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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 2021

The board (the “Board”) of directors (the “Directors”) of Dream International Limited (the “Company” or “Dream International”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2021, together with the comparative figures for the previous financial year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 HK\$'000	2020 HK\$'000
Revenue	3	4,799,785	3,779,619
Cost of sales		(4,185,069)	(3,119,010)
Gross profit		614,716	660,609
Other revenue		40,929	30,163
Other net income		2,621	182
Gain on step acquisition		595	–
Gain on bargain purchase		–	16,406
Distribution costs		(89,108)	(84,742)
Administrative expenses		(295,971)	(282,887)
Profit from operations		273,782	339,731
Finance costs	4(a)	(10,455)	(8,011)
Share of profits/(losses) of associates		899	(1,017)
Profit before taxation	4	264,226	330,703
Income tax	5	(70,664)	(57,927)
Profit for the year		193,562	272,776
Earnings per share	6		
Basic and diluted		HK28.60 ¢	HK40.30 ¢

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	193,562	272,776
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)	386	(310)
	386	(310)
Items that may be or are reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	1,152	4,696
– Reclassification of fair value reserve to profit or loss upon disposal of a debt security at fair value through other comprehensive income	–	(92)
	1,152	4,604
Other comprehensive income for the year	1,538	4,294
Total comprehensive income for the year	195,100	277,070

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2021

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	8	1,387,438	1,356,286
Investment properties		3,777	3,387
Long term receivables and prepayments		19,719	30,358
Other intangible assets		26,011	15,313
Goodwill		2,753	2,753
Interests in associates		10,269	12,673
Deferred tax assets		5,147	5,565
Time deposits		3,081	3,024
Other financial assets	7	3,540	3,327
		<u>1,461,735</u>	<u>1,432,686</u>
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Current assets			
Inventories		879,135	666,110
Trade and other receivables	9	1,254,554	772,426
Current tax recoverable		2,836	10,087
Time deposits		218,165	176,328
Cash and cash equivalents		382,989	489,071
		<u>2,737,679</u>	<u>2,114,022</u>
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Current liabilities			
Trade and other payables and contract liabilities	10	1,184,085	647,225
Bank loans		262,462	254,417
Lease liabilities		15,714	15,814
Current tax payable		32,097	28,897
		<u>1,494,358</u>	<u>946,353</u>
		-----	-----
Net current assets		<u>1,243,321</u>	<u>1,167,669</u>
		-----	-----
Total assets less current liabilities		<u>2,705,056</u>	<u>2,600,355</u>
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	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Non-current liabilities			
Lease liabilities		20,216	29,384
Deferred tax liabilities		10,620	10,627
		<u>30,836</u>	<u>40,011</u>
NET ASSETS		<u>2,674,220</u>	<u>2,560,344</u>
CAPITAL AND RESERVES			
Share capital		236,474	236,474
Reserves		2,437,746	2,323,870
TOTAL EQUITY		<u>2,674,220</u>	<u>2,560,344</u>

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The financial information relating to the years ended 31 December 2021 and 2020 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 2020 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 2021 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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*
- Amendment 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:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR reform"). The amendments do not have a material impact to the Group's results and financial position.

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 principal activities of the Group are the design, development, manufacture and sale of plush stuffed toys, plastic figures, tarpaulin, and die-casting products. 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 (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 lines is as follows:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products lines		
– Plastic figures	2,663,618	1,982,808
– Plush stuffed toys	1,407,235	1,184,017
– Tarpaulin	471,916	397,045
– Die-casting products	257,016	215,749
	<u>4,799,785</u>	<u>3,779,619</u>

The Group's customer base is diversified and includes two (2020: three) customers with whom the value of transactions have exceeded 10% (2020: 10%) of the Group's revenues as follows:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A	1,668,652	1,165,508
Customer B	480,201	474,302
Customer C	478,386	456,377

These transactions are attributable to the plastic figures, plush stuffed toys, tarpaulin 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	
	2021	2020
	HK\$'000	HK\$'000
Hong Kong (place of domicile)	89,207	23,880
North America	3,398,660	2,693,789
Japan	490,088	542,245
Europe	391,129	193,521
The PRC	290,320	184,698
Vietnam	78,091	99,232
Korea	28,200	18,554
Other countries	34,090	23,700
	4,710,578	3,755,739
	4,799,785	3,779,619
	Specified non-current assets	
	2021	2020
	HK\$'000	HK\$'000
Hong Kong (place of domicile)	218,955	217,976
North America	1,606	2,961
Japan	4,761	5,385
The PRC	54,139	58,921
Vietnam	1,128,725	1,095,066
Korea	28,569	29,428
Singapore	13,212	11,033
	1,231,012	1,202,794
	1,449,967	1,420,770

