DREAM INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1126)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 2018 together with comparative figures for the corresponding period in 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2018 – UNAUDITED

		Six months ended 30 June	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**1,398,166**	1,154,044
Cost of sales		**(1,113,456)**	(861,636)
Gross profit		**284,710**	292,408
Other revenue		**9,601**	6,358
Other net loss		**(5,329)**	(2,472)
Distribution costs		**(37,652)**	(23,451)
Administrative expenses		**(141,767)**	(121,821)
Profit from operations		**109,563**	151,022
Finance costs	*4(a)*	**(1,137)**	(222)
Profit before taxation	*4*	**108,426**	150,800
Income tax	*5*	**(29,922)**	(28,718)
Profit for the period		**78,504**	122,082
Attributable to:			
Equity shareholders of the Company		**83,650**	123,094
Non-controlling interests		**(5,146)**	(1,012)
Profit for the period		**78,504**	122,082
Earnings per share	*7*		
Basic and diluted		**HK$0.124**	HK$0.182

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018 – UNAUDITED

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Profit for the period	**78,504**	122,082
Other comprehensive income for the period (after tax and reclassification adjustments):		
Item that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit retirement obligation	**(154)**	(103)
Unlisted equity security at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	**1,975**	–
	1,821	(103)
Items that may be or are reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**889**	15,911
Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary	**–**	(725)
Investment in debt security at fair value through other comprehensive income – net movement in fair value reserve (recycling)	**249**	–
Available-for-sale securities – net movement in the fair value reserve (recycling)	**–**	(188)
	1,138	14,998
Other comprehensive income for the period	**2,959**	14,895
Total comprehensive income for the period	**81,463**	136,977
Attributable to:		
Equity shareholders of the Company	**86,435**	137,975
Non-controlling interests	**(4,972)**	(998)
Total comprehensive income for the period	**81,463**	136,977

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018 – UNAUDITED

	Notes	At 30 June 2018 HK$'000	At 31 December 2017 HK$'000
Non-current assets			
Investment property	9	**1,178**	1,272
Interests in leasehold land held for own use under operating leases	9	**100,611**	97,906
Other property, plant and equipment	9	**995,540**	739,661
Long term receivables and prepayments		**29,012**	17,953
Other intangible assets		**7,059**	7,255
Goodwill		**2,753**	2,753
Deferred tax assets		**3,828**	4,154
Other financial assets	8	**8,617**	14,134
		1,148,598	885,088
Current assets			
Inventories	10	**470,658**	323,938
Trade and other receivables	11	**582,117**	654,531
Current tax recoverable		**1,010**	196
Other financial assets	8	**–**	7,644
Time deposits		**72,906**	76,470
Cash and cash equivalents		**209,062**	316,739
		1,335,753	1,379,518
Current liabilities			
Trade and other payables	12	**526,965**	492,729
Bank loans		**151,742**	15,621
Current tax payable		**42,722**	47,544
		721,429	555,894
Net current assets		**614,324**	823,624
Total assets less current liabilities		**1,762,922**	1,708,712

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 JUNE 2018 – UNAUDITED

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
Non-current liabilities		
Deferred tax liabilities	**8,770**	11,009
Provision for reinstatement costs	**1,233**	1,247
Net defined benefit retirement obligation	**1,979**	1,514
	11,982	13,770
NET ASSETS	**1,750,940**	1,694,942
CAPITAL AND RESERVES		
Share capital	**236,474**	236,474
Reserves	**1,530,754**	1,469,750
Total equity attributable to equity shareholders of the Company	**1,767,228**	1,706,224
Non-controlling interests	**(16,288)**	(11,282)
TOTAL EQUITY	**1,750,940**	1,694,942

NOTES TO THE INTERIM FINANCIAL RESULTS

1. General information and basis of preparation

The principal activities of the Group are design, development, manufacture and sale of plush stuffed toys, plastic figures and ride-on toys.

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 2018 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 24 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 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 2017 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 2017 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

(a) Overview

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs") and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The adoption of HKFRS 15 had no material impact on the Group's financial position and performance during the relevant periods. The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9. Other than that, none of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9.

