

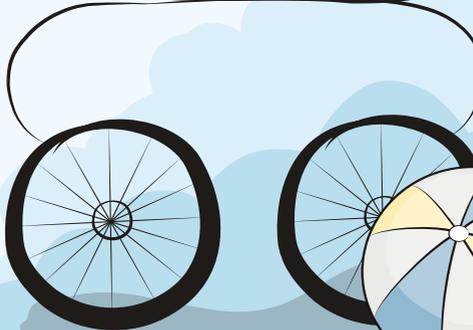


DREAM INTERNATIONAL LIMITED
德林國際有限公司

Incorporated in Hong Kong with limited liability
Stock Code : 1126



Interim Report 2018



MANAGEMENT DISCUSSION AND 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).

Significant Investment Held

There was no significant investment held by the Group during the six months ended 30 June 2018.

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 2018.

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 and Japanese Yen. During the six months ended 30 June 2018, 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 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.

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

As at 30 June 2018, 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 | | | | Percentage of issued shares of the company |
|--------------------|---|------------------|---------------------------------|-------------|--|
| | Personal interests (<i>Note 1</i>) | Family interests | Corporate interests | Total | |
| 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% |
| Hyun Ho Kim | 150,000 | – | – | 150,000 | 0.02% |
| Sung Sick Kim | 3,036,000 | – | – | 3,036,000 | 0.45% |

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 the issued shares 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 2018, 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 2018 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 2018, 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 (<i>Note 1</i>) | 72,150,000 | 10.66% |
| Uni-Link Technology Limited | Beneficial owner | 72,150,000 | 10.66% |

Note:

- (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.

Save as disclosed above, as at 30 June 2018, 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 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 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 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.

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.

By order of the Board

Kyoo Yoon Choi

Chairman

Hong Kong, 24 August 2018



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 13 to 52, which comprises the consolidated statement of financial position of Dream International Limited (the “Company”) as of 30 June 2018 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 2018 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

24 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2018 – unaudited
(Expressed in Hong Kong dollars)

| | Notes | Six months ended 30 June | |
|------------------------------------|-------|--------------------------|--------------------------|
| | | 2018 \$'000 | 2017 (Note) \$'000 |
| Revenue | 3, 4 | 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 | 5(a) | (1,137) | (222) |
| Profit before taxation | 5 | 108,426 | 150,800 |
| Income tax | 6 | (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 | | \$0.124 | \$0.182 |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 22 to 52 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15.



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 – unaudited
(Expressed in Hong Kong dollars)

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2018 | 2017 (Note) |
| | \$'000 | \$'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 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 |

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

for the six months ended 30 June 2018 – unaudited
(Expressed in Hong Kong dollars)

| | Six months ended 30 June | |
|--|---------------------------------|---------------|
| | 2018 | 2017 |
| | \$'000 | <i>(Note)</i> |
| | \$'000 | \$'000 |
| 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 |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 22 to 52 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 – unaudited

(Expressed in Hong Kong dollars)

| | Notes | At 30 June 2018 \$'000 | At 31 December 2017 (Note) \$'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 | 12 | 72,906 | 76,470 |
| Cash and cash equivalents | 12 | 209,062 | 316,739 |
| | | 1,335,753 | 1,379,518 |
| Current liabilities | | | |
| Trade and other payables | 13 | 526,965 | 492,729 |
| Bank loans | 14 | 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)*

at 30 June 2018 – unaudited

(Expressed in Hong Kong dollars)

| | <i>Notes</i> | At 30 June 2018 \$'000 | At 31 December 2017 (Note) \$'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 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| NET ASSETS | | 1,750,940 | 1,694,942 |
| <hr style="border-top: 3px double black;"/> | | | |
| CAPITAL AND RESERVES | 15 | | |
| Share capital | | 236,474 | 236,474 |
| Reserves | | 1,530,754 | 1,469,750 |
| <hr style="border-top: 1px solid black;"/> | | | |
| Total equity attributable to equity shareholders of the Company | | 1,767,228 | 1,706,224 |
| Non-controlling interests | | (16,288) | (11,282) |
| <hr style="border-top: 1px solid black;"/> | | | |
| TOTAL EQUITY | | 1,750,940 | 1,694,942 |
| <hr style="border-top: 3px double black;"/> | | | |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 22 to 52 form part of this interim financial report.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018 – unaudited

