



ream
International
Limited

DREAM INTERNATIONAL LIMITED

德林國際有限公司

Incorporated in Hong Kong with limited liability











於香港註冊成立之有限公司

Stock Code 股份代號: 1126



2016 INTERIM
REPORT

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This report is published in both English and Chinese.
Where the English and the Chinese texts conflict, the English text prevails.





MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the first half of 2016, global market conditions remained challenging. The US economy continued to experience a slow growth after the US Federal Reserve initiated an interest rate hike in December 2015. While in the Euro zone, the unexpected British vote to leave the European Union in June 2016 had seemed to set in motion economic instabilities in that region and even worldwide, leading to weak market sentiment. Despite this difficult environment, the Group managed to achieve outstanding results, thanks to its leadership and competitive advantages established in the toy industry, as well as its ongoing efforts in expansion of both production capacity and the customer base.

For the six months ended 30 June 2016, the Group's revenue rose by 19.1% year-on-year to HK\$899.6 million (six months ended 30 June 2015: HK\$755.6 million), mainly driven by the solid increase in sales volume of plush stuffed toys and plastic figures. Benefitting from the improvement of production efficiency and economies of scale in Vietnam, as well as the relatively stable material costs, gross profit rose significantly by 38.5% to HK\$237.2 million (six months ended 30 June 2015: HK\$171.2 million) during the period, driving the gross profit margin up by 3.7 percentage points to 26.4% (six months ended 30 June 2015: 22.7%). By implementing stringent cost control measures, the Group managed to decrease the distribution cost to revenue ratio and maintained the administrative expenses to revenue ratio at a stable level, helping to boost the operating profit by 71.8% to HK\$110.2 million (six months ended 30 June 2015: HK\$64.1 million). Accordingly, the Group achieved a profit for the period of HK\$82.0 million (six months ended 30 June 2015: HK\$44.2 million), representing a surge of 85.3%, with net margin up by 3.2 percentage points to 9.1% (six months ended 30 June 2015: 5.9%).

The Group maintained a healthy financial position with cash and cash equivalents and bank deposits of HK\$364.2 million as at 30 June 2016 (31 December 2015: HK\$276.6 million).



Business Review

Product Analysis

Plush stuffed toys segment

During the period under review, the plush stuffed toys segment recorded revenue of HK\$644.7 million (six months ended 30 June 2015: HK\$540.5 million), representing a rise of 19.3% year-on-year and accounting for 71.7% of the Group's total revenue. The Original Equipment Manufacturing ("OEM") business under the plush stuffed toys segment remained as the core contributor of the Group's total revenue, with sales rising by 15.3% to HK\$596.4 million (six months ended 30 June 2015: HK\$517.3 million), accounting for 92.5% of total sales of the plush stuffed toys segment. As a preferred partner enjoying a long-term business relationship with well-known customers including globally-renowned cartoon character owners and licensors, the Group has achieved progress under the OEM business during the review period. While it continued to receive increasing order volumes from a popular plush toy collection, business from the theme park opened in Shanghai, China this year also brought in a sales contribution. Moreover, a purveyor of pop culture and licensed-focused company, which was secured as the Group's customer two years ago, has markedly increased its order volume this year due to the launch of a new licensed plush toy line. The Group has also started working closely with a renowned US retailer for its promotional campaign for four consecutive seasons, which will last till early 2017.

Sales of the Original Design Manufacturing ("ODM") business grew by 108.2% to HK\$48.3 million (six months ended 30 June 2015: HK\$23.2 million) during the six months ended 30 June 2016, contributing 7.5% of the total sales of plush stuffed toys. With the establishment of its self-owned "Dream, made to love, made to hug" brand, the Group continued to fine-tune its positioning to focus on the mass market. In view of the keen competition in the generic toy market, the Group is planning to develop new designs to refresh its existing product lines, so as to cater US retailers' demand and further strengthen cooperation.





