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

ANNUAL REPORT
年報 2019

Contents

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

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 Hyun Ho KIM
Mr Sung Sick KIM

Independent non-executive Directors

Professor Cheong Heon YI
Mr Tae Woong KANG
Dr Chan YOO

AUDIT COMMITTEE

Professor Cheong Heon YI *(Chairman)*
Mr Tae Woong KANG
Dr Chan YOO

REMUNERATION COMMITTEE

Dr Chan YOO *(Chairman)*
Professor Cheong Heon YI
Mr Tae Woong KANG
Mr Young M. LEE

NOMINATION COMMITTEE

Mr Tae Woong KANG *(Chairman)*
Professor Cheong Heon YI
Dr Chan YOO
Mr Young M. LEE

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

6/F, Tower 1, South Seas Centre
75 Mody Road
Tsim Sha Tsui, Kowloon
Hong Kong

COMPANY SECRETARY

Ms Sau Ping WONG

AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

AUTHORISED REPRESENTATIVES

Mr Young M. LEE
Ms Sau Ping WONG

PRINCIPAL BANKERS

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

SHARE REGISTRAR

Tricor Abacus Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

FINANCIAL RELATIONS CONSULTANT

Strategic Financial Relations Limited
2401-02, Admiralty Centre I
18 Harcourt Road, Admiralty
Hong Kong

WEBSITE ADDRESS

www.dream-i.com.hk

STOCK CODE

1126

Chairman's Statement

2019 was yet another year filled with uncertainties. The protracted trade dispute between China and the US, together with the novel coronavirus outbreak that subsequently became a global health risk, led to an overall erosion in market sentiment. Against such headwinds, Dream International Limited (the "Company", together with its subsidiaries the "Group") nonetheless managed to record a substantial increase in both revenue and net profit during the year. This was due in part to our well-executed strategy of developing the plastic figures and plush stuffed toys businesses, combined with timely capacity expansion. Moreover, we successfully converted the loss making ride-on toys segment to produce die-casting products and plastic figures, thus further strengthening our market leadership despite the adverse conditions.

Primed with foresight, the Group currently has over 79% of its production capacity located in Vietnam, allowing it to benefit from the Sino-US trade conflict, while at the same time enjoy a lower cost advantage as compared with companies with capacity solely located in China. This, indeed, has brought a number of opportunities, including several new customers for the promotional product business secured during the year. Due to the absence of seasonality, this new business segment experienced less idle capacity as would be the case during low season. To further enhance our profitability, the Group is in process of developing separate production lines dedicated to these products. We have also continued to look for potential investment opportunities. Consequently, during the year, we entered into the share transfer agreement with C & H Co., Ltd. ("C & H") and two independent third parties, and the capital contribution transfer agreement with C & H that led to the acquisitions of C & H Vina Joint Stock Company and C & H Tarps Co., Ltd., which are both principally engaged in the manufacturing and sale of tarpaulin. Revenue contributions from the Group's newly acquired tarpaulin businesses is expected to begin once the acquisitions are completed.

With regard to our core businesses, bolstered by greater revenue from the baby doll business, the plush stuffed toys segment has remained a stable revenue contributor. At the same time, the plastic figures segment has continued to receive increased orders from existing customers, capitalising on the close ties such customers have with the Group, and thus, it remains a major revenue stream. In view of growing demand for plastic figures, we have acquired additional land in Vietnam where a dedicated production facility will be constructed, and is expected to commence operation by end of the first half of 2020. While we place utmost importance on enhancing overall profitability across all aspects of our businesses, the conversion of production from ride-on toys to die-casting products most definitely represents another significant achievement, and which has paid off by way of improvements in production efficiency and the margin of the associated business segment. We are now in negotiations with several new customers, and expect to make additional investment in new equipment to cater for the anticipated increase in demand. We will continue to look for cross-selling opportunities for the three product segments to boost our business scale and profitability.