(Expressed in Hong Kong dollars)

| | Attributable to equity shareholders of the Company | | | | | | | | | | |
|---|--|-------------------------|--------------------------------|-------------------------|----------------------------|--|--|----------------------------|-----------------|-------------------------------------|------------------------|
| | Notes | Share capital \$'000 | General reserve fund \$'000 | Other reserve \$'000 | Exchange reserve \$'000 | Fair value reserve (recycling) \$'000 | Fair value reserve (non-recycling) \$'000 | Retained profits \$'000 | Total \$'000 | Non-controlling interests \$'000 | Total equity \$'000 |
| Balance at 1 January 2017 | | 236,474 | 21,652 | (6,246) | 20,292 | 382 | - | 1,026,514 | 1,299,068 | (7,184) | 1,291,884 |
| Changes in equity for the six months ended 30 June 2017: | | | | | | | | | | | |
| Profit for the period | | - | - | - | - | - | - | 123,094 | 123,094 | (1,012) | 122,082 |
| Other comprehensive income | | - | - | - | 15,172 | (188) | - | (103) | 14,881 | 14 | 14,895 |
| Total comprehensive income | | - | - | - | 15,172 | (188) | - | 122,991 | 137,975 | (998) | 136,977 |
| Deregistration of a subsidiary | | - | (1,450) | - | - | - | - | 1,450 | - | - | - |
| Final dividend approved in respect of the previous year | 15(b) | - | - | - | - | - | - | (20,306) | (20,306) | - | (20,306) |
| Balance at 30 June 2017 and 1 July 2017 | | 236,474 | 20,202 | (6,246) | 35,464 | 194 | - | 1,130,649 | 1,416,737 | (8,182) | 1,408,555 |
| Changes in equity for the six months ended 31 December 2017: | | | | | | | | | | | |
| Profit for the period | | - | - | - | - | - | - | 283,244 | 283,244 | (3,115) | 280,129 |
| Other comprehensive income | | - | - | - | 13,964 | (485) | - | (467) | 13,012 | 15 | 13,027 |
| Total comprehensive income | | - | - | - | 13,964 | (485) | - | 282,777 | 296,256 | (3,100) | 293,156 |
| Dividends declared in respect of the current year | 15(a) | - | - | - | - | - | - | (6,769) | (6,769) | - | (6,769) |
| Balance at 31 December 2017 (Note) | | 236,474 | 20,202 | (6,246) | 49,428 | (291) | - | 1,406,657 | 1,706,224 | (11,282) | 1,694,942 |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

for the six months ended 30 June 2018 – unaudited

(Expressed in Hong Kong dollars)

| Attributable to equity shareholders of the Company | | | | | | | | | | |
|---|---------------|----------------------|---------------|------------------|--------------------------------|------------------------------------|------------------|-----------|---------------------------|--------------|
| | Share capital | General reserve fund | Other reserve | Exchange reserve | Fair value reserve (recycling) | Fair value reserve (non-recycling) | Retained profits | Total | Non-controlling interests | Total equity |
| Notes | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 31 December 2017 | 236,474 | 20,202 | (6,246) | 49,428 | (291) | - | 1,406,657 | 1,706,224 | (11,282) | 1,694,942 |
| Impact on initial application of HKFRS 9 | - | - | - | - | - | (7,372) | 2,247 | (5,125) | (34) | (5,159) |
| Adjusted balance at 1 January 2018 | 236,474 | 20,202 | (6,246) | 49,428 | (291) | (7,372) | 1,408,904 | 1,701,099 | (11,316) | 1,689,783 |
| Changes in equity for the six months ended 30 June 2018: | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | 83,650 | 83,650 | (5,146) | 78,504 |
| Other comprehensive income | - | - | - | 715 | 249 | 1,975 | (154) | 2,785 | 174 | 2,959 |
| Total comprehensive income | - | - | - | 715 | 249 | 1,975 | 83,496 | 86,435 | (4,972) | 81,463 |
| Appropriation to general reserve fund | - | 1,715 | - | - | - | - | (1,715) | - | - | - |
| Final dividend approved in respect of the previous year 15(b) | - | - | - | - | - | - | (20,306) | (20,306) | - | (20,306) |
| Balance at 30 June 2018 | 236,474 | 21,917 | (6,246) | 50,143 | (42) | (5,397) | 1,470,379 | 1,767,228 | (16,288) | 1,750,940 |