Plastic figures segment

During the period under review, the plastic figures segment has continued its rapid growth, with sales rising by 14.7% to HK\$245.0 million (six months ended 30 June 2015: HK\$213.6 million), contributing 27.2% of the Group's total revenue. Capturing the cross-selling opportunities riding on its long term business relationships with existing top-tier customers, the Group has continued to receive increasing orders, contributing to the sales growth of plastic figures. In particular, a unique-feature plastic figures licensor secured as a customer in 2014 notably increased its order volume during the review period. The Group is currently in negotiation with several potential clients and developing new figures for existing customers, and expects to conclude these new developments in the second half of 2016.

Ride-on toys segment

During the period under review, sales generated from the ride-on toys segment significantly increased to HK\$9.9 million (six months ended 30 June 2015: HK\$1.5 million). The Group has relocated its ride-on toys production facilities from China to Vietnam for better production efficiency. Since the plant started operations in May 2015, its operations have been smoothly ramping up. The Group is currently in negotiation with potential customers and targets to secure more sizable orders in the near future.

Geographic Market Analysis

For the six months ended 30 June 2016, North America became the largest geographic market of the Group, accounting for 51.6% of its total revenue. Japan came second and accounted for 36.3% of the total revenue, followed by Europe at 6.0%, Hong Kong at 1.6% and others at 4.5%.





Operational Analysis

As at 30 June 2016, the Group operated 15 plants in total, four of which were in China and 11 in Vietnam, and in aggregate running at an average utilisation rate of 84%. The construction work of the Group's third plant for the plastic figures segment in Hanoi was completed in May 2016 and gradually started ramping up, with full operations expected in the fourth quarter of 2016.

Prospects

Despite the fact that market is anticipating pressure from the possible increase in US interest rates, it also expects stable economic growth there, which will subsequently improve market sentiment in that country and worldwide. The gross domestic product of Japan also exceeded market expectations in the first half of 2016, which hopefully could translate into a more positive consumer sentiment there. Nonetheless, given the potential geopolitical issues, as well as rising production costs in China and more intense competition faced in the manufacturing sector, the Group remains cautiously optimistic about its prospects in the near future.

With the core businesses steadily growing, the Group is exploring new opportunities by enriching the product mix and grasping cross-selling opportunities brought by its established and reputable customer base. Recently, the Group has set up a new “Doll Product” category supported by the existing manufacturing capabilities and expertise, and acquired a parcel of land in Vietnam to build a designated manufacturing facility for this new product category. The first batch of new products is to be delivered by the end of this year. Meanwhile, the Group is in negotiation with potential customers – who are already customers of its plastic figures segment – for this new segment. The Group sees considerable potential and therefore expects a significant contribution from this initiative in the coming years.





Having foreseen the challenges encountered by toy manufacturers in China, the Group has been one of the first movers in the industry to relocate its production base to Vietnam and is now expanding its facilities there in full swing. While the third plant dedicated to manufacturing plastic figures there has commenced operations as scheduled, the Group will consider further expanding its production capacity in this segment subject to the volume of the increasing orders, so as to further strengthen its competitive edge through the greater economies of scale and lower production costs there. The Group will also continue to optimise its product and cost structures to meet the changing market demand and increase its profitability.

Number and Remuneration of Employees

As at 30 June 2016, the Group had 15,793 (31 December 2015: 15,267) 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 and share options 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 2016, the Group had net current assets of HK\$534.2 million (31 December 2015: HK\$539.7 million). The Group's total cash and cash equivalents as at 30 June 2016 amounted to HK\$285.0 million (31 December 2015: HK\$251.5 million). The total bank loans of the Group as at 30 June 2016 amounted to HK\$29.6 million (31 December 2015: HK\$3.9 million).

The Group's gearing ratio, calculated on the basis of total bank loans over total equity, was 2.7% at 30 June 2016 (31 December 2015: 0.4%).



Pledge on Group Assets

Certain property, plant and equipment of the Group with an aggregate carrying amount of HK\$19,019,000 as at 30 June 2016 (31 December 2015: HK\$27,542,000) were pledged as security for an unutilised bank facility of the Group of HK\$11,639,000 (31 December 2015: HK\$11,627,000).

Significant Investment Held

There was no significant investment held by the Group during the six months ended 30 June 2016.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

There was no material acquisition or disposal of subsidiaries and associated companies by the Group during the six months ended 30 June 2016.