Chairman's Statement

Moving forward, while the novel coronavirus is expected to impact consumer confidence around the world, thus create on-going uncertainty, we remain cautiously optimistic about our prospects. Being among the industry pioneers to open production facilities outside of China, our solid presence in Vietnam, combined with the recent acquisitions of the tarpaulin businesses have already allowed us to swiftly mitigate the impact of the novel coronavirus outbreak, including a possible materials shortage and shipment delays. We will closely monitor the aforementioned situation and promptly take countermeasures when necessary. The production capacity expansion plan will also be reviewed on a timely basis. In addition, we believe the prospects for all three of our product segments will remain solid. We will strive for higher profitability and adopt stringent cost controls to encourage economies of scale, while at the same time optimise overall operational efficiency. Moreover, we will closely monitor the changing market conditions and take corresponding measures to further bolster the Group's leading position in the industry and to build greater growth momentum.

APPRECIATION

On behalf of the Board, I would like to thank our shareholders, business partners and customers for their continuous and unwavering support. I would also like to express my appreciation to the management team and the entire staff for their steadfast commitment and constant contribution to helping the Group's business thrive.

Kyoo Yoon Choi
Chairman
27 March 2020

Management Discussion and Analysis

FINANCIAL REVIEW

The global economy faced a combination of challenges in 2019, including an unresolved US-China trade conflict, followed by the outbreak of the novel coronavirus (COVID-19) at the end of the year. The global economy and the market sentiment were continuously struggled throughout the year and now are facing another uncertainty caused by the virus epidemic. Nevertheless, the Group has managed to achieve revenue growth during the year by employing effective strategies, such as expanding production capacity to capture growing market opportunities, which helped to sustain growth momentum.

For the year ended 31 December 2019, the Group's revenue including both continuing and discontinued operations increased by 12.9% year-on-year to HK$3,991.8 million (2018: HK$3,536.9 million), due primarily to an increase in sales volume from both plush stuffed toys and plastic figures segments as well as the successful conversion of the loss making ride-on toys manufacturing operation into producing popular die-casting products and processing plastic figures. Gross profit rose by 26.6% to HK$941.0 million (2018: HK$743.0 million), with the gross profit margin at 23.6% (2018: 21.0%). The combination of an elimination of capacity reserve and less start-up cost factor for a new factory for the plastic figures segment and the achievement of producing more profitable die-casting products from the discontinued ride-on toy segment. Profit attributable to equity shareholders soared by 43.6% to HK$477.5 million (2018: HK$332.5 million), with net profit margin climbing to 12.0% (2018: 9.1%).

As at 31 December 2019, the Group was in a healthy financial position with cash and cash equivalents and time deposits of HK$668.7 million (2018: HK$432.2 million). The Board has recommended the payment of a final dividend of HK10 cents per ordinary share for the year ended 31 December 2019 (2018: HK8 cents per ordinary share).

BUSINESS REVIEW

Product Analysis

Plush Stuffed Toys Segment

The plush stuffed toys segment recorded revenue totaling HK$1,870.5 million (2018: HK$1,692.2 million) during the year, accounting for 46.9% of the Group's total revenue. The Original Equipment Manufacturing business under the segment achieved revenue growth of 15.2% year-on-year to HK$1,748.3 million (2018: HK$1,518.0 million), and thus accounted for 93.5% of segment sales. Owing to strong relations with existing customers, the Group continued to receive orders from top-tier toy companies, resulting in stable income to the Group. Meanwhile, the baby doll business achieved further growth, serving as an additional income stream. To expand the promotional product business, the Group secured few new customers and is evaluating opportunities for developing separate production lines for this business to enhance profitability.

The Original Design Manufacturing business recorded revenue totaling HK$122.2 million (2018: HK$174.2 million), down 29.9% year-on-year, and accounted for 6.5% of total sales of plush stuffed toys. With US retailers as major customers of this business, the Group worked on developing new designs to address their needs as well as to cope with stiff competition in the generic toy market, consequently strengthening its foothold in the industry.