The notes on pages 22 to 52 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2018 – unaudited
(Expressed in Hong Kong dollars)

| | Six months ended 30 June | |
|---|--------------------------|-----------|
| | 2018 | 2017 |
| Notes | \$'000 | (Note) |
| | \$'000 | \$'000 |
| Operating activities | | |
| Cash generated from operations | 110,466 | 137,804 |
| Tax paid | (38,056) | (34,901) |
| Net cash generated from operating activities | 72,410 | 102,903 |
| Investing activities | | |
| Payment for purchase of leasehold land and other property, plant and equipment | (314,965) | (111,501) |
| Prepayment for purchase of leasehold land and other property, plant and equipment | (5,549) | (22,616) |
| Decrease in time deposits with maturity over three months | 3,428 | 20,189 |
| Proceeds received upon disposal of other financial assets | 14,570 | – |
| Other cash flows arising from investing activities | 7,167 | 3,269 |
| Net cash used in investing activities | (295,349) | (110,659) |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (*Continued*)

for the six months ended 30 June 2018 – unaudited

(Expressed in Hong Kong dollars)

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------|----------------|
| | | 2018 | 2017 |
| | | \$'000 | (Note) |
| | | | \$'000 |
| Financing activities | | | |
| Dividends paid | | (20,306) | (20,306) |
| Proceeds from new bank loans | | 136,085 | – |
| Other cash flows arising from financing activities | | (1,137) | 23,152 |
| Net cash generated from financing activities | | 114,642 | 2,846 |
| Net decrease in cash and cash equivalents | | (108,297) | (4,910) |
| Cash and cash equivalents at 1 January | 12 | 316,739 | 316,370 |
| Effect of foreign exchange rate changes | | 620 | 4,458 |
| Cash and cash equivalents at 30 June | 12 | 209,062 | 315,918 |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

The notes on pages 22 to 52 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 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 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 2017 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 11 to 12.

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:

1 Basis of preparation (*Continued*)

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 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.

2 Changes in accounting policies (Continued)

| | At 31 December 2017 | Impact on initial application of HKFRS 9 <i>(Note 2(b))</i> | At 1 January 2018 |
|--|---------------------------|---|-------------------------|
| | \$'000 | \$'000 | \$'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 |
| 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.

2 Changes in accounting policies (Continued)

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

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

| | \$'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.

2 Changes in accounting policies *(Continued)*

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

*(i) Classification of financial assets and financial liabilities *(Continued)**

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.

2 Changes in accounting policies (Continued)

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

(i) Classification of financial assets and financial liabilities (Continued)

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 | | HKFRS 9 carrying amount at 1 January | |
|--|--|----------------------------|--|----------------|
| | 2017 \$'000 | Reclassification \$'000 | Remeasurement \$'000 | 2018 \$'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) | – | – |

2 Changes in accounting policies *(Continued)*

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

*(i) Classification of financial assets and financial liabilities *(Continued)**

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.

2 Changes in accounting policies *(Continued)*

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

(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.

2 Changes in accounting policies *(Continued)*

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

(ii) Credit losses (Continued)

Measurement of ECLs (Continued)

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.

2 Changes in accounting policies *(Continued)*

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

*(ii) Credit losses *(Continued)**

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.

2 Changes in accounting policies *(Continued)*

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

(ii) Credit losses (Continued)

Significant increases in credit risk *(Continued)*

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;

2 Changes in accounting policies *(Continued)*

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

*(ii) Credit losses *(Continued)**

Significant increases in credit risk *(Continued)*

- 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 \$4,483,000, which decreased retained profits by \$4,449,000 and non-controlling interests by \$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.



2 Changes in accounting policies *(Continued)*

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

*(ii) Credit losses *(Continued)**

Opening balance adjustment *(Continued)*

| | \$'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.

2 Changes in accounting policies (*Continued*)

(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.



2 Changes in accounting policies *(Continued)*

(c) HKFRS 15, Revenue from contracts with customers (Continued)

(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.

(d) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

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.

3 Revenue and segment reporting (Continued)

(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 |
| | \$'000 | \$'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 |
| | \$'000 | \$'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 |

3 Revenue and segment reporting (Continued)

(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 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| <i>For the six months ended 30 June</i> | | | | | | | | |
| 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) | - |
| <i>As at 30 June/31 December</i> | | | | | | | | |
| 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.

3 Revenue and segment reporting (Continued)

(c) Reconciliations of reportable segment profit or loss

| | Six months ended 30 June | |
|---|--------------------------|----------------|
| | 2018 \$'000 | 2017 \$'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 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 revenue and segment results for the first half of the year than the second half.