Exposure to Fluctuations in Exchange Rates and Any Related Hedges

The majority of the Group's assets and liabilities and business transactions were denominated in Hong Kong dollars, United States dollars, Renminbi Yuan, Vietnamese Dong, Japanese Yen and British Pound. During the six months ended 30 June 2016, the Group had not entered into any hedging arrangements. The management will continue to monitor closely its foreign currency exposure and to consider hedging significant foreign currency exposure when necessary.





ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Interim Dividend and Closure of Register of Members

The board of directors of the Company (the “Directors”) (the “Board”) declared an interim dividend of HK1 cent per ordinary share for the six months ended 30 June 2016 (six months ended 30 June 2015: HK3 cents per ordinary share). The interim dividend of HK\$6,769,000 (six months ended 30 June 2015: HK\$20,306,000) will be paid on 15 September 2016 to shareholders registered at the close of business on the record date, 6 September 2016.

The register of members will be closed for one day on 7 September 2016, 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 6 September 2016.

Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2016, the interests and short positions of each Director and chief executive in the shares, underlying shares and debentures of the Company, its subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance (the “SFO”)) as recorded in the register required to be kept under Section 352 of Part XV of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) were as follows:



Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

Long positions in ordinary shares

	Number of ordinary shares held			Total	Percentage of issued shares of the company
	Personal interests <i>(Note 1)</i>	Family interests	Corporate interests		
The Company					
Kyoo Yoon Choi	382,851,000	–	72,150,000 <i>(Note 2)</i>	455,001,000	67.22%
Young M. Lee	2,500,000	–	–	2,500,000	0.37%
James Chuan Yung Wang	200,000	–	–	200,000	0.03%
Hyun Ho Kim	150,000	–	–	150,000	0.02%

Notes:

1. The shares are registered under the names of the Directors and chief executives of the Company who are the beneficial owners.
2. Mr. Kyoo Yoon Choi beneficially owns 100% of interest of Uni-Link Technology Limited which owned 72,150,000 shares of the Company.





Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

Save as disclosed above, as at 30 June 2016, none of the Directors or chief executives of the Company or any of their spouses or children under 18 years of age had interests or short positions in the shares, underlying shares or debentures of the Company, or any of its subsidiaries or other associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

At no time during the six months ended 30 June 2016 was the Company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company and its associated corporations and none of the Directors or chief executives of the Company (including their spouses and children under the age of 18) held any interests in or was granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.



Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 30 June 2016, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's ordinary shares in issue.

Substantial shareholders	Capacity	Number of ordinary shares held (long position)	Percentage of the issued shares of the Company
Kyoo Yoon Choi	Beneficial owner	382,851,000	56.56%
	Corporate interest (Note 1)	72,150,000	10.66%
Uni-Link Technology Limited (Note 2)	Beneficial owner	72,150,000	10.66%

Notes:

- (1) Mr. Kyoo Yoon Choi beneficially owns 100% of the issued shares of Uni-Link Technology Limited which owned 72,150,000 shares of the Company.
- (2) Mr. James Chuan Yung Wang, being a Director, is also a director of Uni-Link Technology Limited.

Save as disclosed above, as at 30 June 2016, the Company is not aware of any other registered substantial shareholder who holds 5% or more of the issued shares of the Company and none of other person who had interest or short position in the shares and underlying shares of the Company which were required, pursuant to Section 336 of Part XV of the SFO, to be recorded into the register referred to therein.



Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2016, 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 2016, the Board considered that the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for the deviation from the code provision A.2.1.

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer ("CEO") should be separated and should not be held by the same individual. Mr. Kyoo Yoon Choi has been appointed as the CEO on 4 October 2012 and has performed both the roles as the chairman and CEO of the Company. The Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Kyoo Yoon Choi to hold both positions as it helps to maintain the continuity of the policies and stability of the operations of the Company. The Board including three independent non-executive Directors has a fairly independent element in the composition and will play an active role to ensure a balance of power and authority.



Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code 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 2016.

Audit Committee

The audit committee of the Company (the "Audit Committee") has reviewed with the 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 2016. The Audit Committee considered that the unaudited interim results for the six months ended 30 June 2016 were in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

By order of the Board

Kyoo Yoon Choi

Chairman

Hong Kong, 23 August 2016



REVIEW REPORT TO THE BOARD OF DIRECTORS OF DREAM INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 16 to 38, which comprises the consolidated statement of financial position of Dream International Limited (the “Company”) as of 30 June 2016 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.