Plastic Figures Segment

During the year, the plastic figures segment revenue rose 11.2% to HK$1,972.4 million (2018: HK$1,774.0 million), and thus accounted for 49.4% of the Group's total revenue, thus remaining a primary revenue stream. The upturn was mainly due to increased orders from its existing customers, all of whom the Group has built close and longstanding cooperative ties. The Addendum to Master Sourcing Agreement signed by the Group in 2018 has successfully enhanced capacity utilisation as well as gross margin. The Group will continue to boost ties with its existing customers, as well as explore cross-selling opportunities from its plush stuff toys customers, in order to raise revenue contributions.

Die-casting Products Segment

Further to the restructuring of production facilities for ride-on toys to manufacture die-casting products in March 2019, the Group's die-casting products segment has expanded rapidly, recording revenue of HK$130.6 million during the year, and accounting for 3.3% of the Group's total revenue. The successful conversion of the product change and the addition of processing lines for plastic figures made the operation possible to go above the break even level much quicker than managements' expectation and became profitable for the first time since the relocation from the PRC. Addition of few new customers in this product category together with some expansion of manufacturing capacity should be able to lead the operation to play more important role in the Group's business performances with a bigger contribution in revenue and profits.

Discontinued Operation

Ride-on Toys Segment

Due to the cessation of production of ride-on toys, the segmental revenue for this segment decreased to HK$18.4 million (2018: HK$70.7 million) during the year.

Geographical Analysis

For the year ended 31 December 2019, North America continued to be the largest geographical market of the Group, accounting for 63.9% of its total revenue including both continuing and discontinued operations. Contributions from Japan accounted for 20.2% of total revenue, followed by Europe at 6.2%, the PRC at 4.1% and others at 5.6%.

Operational Analysis

As at 31 December 2019, the Group operated 19 plants in total, 4 of which were in the PRC and 15 in Vietnam, which achieved an average utilisation rate of approximately 89%. The fifth plant for plastic figures which has commenced operation during the first half of 2018 has become one of the major production facilities of the Group with production efficiency expected to further improve through automation. In preparation for the higher demand for the production in Vietnam, the Group had acquired the lands in Ninh Binh province for additional capacity and the construction for one additional factory is in progress.

Management Discussion and Analysis

PROSPECTS

Though headwinds, especially unsettled Coronavirus epidemic situation, is expected to have some impact on the market sentiment and the global economy. Nonetheless, the Group remains cautiously optimistic about its prospects since the Group is well positioned with its production facilities in both Vietnam and the PRC and able to stand out from its peers to attract new customers while maintaining good relations with existing customers. As the demand for toy manufacturing capacity outside the PRC increases, industry consolidation is expected to intensify which will eject less competitive players, and in turn enable the Group to capture greater market share. The Group has been well prepared to grasp the tremendous opportunities by continuously expanding its production facility.

While executing its two-pronged strategy of developing the plastic figures and plush stuffed toys businesses concurrently, the Group has been seeking product diversification. For the former, in order to meet growing demand by customers, the Group has acquired two additional parcel of land in Vietnam for building additional facilities to produce plastic figures. The construction for one facility is estimated to be completed and expected to be in operation at the end of first half 2020. The Group will subsequently evaluate whether further capacity build out is necessary later this year based on market demand. The Group is also in process of setting up separate production facility specializing in promotional product or product with simple design by more automation and reduction of headcounts to enhance the profitability.

The successful conversion of ride-on toys manufacturing operation into production of die-casting product and processing plastic figures products by utilising vacant space will create further room for expansion while doll products segment has continued its revenue growth. As the Group is in negotiation with few new customers for die-casting products, and thus increasing contributions from this product segment is expected.