For the twelve months ended 30 June 2018, the plush stuffed toys, plastic figures and ride-on toys segments reported reportable segment revenue of \$1,566,011,000, \$1,546,728,000 and \$77,413,000 respectively (twelve months ended 30 June 2017: \$1,500,569,000, \$885,403,000 and \$51,072,000 respectively), and reportable segment profit of \$254,436,000, \$324,514,000 and loss of \$15,763,000 respectively (twelve months ended 30 June 2017: profit of \$308,874,000, \$154,935,000 and \$10,365,000 respectively).

5 Profit before taxation

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

(a) Finance costs

| | Six months ended 30 June | |
|-------------------------------------|---------------------------------|--------|
| | 2018 | 2017 |
| | \$'000 | (Note) |
| | | \$'000 |
| 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 | – |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods, comparative information is not restated. See note 2.

6 Income tax

| | Six months ended 30 June | |
|-------------------------------------|--------------------------|----------------|
| | 2018 \$'000 | 2017 \$'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 \$4,479,000 paid on dividend income from a subsidiary (six months ended 30 June 2017: \$7,771,000).

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 \$83,650,000 (six months ended 30 June 2017: \$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 \$'000 | At 31 December 2017 (Note (v)) \$'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 \$1,532,000 (2017: \$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 \$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.

8 Other financial assets *(Continued)*

Notes: (Continued)

- (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.
- (v) The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

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

10 Inventories

During the six months ended 30 June 2018, \$1,552,000 (six months ended 30 June 2017: \$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 \$'000 | At 31 December 2017 \$'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 Cash and cash equivalents and time deposits

| | At 30 June 2018 \$'000 | At 31 December 2017 \$'000 |
|--|---------------------------------|-------------------------------------|
| Bank deposits within three months to maturity when placed | 13,539 | 88,230 |
| Cash at bank and on hand | 195,523 | 228,509 |
| Cash and cash equivalents in the consolidated statement of financial position and condensed consolidated cash flow statement | 209,062 | 316,739 |
| Time deposits with more than three months to maturity when placed | 72,906 | 76,470 |
| | 281,968 | 393,209 |

13 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 \$'000 | At 31 December 2017 \$'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 |

14 Bank loans

Bank loans include a mortgage instalment loan of HK\$81,320,000, which is secured by a property. It is interest-bearing at a rate of 1.0% per annum over HIBOR or lender's prime rate minus 2.25%, whichever is lower and it is repayable in 10 years. The above mentioned bank loan contains clauses which give the lender the right at its discretion to demand immediate repayment at anytime irrespective of whether the Company has met the scheduled repayment obligations. The balance is therefore classified as current liabilities in the statement of financial position as at 30 June 2018.

15 Capital, reserves and dividends

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

| | Six months ended 30 June | |
|---|--------------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Interim dividend declared and paid after the interim period of 1 cent per ordinary share (six months ended 30 June 2017: 1 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 interim period*

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 3 cents per ordinary share (six months ended 30 June 2017: 3 cents per ordinary share) | 20,306 | 20,306 |

(c) *Reserves*(i) *Fair value reserve (recycling)*

The fair value reserve (recycling) comprises the cumulative net change in the fair value of debt securities measured at FVOCI under HKFRS 9 held at the end of the reporting period (see note 2(b)). Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with HKAS 39.

15 Capital, reserves and dividends *(Continued)*

(c) Reserves *(Continued)*

(ii) Fair value reserve *(non-recycling)*

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of unlisted equity security designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 2(b)(i)).

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

The Group engaged external valuer to perform valuations for the financial assets measured at FVOCI (non-recycling) which is categorised into level 3 of the fair value hierarchy. The external valuer report directly to management. A valuation report with analysis of changes in fair value measurement is prepared by external valuer at each interim and annual reporting date, and is reviewed and approved by management.

16 Fair value measurement of financial instruments (Continued)

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

(i) Fair value hierarchy (Continued)

| | Fair value at 30 June 2018 \$'000 | Fair value measurements as at 30 June 2018 categorised into | | |
|---|--|--|-------------------|-------------------|
| | | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
| Recurring fair value measurement | | | | |
| <i>Financial assets:</i> | | | | |
| Debt securities | 1,532 | – | 1,532 | – |
| Unlisted equity security (note (i)) | 7,085 | – | – | 7,085 |
| | 8,617 | – | 1,532 | 7,085 |

| | Fair value at 31 December 2017 \$'000 | Fair value measurements as at 31 December 2017 categorised into | | |
|---|--|--|-------------------|-------------------|
| | | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
| Recurring fair value measurement | | | | |
| <i>Financial assets:</i> | | | | |
| Available-for-sale debt securities – unlisted (note (ii)) | 8,484 | – | 8,484 | – |
| Structured debt security | 7,644 | – | 7,644 | – |
| | 16,128 | – | 16,128 | – |