REVIEW REPORT TO THE BOARD OF DIRECTORS OF DREAM INTERNATIONAL LIMITED (*Continued*)

(Incorporated in Hong Kong with limited liability)

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2016 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 August 2016



CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2016 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Notes	2016 \$'000	2015 \$'000
Revenue	3, 4	899,575	755,553
Cost of sales		(662,349)	(584,316)
Gross profit		237,226	171,237
Other revenue		7,648	4,504
Other net income		3,871	1,269
Distribution costs		(25,686)	(23,517)
Administrative expenses		(112,849)	(89,348)
Profit from operations		110,210	64,145
Finance costs	5(a)	(180)	(190)
Profit before taxation	5	110,030	63,955
Income tax	6	(28,062)	(19,708)
Profit for the period		81,968	44,247
Attributable to:			
Equity shareholders of the Company		83,052	44,965
Non-controlling interests		(1,084)	(718)
Profit for the period		81,968	44,247
Earnings per share	8		
Basic and diluted		\$0.123	\$0.066

The notes on pages 23 to 38 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15(a).



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2016 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2016 \$'000	2015 \$'000
<i>Notes</i>		
Profit for the period	81,968	44,247
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	(82)	(92)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	437	(2,510)
Available-for-sale securities: net movement in the fair value reserve	(168)	–
	269	(2,510)
Other comprehensive income for the period	187	(2,602)
Total comprehensive income for the period	82,155	41,645
Attributable to:		
Equity shareholders of the Company	83,231	42,366
Non-controlling interests	(1,076)	(721)
Total comprehensive income for the period	82,155	41,645

The notes on pages 23 to 38 form part of this interim financial report.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2016 – unaudited

(Expressed in Hong Kong dollars)

	Notes	At 30 June 2016 \$'000	At 31 December 2015 \$'000
Non-current assets			
Investment property	10	1,449	–
Interests in leasehold land held for own use under operating leases	10	78,791	53,778
Other property, plant and equipment	10	443,735	379,369
Long term receivables and prepayments		16,243	16,105
Other intangible assets		7,686	7,618
Goodwill		2,753	2,753
Deferred tax assets		5,253	7,603
Other financial assets	9	21,374	21,099
		577,284	488,325
Current assets			
Inventories	11	249,511	201,752
Trade and other receivables	12	286,967	334,816
Current tax recoverable		65	28
Other financial assets	9	6,785	6,591
Time deposits	13	79,274	25,123
Cash and cash equivalents	13	284,963	251,476
		907,565	819,786
Current liabilities			
Trade and other payables	14	314,940	253,425
Bank loans		29,557	3,916
Current tax payable		28,882	22,758
		373,379	280,099



CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

at 30 June 2016 – unaudited

(Expressed in Hong Kong dollars)

	At 30 June 2016 \$'000	At 31 December 2015 \$'000
<i>Notes</i>		
Net current assets	534,186	539,687
Total assets less current liabilities	1,111,470	1,028,012
Non-current liabilities		
Deferred tax liabilities	1,231	–
Net defined benefit retirement obligation	1,198	1,126
	2,429	1,126
NET ASSETS	1,109,041	1,026,886
CAPITAL AND RESERVES		
Share capital	236,474	236,474
Reserves	876,665	793,434
Total equity attributable to equity shareholders of the Company	1,113,139	1,029,908
Non-controlling interests	(4,098)	(3,022)
TOTAL EQUITY	1,109,041	1,026,886

The notes on pages 23 to 38 form part of this interim financial report.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2016 – unaudited

