting for 74.7% of its total revenue. Japan accounted for 10.1%, thus remaining the second largest market. Contributions from China accounted for 6.0%, followed by Europe at 4.6%.

Operational Analysis

As at 30 June 2021, the Group operated 21 plants in total, three of which were in China and 18 of which were in Vietnam, with an average utilization rate of approximately 83.0%. In view of the outbreak of COVID-19 in Vietnam, the Group has kept a close eye on the situation and implemented various measures to protect workers while maintaining production levels.

Prospects

Looking ahead, the ascending vaccination rate and relaxation of various lockdown restrictions, especially in the US, have given many countries and business sectors across the globe a renewed sense of hope. While the improving labor market has raised fears of a sooner-than-expected US interest rate hike, the Group's efforts in establishing a top-tier customer portfolio and two manufacturing bases, as well as its proactive approach to product diversification and sound financial position, have allowed it to withstand the challenges over the years. The Group remains prudently optimistic about the market's prospects and expects its order volume to slowly return to a stable level in view of the recent signs of recovery.

Fueled by the ability to alter its existing production facilities in order to adapt to different operating environments, the Group has been focusing on boosting its production capacity and efficiency with existing production lines to offset the impact from the increase in raw material prices, while also being well-equipped to handle all customer requirements and bulk orders. Boasting its effective two-pronged strategy, the Group will continue to explore opportunities for product diversification, with the aim of creating synergies across its business portfolio, maximizing the utilization of resources and reducing overall costs as a whole. The Group also adheres to and closely monitors the restrictions and measures in place in China and Vietnam, where its production bases are located.

Going forward, leveraging its strong clientele and sound financial position, the Group is well-equipped to adjust to different market conditions and grasp the emerging opportunities that lay ahead. The Group will continue to consolidate its business portfolio and remain open to suitable business opportunities to facilitate long-term growth and ultimately maximize returns to its shareholders.

Number and Remuneration of Employees

As at 30 June 2021, the Group had 24,554 (31 December 2020: 23,928) employees in Hong Kong, China, Korea, the US, Japan, Vietnam and Singapore. The Group values its human resources and recognizes 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 2021, the Group had net current assets of HK\$1,136.9 million (31 December 2020: HK\$1,167.7 million). The Group's total cash and cash equivalents as at 30 June 2021 amounted to HK\$383.7 million (31 December 2020: HK\$489.1 million). The total bank loans of the Group as at 30 June 2021 amounted to HK\$335.9 million (31 December 2020: HK\$254.4 million).

The Group's gearing ratio, calculated on the basis of total bank loans over total equity, was 13.2% at 30 June 2021 (31 December 2020: 9.9%).

Pledge on Group Assets

A property of the Group with carrying amount of HK\$203.1 million (31 December 2020: HK\$206.9 million) as at 30 June 2021 was pledged as security for a mortgage installment loan of the Group of HK\$58.6 million (31 December 2020: HK\$62.8 million).

Factory buildings, certain leasehold land and other property, plant and equipment of the Group with an aggregate carrying amount of HK\$192.3 million (31 December 2020: HK\$147.2 million) as at 30 June 2021 were pledged as security for bank loans of the Group of HK\$53.9 million (31 December 2020: HK\$65.6 million).

Time deposits of the Group with an aggregate carrying amount of HK\$120.0 million (31 December 2020: HK\$59.7 million) as at 30 June 2021 were pledged as security for bank loans of the Group of HK\$159.3 million (31 December 2020: HK\$125.9 million).

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

During the six months ended 30 June 2021, 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

The step acquisition of C & H Mekong Company Limited from an associate to a subsidiary during the six months ended 30 June 2021 was considered not material to the Group. There was no material acquisition or disposal of subsidiaries and associated companies by the Group during the six months ended 30 June 2021.

CORPORATE GOVERNANCE

During the six months ended 30 June 2021, 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 2021.

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 2021 (six months ended 30 June 2020: HK2 cents per ordinary share). The interim dividend of HK\$13,537,000 (six months ended 30 June 2020: HK\$13,537,000) will be paid on 13 October 2021 to shareholders registered at the close of business on the record date, 29 September 2021.

The register of members will be closed for one day on 30 September 2021, 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 2021.

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 2021. The Audit Committee considered that the unaudited interim results for the six months ended 30 June 2021 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 2021 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 2021 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 2021 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
Min Jung Lee
Executive Director

Hong Kong, 26 August 2021

As at the date of this announcement, the Directors are:

Executive Directors:

Mr. Kyoo Yoon Choi (*Chairman*)

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