(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 2021 and 2020 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
Revenue from external customers	2,663,618	1,982,808	1,407,235	1,184,017	471,916	397,045	257,016	215,749	4,799,785	3,779,619
Inter-segment revenue	13,118	17,448	32,124	21,364	5	1	128,346	60,411	173,593	99,224
Reportable segment revenue	<u>2,676,736</u>	<u>2,000,256</u>	<u>1,439,359</u>	<u>1,205,381</u>	<u>471,921</u>	<u>397,046</u>	<u>385,362</u>	<u>276,160</u>	<u>4,973,378</u>	<u>3,878,843</u>
Reportable segment profit (adjusted EBITDA)	<u>188,400</u>	<u>216,526</u>	<u>182,008</u>	<u>199,859</u>	<u>62,049</u>	<u>65,228</u>	<u>19,243</u>	<u>17,695</u>	<u>451,700</u>	<u>499,308</u>
Bank interest income	557	1,378	17,142	10,988	2,737	2,774	24	5	20,460	15,145
Interest expense	(1,596)	(838)	(3,735)	(4,901)	(3,665)	(2,034)	(1,459)	(238)	(10,455)	(8,011)
Depreciation and amortisation for the year	(71,975)	(68,422)	(62,378)	(66,426)	(12,153)	(8,521)	(27,324)	(15,200)	(173,830)	(158,569)
Reportable segment assets	<u>1,469,324</u>	<u>1,108,493</u>	<u>1,647,628</u>	<u>1,135,985</u>	<u>275,747</u>	<u>328,453</u>	<u>281,258</u>	<u>346,245</u>	<u>3,673,957</u>	<u>2,919,176</u>
Additions to non-current segment assets during the year	92,373	109,958	88,594	71,961	25,861	38,770	17,951	6,601	224,779	227,290
Reportable segment liabilities	<u>805,270</u>	<u>329,436</u>	<u>242,141</u>	<u>248,220</u>	<u>62,860</u>	<u>82,324</u>	<u>392,052</u>	<u>325,124</u>	<u>1,502,323</u>	<u>985,104</u>

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

	2021 HK\$'000	2020 HK\$'000
Revenue		
Reportable segment revenue	4,973,378	3,878,843
Elimination of inter-segment revenue	<u>(173,593)</u>	<u>(99,224)</u>
Consolidated revenue	<u>4,799,785</u>	<u>3,779,619</u>
Profit		
Reportable segment profit	451,700	499,308
Share of profits/(losses) of associates	899	(1,017)
Gain on bargain purchase	–	16,406
Gain on step acquisition	595	–
Interest income	20,460	15,277
Depreciation and amortisation	(173,830)	(158,569)
Finance costs	(10,455)	(8,011)
Unallocated head office and corporate expenses	<u>(25,143)</u>	<u>(32,691)</u>
Consolidated profit before taxation	<u>264,226</u>	<u>330,703</u>

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Assets		
Reportable segment assets	3,673,957	2,919,176
Elimination of inter-segment receivables	(282,308)	(292,682)
	3,391,649	2,626,494
Interests in associates	10,269	12,673
Club memberships	24,304	13,217
Other financial asset	3,540	3,327
Deferred tax assets	5,147	5,565
Current tax recoverable	2,836	10,087
Unallocated head office and corporate assets	761,669	875,345
Consolidated total assets	4,199,414	3,546,708
Liabilities		
Reportable segment liabilities	1,502,323	985,104
Elimination of inter-segment payables	(282,308)	(292,682)
	1,220,015	692,422
Deferred tax liabilities	10,620	10,627
Current tax payable	32,097	28,897
Unallocated head office and corporate liabilities	262,462	254,418
Consolidated total liabilities	1,525,194	986,364

4. PROFIT BEFORE TAXATION

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

	2021 HK\$'000	2020 HK\$'000
(a) Finance costs		
Interest expense on bank loans	7,908	6,015
Interest expense on lease liabilities	2,547	1,996
	<u>10,455</u>	<u>8,011</u>
(b) Staff costs*		
Contributions to defined contribution retirement plan	65,996	68,842
Salaries, wages and other benefits	1,254,332	1,021,606
	<u>1,320,328</u>	<u>1,090,448</u>
(c) Other items		
Depreciation charge*		
– owned property, plant and equipment	146,262	136,981
– leasehold land held for own use	4,211	3,188
– right-of-use assets	22,958	18,269
Amortisation of other intangible assets	399	131
Reversal of loss allowances of trade receivables	(365)	(393)
Auditors' remuneration		
– audit services	5,177	6,241
– other services	1,107	723
Cost of inventories*	<u>4,185,069</u>	<u>3,119,010</u>