(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	General reserve fund	Other reserve	Exchange reserve	Fair value reserve	Retained profits	Total		
Notes	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2015	236,474	18,797	(6,246)	54,657	–	645,345	949,027	(1,669)	947,358
Changes in equity for the six months ended 30 June 2015:									
Profit for the period	–	–	–	–	–	44,965	44,965	(718)	44,247
Other comprehensive income	–	–	–	(2,507)	–	(92)	(2,599)	(3)	(2,602)
Total comprehensive income	–	–	–	(2,507)	–	44,873	42,366	(721)	41,645
Final dividend approved in respect of the previous year	15(a)(ii)	–	–	–	–	(33,843)	(33,843)	–	(33,843)
Balance at 30 June 2015 and 1 July 2015	236,474	18,797	(6,246)	52,150	–	656,375	957,550	(2,390)	955,160
Changes in equity for the six months ended 31 December 2015:									
Profit for the period	–	–	–	–	–	105,818	105,818	(677)	105,141
Other comprehensive income	–	–	–	(12,860)	197	(491)	(13,154)	45	(13,109)
Total comprehensive income	–	–	–	(12,860)	197	105,327	92,664	(632)	92,032
Dividends declared in respect of the current year	15(a)(i)	–	–	–	–	(20,306)	(20,306)	–	(20,306)
Balance at 31 December 2015	236,474	18,797	(6,246)	39,290	197	741,396	1,029,908	(3,022)	1,026,886



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

for the six months ended 30 June 2016 – unaudited

(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	General reserve fund	Other reserve	Exchange reserve	Fair value reserve	Retained profits	Total		
Notes	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2016	236,474	18,797	(6,246)	39,290	197	741,396	1,029,908	(3,022)	1,026,886
Changes in equity for the six months ended 30 June 2016:									
Profit for the period	-	-	-	-	-	83,052	83,052	(1,084)	81,968
Other comprehensive income	-	-	-	429	(168)	(82)	179	8	187
Total comprehensive income	-	-	-	429	(168)	82,970	83,231	(1,076)	82,155
Appropriation to general reserve fund	-	2,855	-	-	-	(2,855)	-	-	-
Balance at 30 June 2016	236,474	21,652	(6,246)	39,719	29	821,511	1,113,139	(4,098)	1,109,041

The notes on pages 23 to 38 form part of this interim financial report.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2016 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Notes	2016 \$'000	2015 \$'000
Operating activities			
Cash generated from operations		181,127	165,486
Tax paid		(19,612)	(11,494)
Net cash generated from operating activities		161,515	153,992
Investing activities			
Payment for purchase of leasehold land and other property, plant and equipment		(88,507)	(58,781)
Prepayment for purchase of leasehold land and other property, plant and equipment		(7,259)	–
Payment for purchase of other financial assets		–	(8,614)
Net cash outflow in respect of acquisition of a subsidiary	7	(5,744)	–
Increase in time deposits with maturity over three months		(54,151)	(40,957)
Proceeds received upon maturity and/or sale of other financial assets		–	11,014
Other cash flows arising from investing activities		2,435	3,025
Net cash used in investing activities		(153,226)	(94,313)
Financing activities			
Dividends paid		–	(33,843)
Other cash flows arising from financing activities		25,416	(16,019)
Net cash generated from/(used in) financing activities		25,416	(49,862)
Net increase in cash and cash equivalents		33,705	9,817
Cash and cash equivalents at 1 January	13	251,476	241,567
Effect of foreign exchange rate changes		(218)	(567)
Cash and cash equivalents at 30 June	13	284,963	250,817

The notes on pages 23 to 38 form part of this interim financial report.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1. Basis of preparation

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, 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 23 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Dream International Limited (the “Company”) and its subsidiaries (the “Group”) since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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. KPMG’s independent review report to the board of directors is included on pages 14 to 15.



1. **Basis of preparation (*Continued*)**

The financial information relating to the financial year ended 31 December 2015 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 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

2. **Changes in accounting policies**

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- *Amendments to HKAS 1, Presentation of Financial Statements: Disclosure Initiative*

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

3. **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.



3. Segment reporting *(Continued)*

(a) Information about profit or loss, 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 period is set out below.