16 Fair value measurement of financial instruments (Continued)

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

(i) Fair value hierarchy (Continued)

Notes:

- (i) Unlisted equity security was reclassified to financial asset measured at FVOCI (non-recycling) upon the adoption of HKFRS 9 at 1 January 2018 (see note 2(b)(i)). It was stated at cost less accumulated impairment loss prior to 1 January 2018.
- (ii) Available-for-sale debt securities were reclassified to debt securities measured at FVOCI (recycling) upon the adoption of HKFRS 9 at 1 January 2018 (see note 2(b)(i)).

During the six months ended 30 June 2018, there were no transfers between Level 1 and Level 2 (2017: nil). The unlisted equity security was reclassified to financial asset measured at FVOCI (non-recycling) and its fair value is measured under Level 3 upon the adoption of HKFRS 9 at 1 January 2018.

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 debt securities and structured debt security in Level 2 are determined using quoted prices from financial institutions.

(iii) Information about Level 3 fair value measurements

| | Valuation technique | Significant unobservable input | Percentage |
|--------------------------|-----------------------------|------------------------------------|------------------|
| Unlisted equity security | Market comparable companies | Discount for lack of marketability | 30% 2017: N/A |

The fair value of unlisted equity security is determined using the price/earning ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 30 June 2018, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5% would have increased/decreased the Group’s other comprehensive income by \$395,000 (2017: N/A).



16 Fair value measurement of financial instruments (Continued)**(a) Financial assets measured at fair value (Continued)**

The movement during the period in the balance of Level 3 fair value measurements is as follows:

| | 2018 \$'000 |
|---|----------------|
| Unlisted equity security: | |
| At 1 January | – |
| Transferred from available-for-sale unlisted equity security at cost less impairment loss | 5,650 |
| Initial adjustment on adoption of HKFRS 9 | (676) |
| Net unrealised gain recognised in other comprehensive income during the period – after tax | 1,975 |
| Deferred tax impact on unrealised gain | 366 |
| Exchange difference | (230) |
| At 30 June | 7,085 |

From 1 January 2018, any gains or losses arising from the remeasurement of the Group's unlisted equity security held for strategic purpose is recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity security, the amount accumulated in other comprehensive income is transferred directly to retained profits. Prior to 1 January 2018, any gains arising from the disposal of the unlisted equity security was presented in the "Other net loss" line item in the consolidated statement of profit or loss.

(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 were not materially different from their fair values as at 30 June 2018 and 31 December 2017.

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

| | At 30 June 2018 \$'000 | At 31 December 2017 \$'000 |
|-----------------------------------|---------------------------------|-------------------------------------|
| Contracted for | 229,787 | 260,370 |
| Authorised but not contracted for | 43,885 | 47,509 |
| | 273,672 | 307,879 |

The capital commitments outstanding as at 30 June 2018 and 31 December 2017 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 2018, the Group entered into the following transactions with its related parties:

| | | Six months ended 30 June 2018 \$'000 | 2017 \$'000 |
|--|--------|--|----------------|
| (a) Key management personnel remuneration | | | |
| Salaries and other short-term benefits | | 14,066 | 12,656 |
| (b) Sales of goods to | | | |
| Related companies | (Note) | 1,106 | 16,641 |
| (c) Purchase of materials from | | | |
| A related company | (Note) | 3 | 1 |
| (d) Processing fee received from | | | |
| A related company | (Note) | 7,904 | – |
| (e) Rental paid to | | | |
| A related company | (Note) | 1,674 | 1,539 |

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.

19 Comparative figures

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

20 Event after the reporting period

In August 2018, the Company entered into an agreement with Hung Hing Printing Group Limited, a printing and packaging manufacturer listed on the Stock Exchange of Hong Kong Limited, to develop a printing and packaging manufacturing facility in Hanoi, Vietnam. The Group will hold a 9.5% stake in the investment, which has an initial total registered capital of US\$10 million.

21 Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of HKFRS 16, *Leases*, which may have a significant impact on the Group's consolidated financial statements.

HKFRS 16, Leases

As discussed in the 2017 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Upon the adoption of HKFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

At 30 June 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to \$26,548,000. Upon the initial adoption of HKFRS 16 at 1 January 2019, the present value of most of the future minimum lease payments that are payable after 6 months will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16.