* *Cost of inventories includes HK\$1,268,427,000 (2020: HK\$1,047,254,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.*

5. INCOME TAX

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
Provision for the year	31,896	23,138
Under-provision in respect of prior years	32	442
	31,928	23,580
Current tax – Outside Hong Kong		
Provision for the year	35,590	39,310
Under/(over) provision in respect of prior years	3,037	(414)
	38,627	38,896
Deferred tax		
Origination and reversal of temporary differences	109	(4,549)
	70,664	57,927

The provision for Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 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 2020.

The provision for Hong Kong Profits Tax for 2021 is taken into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2020/21 subject to a maximum reduction of HK\$10,000 for each business (2020: a maximum reduction of HK\$20,000 was granted for the year of assessment 2019/20 and was taken into account in calculating the provision for 2020).

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 paid on dividend income from subsidiaries. No withholding tax was paid during the year ended 31 December 2021.

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\$193,562,000 (2020: HK\$272,776,000) and the weighted average of 676,865,000 ordinary shares (2020: 676,865,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as there were no dilutive potential ordinary shares in existence during the years ended 31 December 2021 and 2020.

7. OTHER FINANCIAL ASSETS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Unlisted equity security measured at FVOCI (non-recycling)	<u>3,540</u>	<u>3,327</u>

Notes:

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 (2020: HK\$Nil).

8. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2021, the Group acquired items of investment properties and property, plant and equipment with a cost of HK\$196,798,000 (2020: HK\$225,092,000), including the additions to right-of-use assets of HK\$23,829,000 (2020: HK\$45,293,000). The additions to right-of-use assets included purchase of leasehold properties of HK\$13,115,000 (2020: HK\$7,566,000), and the remaining primarily related to the capitalised lease payments payable under new tenancy agreements. Items of investment properties and property, plant and equipment with a net book value of HK\$18,098,000 (2020: HK\$7,815,000) were disposed of for the year ended 31 December 2021, resulting in a net loss on disposal of HK\$2,103,000 (2020: HK\$1,275,000).

9. TRADE AND OTHER RECEIVABLES

As at 31 December 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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	333,139	311,599
1 to 2 months	393,016	216,708
2 to 3 months	208,400	43,811
3 to 4 months	77,810	9,403
Over 4 months	50,404	1,335
	<u>1,062,769</u>	<u>582,856</u>

Trade debtors and bills receivable are due within 30 to 120 days (2020: 30 to 120 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 2021, the ageing analysis of trade payables, based on the due dates is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Due within 1 month or on demand	367,918	277,788
Due after 1 month but within 3 months	307,330	101,920
Due after 3 months but within 6 months	218,894	23,374
Due after 6 months but within 1 year	44,349	15,028
Over 1 year	7,289	10,333
	<u>945,780</u>	<u>428,443</u>

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables	945,780	428,443
Contract liabilities – sales deposit	21,104	25,970
Salary and welfare payables	139,281	134,056
Value-added tax payable	4,648	4,527
Other payables and accruals	49,965	32,954
Receipt in advance	23,307	21,275
	<u>1,184,085</u>	<u>647,225</u>

As at 31 December 2021, included in the trade payables balance are amounts due to associates of HK\$2,566,000 (2020: HK\$15,089,000) which are trade in nature, unsecured and interest-free.

11. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year 2021

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interim dividend declared and paid of HK2 cents per ordinary share (2020: HK2 cents per ordinary share)	13,537	13,537
Final dividend proposed after the end of the reporting period of HK10 cents per ordinary share (2020: HK10 cents per ordinary share)	<u>67,687</u>	<u>67,687</u>
	<u><u>81,224</u></u>	<u><u>81,224</u></u>

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year 2021

	2021 <i>HK\$'000</i>	2020 <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 (2020: HK10 cents per ordinary share)	<u>67,687</u>	<u>67,687</u>

12 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)
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Fair value of identifiable assets acquired and liabilities assumed at the Acquisition Date	141,197
Total consideration	(124,791)
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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
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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\$61,368,000 respectively. Had the Acquisition taken place and completed at the beginning of the year, revenue and net profit attributable to the Group would have been HK\$3,861,896,000 and HK\$279,034,000, 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	7,479
	<hr/>
Total consideration	14,674
	<hr/> <hr/>
	<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	(15,561)
	<hr/>
Fair value of identifiable assets acquired and liabilities assumed at the Step Acquisition Date	15,269
Total consideration	(14,674)
	<hr/>
Gain on step acquisition	595
	<hr/> <hr/>
Consideration paid, satisfied by cash	7,195
Cash and cash equivalents acquired	(1,933)
	<hr/>
Net cash outflow	5,262
	<hr/> <hr/>