	Plush stuffed toys		Plastic figures		Ride-on toys		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>For the six months ended 30 June</i>								
Revenue from external customers	644,648	540,545	245,024	213,556	9,903	1,452	899,575	755,553
Inter-segment revenue	14,663	23,848	1,443	1,958	-	-	16,106	25,806
Reportable segment revenue	659,311	564,393	246,467	215,514	9,903	1,452	915,681	781,359
Reportable segment profit/(loss) (adjusted EBITDA)	99,111	61,795	49,339	32,004	(3,148)	(2,655)	145,302	91,144
<i>As at 30 June/31 December</i>								
Reportable segment assets	963,674	862,234	334,161	323,300	61,502	39,517	1,359,337	1,225,051
Reportable segment liabilities	302,668	248,281	213,685	197,369	79,673	45,379	596,026	491,029

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income 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.



3. Segment reporting *(Continued)*

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2016 \$'000	2015 \$'000
Reportable segment profit	145,302	91,144
Interest income	1,937	2,618
Depreciation and amortisation	(22,173)	(17,589)
Finance costs	(180)	(190)
Unallocated head office and corporate expenses	(14,856)	(12,028)
Consolidated profit before taxation	110,030	63,955

4. Seasonality of operations

The Group's plush stuffed toys, plastic figures and ride-on toys segments, on average experience higher sales amount in the second half of the year, compared to the first half of the year, due to the increased demand of its products during the holiday season. As such, these segments typically report lower revenues and segment results for the first half of the year than the second half.

For the twelve months ended 30 June 2016, the plush stuffed toys, plastic figures and ride-on toys segments reported reportable segment revenue of \$1,415,009,000, \$559,988,000 and \$20,551,000 respectively (twelve months ended 30 June 2015: \$1,396,714,000, \$362,658,000 and \$25,187,000 respectively), and reportable segment profit of \$215,566,000, \$101,636,000 and loss of \$2,501,000 respectively (twelve months ended 30 June 2015: profit of \$202,801,000, \$32,158,000 and \$12,191,000 respectively).





5. Profit before taxation

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

	Six months ended 30 June	
	2016 \$'000	2015 \$'000
(a) Finance costs		
Interest expense on bank borrowings wholly repayable within five years	180	190
(b) Other items		
Amortisation of land lease premium	742	474
Depreciation	21,431	17,115
Operating lease charges: minimum lease payments in respect of property rentals	15,660	14,634
Inventories write-down	484	895
Reversal of write-down of inventories	(2,683)	(743)
Bargain purchase gain arising from acquisition of a subsidiary (note 7)	(3,240)	—
Bank interest income	(1,405)	(2,047)
Interest income from other financial assets	(532)	(571)
Net realised and unrealised gain on other financial assets	(264)	(159)
Net loss/(gain) on disposal of other property, plant and equipment	331	(119)



6. Income tax

	Six months ended 30 June	
	2016 \$'000	2015 \$'000
Current tax – Hong Kong Profits Tax	8,454	7,467
Current tax – Outside Hong Kong	17,216	9,429
Deferred taxation	2,392	2,812
	28,062	19,708

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 2015: 16.5%) of the estimated assessable profits for the six months ended 30 June 2016. 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 2016 includes withholding tax of \$1,580,000 paid on dividend income from a subsidiary (six months ended 30 June 2015: \$Nil).



7. Acquisition of a subsidiary

On 28 February 2016, the Group acquired 100% equity interest in C & H Toys (Shuyang) Co., Ltd (“CTS”) from an independent third party at a consideration of RMB5,000,000 (equivalent to \$5,950,000). The principal activity of CTS is the manufacture of plush stuffed toys. Assets acquired and liabilities assumed at the date of acquisition are as follows:

	\$'000
Interest in leasehold land	3,911
Other property, plant and equipment	7,135
Other receivables	167
Cash and cash equivalents	206
Other payables	(915)
Deferred tax liabilities	(1,314)
Fair value of identifiable assets acquired and liabilities assumed	9,190
Total consideration	(5,950)
Bargain purchase gain arising from acquisition (<i>note</i>)	3,240
Consideration paid, satisfied in cash	5,950
Cash and cash equivalents acquired of	(206)
Net outflow of cash and cash equivalents	5,744

Note: Bargain purchase gain is resulted because the Group has strong bargaining power in respect of its ability to complete the acquisition within a short period of time. Bargain purchase gain is recognised in the line item “other net income” on the face of the consolidated statement of profit or loss.

Included in the Group's profit for the period, a loss of \$554,000 is attributable to CTS. No revenue of the Group for the period is attributable to CTS.