	At 31 December 2017	**Impact on initial application of HKFRS 9** *(Note 2(b))*	**At 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade and other receivables	654,531	(4,483)	650,048
Total current assets	1,379,518	(4,483)	1,375,035
Net current assets	823,624	(4,483)	819,141
Other financial assets – non-current	14,134	(676)	13,458
Total non-current assets	885,088	(676)	884,412
Total assets less current liabilities	1,708,712	(5,159)	1,703,553
Deferred tax liabilities	(11,009)	191	(10,818)
Total non-current liabilities	(13,770)	191	(13,578)
Net assets	1,694,942	(5,159)	1,689,783
Reserves	(1,469,750)	5,125	(1,464,625)
Total equity attributable to equity shareholders of the Company	(1,706,224)	5,125	(1,701,099)
Non-controlling interests	11,282	34	11,316
Total equity	(1,694,942)	5,159	(1,689,783)

Further details of these changes are set out in sub-sections (b) of this note.

(b) ***HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation***

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained profits and reserves at 1 January 2018.

	HK$'000
Retained profits	
Transferred to fair value reserve (non-recycling) relating to cumulative impairment losses on unlisted equity security recognised in profit or loss under HKAS 39 in prior periods	6,696
Recognition of expected credit losses on trade receivables under HKFRS 9	(4,449)
Net increase in retained profits at 1 January 2018	2,247
Fair value reserve (non-recycling)	
Transferred from retained profits relating to cumulative impairment losses on unlisted equity security recognised in profit or loss under HKAS 39 in prior periods	(6,696)
Fair value adjustment on unlisted equity security now measured at FVOCI and decrease in fair value reserve (non-recycling) at 1 January 2018	(676)
Net decrease in fair value reserve (non-recycling) at 1 January 2018	(7,372)
Non-controlling interests	
Recognition of additional expected credit losses on trade receivables and decrease in non-controlling interests at 1 January 2018	(34)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount at 1 January 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets carried at amortised cost				
Cash and cash equivalents	316,739	–	–	316,739
Time deposits	76,470	–	–	76,470
Trade and other receivables	654,531	–	(4,483)	650,048
Long-term receivables	17,953	–	–	17,953
	1,065,693	–	(4,483)	1,061,210
Financial assets measured at FVOCI (non-recyclable)				
Unlisted equity security *(note (i))*	–	5,650	(676)	4,974
Financial assets measured at FVOCI (recyclable)				
Unlisted debt securities *(note (ii))*	–	8,484	–	8,484
Financial assets carried at FVPL				
Structured debt security *(note (iii))*	7,644	–	–	7,644
Financial assets classified as available-for-sale under HKAS 39 *(notes (i), (ii))*	14,134	(14,134)	–	–

Notes:

(i) Under HKAS 39, unlisted equity security not held for trading was classified as available-for-sale financial asset. This unlisted equity security is classified as at FVPL under HKFRS 9, unless it is eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investment in a Korean private company at FVOCI (non-recycling), as the investment is held for strategic purposes.

(ii) Under HKAS 39, investments in debt securities were classified as available-for-sale financial assets. They are classified as FVOCI (recycling) under HKFRS 9.

(iii) Structured debt security was classified as financial assets at FVPL under HKAS 39. This asset continues to be measured at FVPL under HKFRS 9.

The measurement categories for all financial liabilities remain the same.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables); and

– debt securities measured at FVOCI (recycling).

Financial assets measured at fair value, including unlisted equity security designated at FVOCI (non-recycling), and structured debt security designated at FVPL, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– Trade and other receivables: effective interest determined at initial recognition or an approximation thereof; and

– Variable rate financial assets: current interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instrument with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to HK$4,483,000, which decreased retained profits by HK$4,449,000 and non-controlling interests by HK$34,000 at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	HK$'000
Loss allowance at 31 December 2017 under HKAS 39	1,104
Additional credit loss recognised at 1 January 2018 on:	
– Trade receivables	4,483
Loss allowance at 1 January 2018 under HKFRS 9	5,587

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of an investment in unlisted equity security not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity’s performance, as the entity performs;

B. When the entity’s performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sale of goods.

(ii) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred. There has been no impact on the Group as a result of this change in policy.