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 31 December 2021 contributed by the Step Acquisition were HK\$Nil and HK\$790,000 respectively. Had the Step Acquisition taken place and completed at the beginning of the year, revenue and net profit attributable to the Group would have been HK\$4,799,785,000 and HK\$194,352,000, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Although pandemic situation remained precarious in 2021, the global economy began to adapt to the “new normal” of the post-pandemic era, with the overall market sentiment on track to return to the pre-pandemic level. On the supply end, rising raw material prices and strained freight transport networks posed challenges to the entire supply chain. These issues led international toy brands and companies to zero in on manufacturers with strong competitive edges, such as a sound track record, strong multi-regional production capabilities, and a solid financial position. As an industry leader that is able to leverage these competitive advantages, Dream International benefited from the market trend and continued to expand its business scale in 2021.

For the year ended 31 December 2021 (the “Year”), the Group’s total revenue grew by 27.0% to HK\$4,799.8 million (2020: HK\$3,779.6 million). With the gradual resumption of consumer demand, orders for the Group’s overall business were back on track, and hit a record high for order intake in the second half of the year. However, adversely affected by rising material costs and short periods of COVID-19-related disruption at certain Vietnamese plants which raised manufacturing costs, gross profit for 2021 was HK\$614.7 million (2020: HK\$660.6 million), while the gross profit margin was 12.8% (2020: 17.4%). Profit attributable to equity shareholders of the Company stood at HK\$193.6 million (2020: HK\$272.8 million) under the tough operating environment.

As at 31 December 2021, the Group was in a healthy financial position with cash and cash equivalents and bank deposits in current assets amounting to HK\$601.2 million (2020: HK\$665.4 million). The Board of Directors has recommended the payment of an final dividend of HK10 cents per ordinary share (2020: HK10 cents).

Business Review

Product Analysis

Plastic Figure Segment

With high production capacity, a sound product quality track record and timely delivery being even more sought after by customers during the pandemic, the Group has further strengthened its partnerships with its existing clientele in the plastic figure segment. The segment remained the Group’s major growth driver with sales surging 34.3% to approximately HK\$2,663.6 million (2020: HK\$1,982.8 million), accounted for 55.5% of the Group’s total revenue. Order inflow from customers is expected to remain strong in 2022.

Plush Stuffed Toys Segment

Driven by the recovering order inflow, the segment revenue increased to HK\$1,407.2 million (2020: HK\$1,184.0 million) during the Year, representing 29.3% of the Group's total revenue. Sales from the Original Equipment Manufacturing ("OEM") business increased by 17.9% to HK\$1,341.0 million (2020: HK\$1,137.5 million), contributing 95.3% of the total revenue of plush stuffed toys. The growth was attributable to an increase in the sales volumes of promotional items and orders from the theme parks in the PRC. The Original Design Manufacturing ("ODM") business recorded revenue totaling HK\$66.2 million (2020: HK\$46.5 million), accounted for 4.7% of the segment's total revenue. The Group continued to respond to market trends with agility and fully met the needs of renowned US retailers while exploring opportunities with new customers.

Tarpaulin Segment

The tarpaulin segment contributed revenue of approximately HK\$471.9 million (2020: HK\$397.0 million), representing an increase of 18.9% year-on-year and accounted for 9.8% of the Group's total revenue. The growth was mainly driven by an increase in production capacity with the commencement of operation of additional plant during the Year. This segment is expected to provide the Group with a healthy cash inflow through stable sales to help navigate the challenging times owing to the low-sensitivity nature of the business.

Die-Casting Products Segment

The segment revenue rose by 19.1% to HK\$257.0 million (2020: HK\$215.7 million), accounted for 5.4% of the Group's total revenue. In addition to introducing non-seasonal items to customers, the Group prioritized customers with products carrying a variety of themes, as well as orders of higher value-added products. In view of the surging raw material prices, the Group sought to improve its production processes and adopt new equipment to enable higher production efficiency with higher levels of automation and better cost control.

Geographic Market Analysis

For the year ended 31 December 2021, North America remained the Group's largest geographical market, accounting for 70.8% of its total revenue. Japan accounted for 10.2%, thus remaining the second largest market. Contributions from Europe accounted for 8.1%, followed by the PRC at 6.0%.