8. 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 \$83,052,000 (six months ended 30 June 2015: \$44,965,000) and the weighted average number of ordinary shares of 676,865,000 shares (six months ended 30 June 2015: 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 2016 and 2015.

9. Other financial assets

	At 30 June 2016 \$'000	At 31 December 2015 \$'000
Non-current		
Structured debt security (notes (i) and (v))	8,022	7,731
Available-for-sale debt securities – unlisted (note (ii))	8,166	8,260
Available-for-sale equity security – unlisted (note (iii))	5,186	5,108
	21,374	21,099
Current		
Equity-linked security (notes (iv) and (v))	6,785	6,591
	28,159	27,690



9. Other financial assets (*Continued*)

Notes:

- (i) Structured debt security represents 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.
- (ii) Available-for-sale debt securities – unlisted represent: (a) an investment in bond amounting to \$1,555,000 (31 December 2015: \$1,524,000) with fixed interest rate at 3.95% per annum and a maturity date on 11 January 2023, which management has no intention to hold to maturity; and (b) an investment in perpetual bond amounting to \$6,611,000 (31 December 2015: \$6,736,000) with fixed interest rate at 5.88% per annum.
- (iii) Available-for-sale equity security – unlisted represents an investment in a Korean private company and is carried at cost less impairment loss. In prior years, an impairment loss of \$8,705,000 was recognised in order to write down the available-for-sale equity security to its recoverable amount. No further impairment loss was recognised during the six months ended 30 June 2016 and 2015.
- (iv) Equity-linked security represents an equity-linked bond placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date on 6 October 2016.
- (v) Structured debt security and equity-linked security are hybrid instruments that include non-derivative host contracts and embedded derivatives. Upon inception, the financial instruments are designated as fair value through profit or loss with changes in fair value recognised in the consolidated statement of profit or loss.

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

During the six months ended 30 June 2016, the Group acquired items of leasehold land and other property, plant and equipment with a cost of \$114,895,000 (six months ended 30 June 2015: other property, plant and equipment of \$58,781,000). Items of other property, plant and equipment with a net book value of \$829,000 were disposed of during the six months ended 30 June 2016 (six months ended 30 June 2015: \$288,000), resulting in a net loss on disposal of \$331,000 (six months ended 30 June 2015: net gain on disposal of \$119,000).



11. Inventories

During the six months ended 30 June 2016, \$2,683,000 (six months ended 30 June 2015: \$743,000) has been recognised as a reversal of write-down of inventories. The reversal arose upon utilisation or disposal of these inventories.

12. Trade and other receivables

As at 30 June 2016, 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 2016 \$'000	At 31 December 2015 \$'000
Within 1 month	118,669	145,400
1 to 2 months	52,474	61,394
2 to 3 months	24,188	22,072
3 to 4 months	57	2,661
Over 4 months	693	785
Trade debtors and bills receivable, net of allowance for doubtful debts	196,081	232,312
Other receivables and prepayments	81,264	90,924
Amounts due from related companies	9,622	11,580
	286,967	334,816

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.



13. Cash and cash equivalents and time deposits

	At 30 June 2016 \$'000	At 31 December 2015 \$'000
Bank deposits within three months to maturity when placed	16,320	41,402
Cash at bank and in hand	268,643	210,074
Cash and cash equivalents in the consolidated statement of financial position and condensed consolidated cash flow statement	284,963	251,476
Time deposits with more than three months to maturity when placed	79,274	25,123
	364,237	276,599

14. Trade and other payables

As at 30 June 2016, 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 2016 \$'000	At 31 December 2015 \$'000
Due within 1 month or on demand	126,370	102,572
Due after 1 month but within 3 months	455	1,672
Due after 3 months but within 6 months	–	100
Trade payables	126,825	104,344
Accrued charges and other payables	177,001	148,968
Amount due to a related company	11,114	113
	314,940	253,425



15. Capital, reserves and dividends

(a) Dividends

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

	Six months ended 30 June	
	2016 \$'000	2015 \$'000
Interim dividend declared and paid after the interim period of 1 cent per ordinary share (six months ended 30 June 2015: 3 cents per ordinary share)	6,769	20,306