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 three 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	
	2018	2017
	HK$'000	*HK$'000*
Revenue from sales of goods within the scope of HKFRS 15		
Disaggregated by major product lines		
– Plush stuffed toys	**673,736**	629,424
– Plastic figures	**698,855**	497,737
– Ride-on toys	**25,575**	26,883
	1,398,166	1,154,044

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Disaggregated by geographical location of customers		
– Hong Kong (place of domicile)	**23,419**	22,935
– North America	**903,074**	686,185
– Japan	**327,797**	330,072
– Europe	**49,403**	62,855
– The PRC	**38,286**	15,286
– Vietnam	**26,556**	26,315
– Korea	**28,276**	9,181
– Other countries	**1,355**	1,215
	1,398,166	1,154,044

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

Disaggregation of revenue from information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Plush stuffed toys		Plastic figures		Ride-on toys		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	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	**673,736**	629,424	**698,855**	497,737	**25,575**	26,883	**1,398,166**	1,154,044
Inter-segment revenue	**15,760**	11,068	**4,719**	1,445	**7,477**	276	**27,956**	12,789
Reportable segment revenue	**689,496**	640,492	**703,574**	499,182	**33,052**	27,159	**1,426,122**	1,166,833
Reportable segment profit/(loss) (adjusted EBITDA)	**92,189**	87,144	**92,052**	103,941	**(14,061)**	(1,113)	**170,180**	189,972
Impairment on other property, plant and equipment	**(1,394)**	–	**–**	–	**(2,882)**	–	**(4,276)**	–
As at 30 June/31 December								
Reportable segment assets	**1,349,714**	1,016,266	**960,591**	922,444	**72,338**	68,478	**2,382,643**	2,007,188
Reportable segment liabilities	**234,804**	219,982	**298,708**	267,414	**197,439**	177,268	**730,951**	664,664

The measure used for reporting segment profit/(loss) is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at the adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as 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	
	2018	2017
	HK$'000	*HK$'000*
Reportable segment profit	**170,180**	189,972
Interest income	**4,573**	3,169
Depreciation and amortisation	**(44,655)**	(27,935)
Finance costs	**(1,137)**	(222)
Impairment loss on other property, plant and equipment	**(4,276)**	–
Unallocated head office and corporate expenses	**(16,259)**	(14,184)
Consolidated profit before taxation	**108,426**	150,800

4. Profit before taxation

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
(a) Finance costs		
Interest expense on bank borrowings	**1,137**	222
(b) Other items		
Amortisation of land lease premium	**1,161**	974
Depreciation	**43,494**	26,961
Operating lease charges: minimum lease payments in respect of property rentals	**13,749**	12,649
Inventories write-down	**3,563**	940
Reversal of write-down of inventories	**(1,552)**	(3,135)
Bank interest income	**(4,231)**	(2,708)
Interest income from other financial assets	**(342)**	(461)
Net realised and unrealised loss on other financial assets	**–**	421
Net loss on disposal of other financial assets	**241**	–
Net loss/(gain) on disposal of other property, plant and equipment	**442**	(251)
Impairment loss on other property, plant and equipment	**4,276**	–

5. Income tax

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax	**10,789**	11,860
Current tax – Outside Hong Kong	**21,494**	16,691
Deferred taxation	**(2,361)**	167
	29,922	28,718

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 2017: 16.5%) to the six months ended 30 June 2018. Taxation for subsidiaries outside Hong Kong is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

Current tax outside Hong Kong for the six months ended 30 June 2018 includes withholding tax of HK$4,479,000 paid on dividend income from a subsidiary (six months ended 30 June 2017: HK$7,771,000).

6. Dividends

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Interim dividend declared and paid after the interim period of HK1 cent per ordinary share (six months ended 30 June 2017: HK1 cent per ordinary share)	**6,769**	6,769

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	
	2018	2017
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK3 cents per ordinary share (six months ended 30 June 2017: HK3 cents per ordinary share)	**20,306**	20,306

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$83,650,000 (six months ended 30 June 2017: HK$123,094,000) and the weighted average number of ordinary shares of 676,865,000 shares (six months ended 30 June 2017: 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 2018 and 2017.