Operational Analysis

As at 31 December 2021, the Group operated 23 plants in total, four of which were in China and 19 of which were in Vietnam, with an average utilization rate of approximately 81.0%. The overall production capacity targets in Vietnam progressed on track as plants became more sophisticated and efficient. Despite the re-emergence of the pandemic and subsequent government-imposed lockdown measures in the country, the disruptions to the Group's Vietnamese operations were alleviated in the second half year. The Group continued to closely monitor potential risks and implemented various measures to ensure the safety of its employees while flexibly allocating resources among its plants in the two countries to capture the strong market demand.

Prospects

Entering 2022, the global economic recovery has been hindered not only by the lingering pandemic, but also the uncertainty created by geopolitical conflicts and potential interest rate hikes, with the former having sparked a surge in the price of oil, leading to escalating material costs. As the toy industry is relatively less affected by the pandemic, and theme parks around the world are gradually re-opening, the Group still sees growth momentum ahead. Therefore, it will remain vigilant and prudently optimistic about its prospects amid the current challenges, with a focus on increasing orders from its existing customer base in the coming year.

Aside from its top-tier customer base consisting of international toy companies and character owners, the Group's ability to produce high-quality products in large volumes in both China and Vietnam is an unparalleled advantage enabling both greater flexibility in production arrangement and geographical risk diversification. In order to meet the strong order demand from customers, the Group will continue to expand its production capacity, including the addition of another factory for plastic figures which will commence operation in June 2022, and three more factories for plush stuffed toys in China which are currently in the planning stage.

Moreover, the Group will examine its customer and product portfolio to ensure the best allocation of its production capacity to maximize returns. The production procedures will also be reviewed and restructured, when appropriate, to enhance the cost-efficiency of the production flow.

Dream International, with its established dual production bases, top-tier customer portfolio and healthy financial position, has overcome various economic cycles over the decades. Boasting its effective two-pronged strategy, the Group will continue to explore opportunities for product diversification to build on its solid foundation, with the aim of creating synergies across its business portfolio and maximizing the utilization of its resources. Moving forward, the management is dedicated to elevating Dream International to achieve sustainable development and create long-term value for shareholders.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2021, the Group had 25,841 (31 December 2020: 23,928) employees in Hong Kong, the PRC, 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 31 December 2021, the Group had net current assets of HK\$1,243.3 million (2020: HK\$1,167.7 million). The Group's total cash and cash equivalents as at 31 December 2021 amounted to HK\$383.0 million (2020: HK\$489.1 million). The bank loans of the Group as at 31 December 2021 amounted to HK\$262.5 million (2020: HK\$254.4 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 9.8% at 31 December 2021 (2020: 9.9%).

PLEDGE ON GROUP ASSETS

A property of the Group with carrying amount of HK\$199.3 million (31 December 2020: HK\$206.9 million) as at 31 December 2021 was pledged as security for a mortgage installment loan of the Group of HK\$54.2 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\$145.0 million (31 December 2020: HK\$147.2 million) as at 31 December 2021 were pledged as security for bank loans of the Group of HK\$38.1 million (31 December 2020: HK\$65.6 million).

Time deposits of the Group with an aggregate carrying amount of HK\$134.0 million (31 December 2020: HK\$59.7 million) as at 31 December 2021 were pledged as security for bank loans of the Group of HK\$132.5 million (31 December 2020: HK\$125.9 million).

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

During the year ended 31 December 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 year ended 31 December 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 year ended 31 December 2021.

CORPORATE GOVERNANCE

During the year ended 31 December 2021, 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 C.2.1. Under the code provision C.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 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 2021.

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 2021. 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 (2020: HK10 cents) per ordinary share in respect of the year ended 31 December 2021. The proposed final dividend which totals HK\$67,687,000 (2020: HK\$67,687,000), if approved at the forthcoming annual general meeting, will be paid on 27 May 2022 to the shareholders on the register of members as at 13 May 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 3 May 2022 to 6 May 2022, 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 6 May 2022 are entitled to attend the forthcoming annual general meeting scheduled on 6 May 2022. 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 29 April 2022.

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 13 May 2022, 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 12 May 2022.

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 2021.

By order of the Board
Dream International Limited
Min Jung Lee
Executive Director

Hong Kong, 25 March 2022

At the date of this announcement, the Directors are:

Executive Directors:

Mr. Kyoo Yoon Choi (*Chairman*)
Mr. Sung Sick Kim
Mr. Min Jung Lee
Ms. Hyunjoo Kim

Independent non-executive Directors:

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