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

- (ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period*

	Six months ended 30 June	
	2016 \$'000	2015 \$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of Nil cents per ordinary share (six months ended 30 June 2015: 5 cents per ordinary share)	–	33,843



16. Fair value measurement of financial instruments

(a) *Financial assets measured at fair value*

(i) *Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

Fair value at 30 June 2016 \$'000	Fair value measurements as at 30 June 2016 categorised into		
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Recurring fair value measurements			
<i>Financial assets:</i>			
Available-for-sale debt securities			
– Unlisted	8,166	–	8,166
Equity-linked security	6,785	–	6,785
Structured debt security	8,022	–	8,022
	22,973	–	22,973



16. Fair value measurement of financial instruments (Continued)

(a) Financial assets measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2015 \$'000	Fair value measurements as at 31 December 2015 categorised into		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Recurring fair value measurements				
<i>Financial assets:</i>				
Available-for-sale debt securities				
– Unlisted	8,260	–	8,260	–
Equity-linked security	6,591	–	6,591	–
Structured debt security	7,731	–	7,731	–
	22,582	–	22,582	–

During the six months ended 30 June 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: Nil).

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of available-for-sale debt securities, equity-linked security and structured debt security in Level 2 is determined using quoted prices from financial institutions.



16. Fair value measurement of financial instruments (Continued)

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2016 and 31 December 2015.

17. Capital commitments outstanding not provided for in the interim financial report

	At 30 June 2016 \$'000	At 31 December 2015 \$'000
Contracted for	17,938	90,694
Authorised but not contracted for	101,115	15,169
	119,053	105,863

The capital commitments outstanding as at 30 June 2016 amounting to \$119,053,000 (31 December 2015: \$105,863,000) represent additional investments in buildings, plant and machineries and land use rights in Vietnam.



18. Material related party transactions

During the six months ended 30 June 2016, the Group entered into the following transactions with its related parties:

		Six months ended 30 June	
		2016 \$'000	2015 \$'000
(a) Key management personnel remuneration			
Salaries and other short-term benefits		13,133	11,066
(b) Sales of goods to			
Related companies	(note)	6,032	1,166
(c) Purchase of materials from			
A related company	(note)	1,292	—
(d) Purchase of leasehold land and other property, plant and equipment			
A related company	(note)	15,988	—
(e) Rental paid/payable to			
A related company	(note)	1,474	1,565

Note: These are transactions with C & H Co., Ltd and its subsidiaries ("C & H Group"). A director of the Company is the controlling shareholder of both the C & H Group and the Group.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Kyoo Yoon CHOI (*Chairman and Chief Executive Officer*)

Mr. Young M. LEE (*President and Chief Financial Officer*)

Mr. James Chuan Yung WANG

Mr. Hyun Ho KIM

Independent non-executive Directors

Professor Cheong Heon YI

Professor Byong Hun AHN[^]

Mr. Tae Woong KANG

Dr. Chan YOO^{*}

AUDIT COMMITTEE

Professor Cheong Heon YI (*Chairman*)

Professor Byong Hun AHN[^]

Mr. Tae Woong KANG

Dr. Chan YOO^{*}

REMUNERATION COMMITTEE

Dr. Chan YOO^{*} (*Chairman*)

Professor Byong Hun AHN[^]

Professor Cheong Heon YI

Mr. Tae Woong KANG

Mr. Young M. LEE

NOMINATION COMMITTEE

Mr. Tae Woong KANG (*Chairman*)

Professor Cheong Heon YI

Professor Byong Hun AHN[^]

Dr. Chan YOO^{*}

Mr. Young M. LEE

^{*} Appointment effective 30 May 2016

[^] Appointment ceased effective 30 May 2016



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79 Chatham Road South
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COMPANY SECRETARY

Ms. Tsz Wai NG, *CPA*

AUDITOR

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Young M. LEE
Ms. Tsz Wai NG

PRINCIPAL BANKERS

Citibank, N.A.
Standard Chartered Bank
Bank of China

SHARE REGISTRAR

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FINANCIAL RELATIONS CONSULTANT

Strategic Financial Relations Limited
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STOCK CODE

1126