8. **Other financial assets**

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
Non-current		
Debt securities measured at FVOCI (recyclable) *(note (ii))*	**1,532**	–
Unlisted equity security measured at FVOCI (non-recyclable) *(note (iii))*	**7,085**	–
Available-for-sale financial assets		
– Debt securities – unlisted *(note (ii))*	**–**	8,484
– Equity security – unlisted *(note (iii))*	**–**	5,650
	8,617	14,134
Current		
Financial assets measured at FVPL		
– Structured debt security *(notes (i) and (iv))*	**–**	7,644
	8,617	21,778

Notes:

(i) Structured debt security as at 31 December 2017 represented a debt investment placed with an investment bank in Korea with fixed interest rate at 4.63% per annum and redeemable by the debt issuer on or after 30 January 2018. The security was redeemed during the period ended 30 June 2018.

(ii) Debt securities represents an investment in bond amounting to HK$1,532,000 (2017: HK$1,582,000) with fixed interest rate at 3.95% per annum.

Available-for-sale debt securities – unlisted as at 31 December 2017 represented the debt securities mentioned above and an investment in perpetual bond amounting to HK$6,902,000 with fixed interest rate at 5.88% per annum. The investment in perpetual bond was redeemed during the period ended 30 June 2018.

(iii) Unlisted equity security represents an investment in a Korean private company and is measured at FVOCI (non-recycling).

Prior to 1 January 2018, this unlisted equity security was classified as available-for-sale equity security and measured at cost less impairment loss.

(iv) Structured debt security is a hybrid instrument that includes non-derivative host contracts and embedded derivatives. Upon inception, the financial instrument is designated as FVPL with changes in fair value recognised in the consolidated statement of profit or loss.

9. Investment property, leasehold land and other property, plant and equipment

During the six months ended 30 June 2018, the Group acquired items of leasehold land and other property, plant and equipment with a cost of HK$307,791,000 (six months ended 30 June 2017: HK$129,102,000). Items of other property, plant and equipment with a net book value of HK$3,036,000 were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: HK$1,573,000), resulting in a net loss on disposal of HK$442,000 (six months ended 30 June 2017: net gain on disposal of HK$251,000).

10. Inventories

During the six months ended 30 June 2018, HK$1,552,000 (six months ended 30 June 2017: HK$3,135,000) has been recognised as a reversal of write-down of inventories. The reversal arose upon utilisation, disposal or an increase in the estimated net realisable value of these inventories.

11. Trade and other receivables

As at 30 June 2018, 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 allowance for doubtful debts, is as follows:

	At 30 June 2018 *HK$'000*	At 31 December 2017 *HK$'000*
Within 1 month	**240,954**	215,610
1 to 2 months	**111,895**	143,598
2 to 3 months	**30,918**	100,178
3 to 4 months	**9,842**	31,852
Over 4 months	**15,636**	14,162
Trade debtors and bills receivable, net of allowance for doubtful debts	**409,245**	505,400
Other receivables and prepayments	**159,793**	129,430
Amounts due from related companies	**13,079**	19,701
	582,117	654,531

Trade debtors and bills receivable are due within 30 to 60 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted.

12. Trade and other payables

As at 30 June 2018, the ageing analysis of trade payables (which are included in trade and other payables), based on the due date, is as follows:

	At 30 June 2018 *HK$'000*	At 31 December 2017 *HK$'000*
Due within 1 month or on demand	**242,292**	203,445
Due after 1 month but within 3 months	**102,665**	50,912
Due after 3 months but within 6 months	**–**	491
Trade payables	**344,957**	254,848
Receipt in advance	**23,939**	68,692
Salary and welfare payables	**130,948**	134,333
Value-added tax payable	**5,155**	3,805
Payable for acquisition of other property, plant and equipment	**3,894**	18,771
Other payables and accruals	**18,072**	12,280
	526,965	492,729

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

During the first half of 2018, despite unfavourable factors in the economy such as the fluctuation in oil prices and the increase in labour cost in Vietnam which have in turn affected its material price and production costs, the Group managed to achieve continued revenue growth during the period under review.

For the six months ended 30 June 2018, driven by the increase in the sales volume of plastic figures, the Group's revenue has once again broke the half-year record, rising by 21.2% year-on-year to HK$1,398.2 million (six months ended 30 June 2017: HK$1,154.0 million). Due to the redesign and modification process of a new product leading to delay in shipment to a customer in the second quarter of 2018, the costs of which were already incurred in the first half-year, gross profit slightly decreased to HK$284.7 million (six months ended 30 June 2017: HK$292.4 million) and gross profit margin was 20.4% (six months ended 30 June 2017: 25.3%). Accordingly, the profit for the period and net profit margin were recorded at HK$78.5 million (six months ended 30 June 2017: HK$122.1 million) and 5.6% (six months ended 30 June 2017: 10.6%) respectively during the period under review.

As at 30 June 2018, the Group was in a sound financial position with cash and cash equivalents and bank deposits of HK$282.0 million (31 December 2017: HK$393.2 million). The Board of Directors has recommended the payment of an interim dividend of HK1 cent per ordinary share (six months ended 30 June 2017: HK1 cent per ordinary share).

Business Review

Product Analysis

Plush Stuffed Toys Segment

During the period under review, the plush stuffed toys segment recorded a revenue of HK$673.7 million (six months ended 30 June 2017: HK$629.4 million), accounting for 48.2% of the Group's total revenue. The Original Equipment Manufacturing ("OEM") business under the plush stuffed toys segment continued as the one of the major contributors of the Group's total revenue, with a revenue of HK$604.8 million recorded (six months ended 30 June 2017: HK$596.2 million), accounting for 89.8% of total sales of the segment. Renowned for its product quality, the Group has continued to receive recognition from top-tier toy companies and thus is able to maintain a stable order volume stream. During the review period, the Group has been able to secure more customers through a US marketing company. Moreover, by pursuing the baby doll business which commenced production in 2016 and the development of new plush categories, more cross-selling opportunities from its existing customers have been captured, which in turn generated a greater revenue contribution to the Group. During the review period, sales of the Original Design Manufacturing ("ODM") business in the segment remained stable and were recorded at HK$68.9 million (six months ended 30 June 2017: HK$33.2 million), contributing 10.2% of the total sales of plush stuffed toys. The Group has continued to focus on developing new designs to cater for customers' demand while securing more orders.

Plastic Figures Segment

The plastic figures segment continued to be the main growth driver, with revenue increasing by 40.4% to HK$698.9 million (six months ended 30 June 2017: HK$497.7 million), accounting for 50.0% of the Group's total revenue. In particular, the orders received from a unique-feature plastic figures licensor remained strong during the review period. Meanwhile, with the growing popularity in plastics figures accompanied with unique and mechanical features, the Group continued to develop new play sets with features and categories preferred by customers and thus has received an increasing volume of orders. Moreover, the production capacity has been further bolstered with the fifth plant for plastic figures beginning its operation earlier this year, which will be able to cater for the growing orders in the segment.

Ride-on Toys Segment

During the period under review, revenue of HK$25.6 million (six months ended 30 June 2017: HK$26.9 million) was recorded from the ride-on toys segment, thus accounting for 1.8% of the Group's total revenue. To further enhance the performance of this segment, the Group will continue to focus mainly on developing the US market and to explore more business opportunities by introducing a wider variety of product categories.

Geographic Market Analysis

For the six months ended 30 June 2018, North America remained as the largest geographic market of the Group, accounting for 64.7% of its total revenue. Japan was second, accounting for 23.4%, followed by Europe at 3.5%, China at 2.7%, Korea at 2.0%, Vietnam at 1.9%, Hong Kong at 1.7% and Others at 0.1%.

Operational Analysis

As at 30 June 2018, the Group operated 18 plants in total, 14 of which were in Vietnam and 4 in China, and in aggregate running at an average utilisation rate of 88%. The first phase of the fifth plant for plastic figures has commenced operation during the period under review.

Prospects

Amidst the emerging US-China trade war, the Group remains cautiously optimistic about the impact of government policies since the dispute does not target low price consumer products. In fact, previously, companies from the US as well as elsewhere had begun sourcing from manufacturing partners with facilities based outside of China for cost savings even while most of the manufacturing capacity of the toy industry remains based in China. As the Group has established production bases in both Vietnam and China, it believes its business will not be seriously affected by the trend of more orders flowing to the manufacturers outside of China.

Looking ahead, the plastic figures business is still the Group's growth driver in the near future while it is seeking a modest growth from the plush stuffed toys and the doll products categories. With the first phase of the fifth plant for plastic figures commencing operation earlier this year, the Group is further expanding its production capacity in order to capture the growing opportunities in the segment. Meanwhile, the second phase of the fifth plant and a baby doll factory nearby the fifth plant has been initiated. The larger production capacity will help the Group to achieve greater economies of scale and enhance its efficiency. With regard to the plush stuffed toys segment, the Group will also maintain its leadership with the introduction of more new plush toy characters to meet customers' demand.

Leveraging its established business foundation and good relationship with its renowned customers, the Group will closely monitor opportunities that enable it to further boost business development whenever an adequate target emerges and continue to advance its drive for diversification, in order to strengthen its leading position in the global toy industry and bring long-term returns to its shareholders.

Number and Remuneration of Employees

As at 30 June 2018, the Group had 22,630 (31 December 2017: 21,403) employees in Hong Kong, China, Korea, the US, Japan and Vietnam. The Group values its human resources and recognises the importance of attracting and retaining quality staff for its continuing success. Staff bonuses are awarded based on individual performance.

Liquidity and Financial Resources and Gearing

The Group continued to maintain a reasonable liquidity position. As at 30 June 2018, the Group had net current assets of HK$614.3 million (31 December 2017: HK$823.6 million). The Group's total cash and cash equivalents as at 30 June 2018 amounted to HK$209.1 million (31 December 2017: HK$316.7 million). The total bank loans of the Group as at 30 June 2018 amounted to HK$151.7 million (31 December 2017: HK$15.6 million).

The Group's gearing ratio, calculated on the basis of total bank loans over total equity, was 8.7% at 30 June 2018 (31 December 2017: 0.9%).

Pledge on Group Assets

Certain leasehold land and other property, plant and equipment of the Group with an aggregate carrying amount of HK$18.4 million as at 30 June 2018 (31 December 2017: HK$19.0 million) were pledged as security for an unutilised bank facility of the Group of HK$11.8 million (31 December 2017: HK$11.7 million).

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2018, 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 Listing Rules, save for the deviation from the code provisions A.2.1 and A.6.7.

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.

Code provision A.6.7 of the CG Code provides that the independent non-executive directors should attend general meetings of the Company. Due to personal family issue, one independent non-executive Director, Professor Cheong Heon Yi was unable to attend the annual general meeting of the Company held on 4 May 2018.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions 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 2018.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board declared an interim dividend of HK1 cent per ordinary share for the six months ended 30 June 2018 (six months ended 30 June 2017: HK1 cent per ordinary share). The interim dividend of HK$6,769,000 (six months ended 30 June 2017: HK$6,769,000) will be paid on 24 September 2018 to shareholders registered at the close of business on the record date, 12 September 2018.

The register of members will be closed for one day on 13 September 2018, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 12 September 2018.

AUDIT COMMITTEE

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 2018. The Audit Committee considered that the unaudited interim results for the six months ended 30 June 2018 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 2018 have not been audited, but have been reviewed by KPMG.

PUBLICATION OF 2018 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 2018 prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on above websites in due course.

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

Hong Kong, 24 August 2018

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

Executive Directors
Mr. Kyoo Yoon Choi *(Chairman)*
Mr. Young M. Lee
Mr. Hyun Ho Kim
Mr. Sung Sick Kim

Independent Non-executive Directors
Professor Cheong Heon Yi
Mr. Tae Woong Kang
Dr. Chan Yoo