It is worth noting that in the face of the current coronavirus epidemic, the demand for materials from the Group's newly acquired tarpaulin businesses will be increased as the majority of global supply is located in the PRC, which, since the Chinese New Year holidays, has been limited as industry players have found it difficult to resume operations according to their schedule. Consequently, the Group's new business is expected to deliver immediate contribution from the date that acquisition is finalised.

By capitalising on its in-depth industry knowledge and tremendous experience in the toy manufacturing industry, timely capacity expansion in Vietnam to meet rising market demand, and ongoing efforts to diversify business operations, the management believes the Group is well prepared to cope with market fluctuations, grasp emerging opportunities and achieve continuous growth, leading ultimately to value creation for the shareholders of the Company (the "Shareholders").

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2019, the Group had 26,717 (2018: 23,242) employees in Hong Kong, the PRC, Korea, the US, Japan and Vietnam. The total cost of employees for the year ended 31 December 2019 amounted to HK$1,103.7 million (2018: HK$1,007.4 million). 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 31 December 2019, the Group had net current assets of HK$1,072.6 million (2018: HK$771.7 million). The Group's total cash and cash equivalents as at 31 December 2019 amounted to HK$583.1 million (2018: HK$378.5 million). The bank loans of the Group as at 31 December 2019 amounted to HK$125.3 million (2018: HK$116.9 million). The Group financed its operations by internally generated cashflows and banking facilities provided by the banks. The Group maintains a prudent approach in managing its financial requirements.

The Group also maintains a conservative approach to foreign exchange exposure management. The Group is exposed to currency risk primarily through income and expenditure streams denominated in United States Dollar, Renminbi Yuan, Vietnamese Dong and Japanese Yen. To manage currency risks, non-Hong Kong Dollar assets are financed primarily by matching local currency debts as far as possible.

The Group's gearing ratio, calculated on the basis of total bank loan over the total equity, was at 5.3% at 31 December 2019 (2018: 5.9%).

PLEDGE ON GROUP ASSETS

Certain leasehold land and other property, plant and equipment of the Group with an aggregate carrying amount of HK$17.4 million (2018: HK$17.7 million) as at 31 December 2019 were pledged as security for an unutilised banking facility of the Group of HK$11.7 million (2018: HK$11.7 million).

A property of the Group with carrying amount of HK$214.5 million (2018: HK$222.1 million) as at 31 December 2019 was pledged as security for a mortgage instalment loan of the Group of HK$70.7 million (2018: HK$77.8 million).

Factory buildings of the Group with an aggregate carrying amount of HK$81.6 million (2018: HK$Nil) as at 31 December 2019 was pledged as security for a bank loan of the Group of HK$40.7 million (2018: HK$Nil).

Bank deposits of the Group with an aggregate carrying amount of HK$6.7 million (2018: HK$Nil) as at 31 December 2019 was pledged as security for a bank loan of the Group of HK$6.5 million (2018: HK$Nil).

SIGNIFICANT INVESTMENT HELD

There was no significant investment held by the Group during the year ended 31 December 2019.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 29 November 2019, the Company entered into an agreement with C & H Co., Ltd. ("C & H") and two independent third parties to acquire 100% of the interests in C & H Vina Joint Stock Company with total consideration of US$11,000,000 (equivalent to HK$86,130,000). On the same date, the Company entered into an agreement with C & H to acquire 100% of the interests in C & H Tarps Co., Ltd. with consideration of US$5,000,000 (equivalent to HK$39,150,000). C & H is an associate of Mr. Kyoo Yoon Choi, Executive Director and controlling shareholder of the Company. These transactions constitute connected transactions as defined in Chapter 14A of the Listing Rules and were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 23 March 2020. These transactions have not been completed as at the date of this annual report.

EVENT AFTER REPORTING PERIOD

On 6 January 2020, the Company acquired 25.71% shareholding of C & H HK Corp., Ltd. ("CHHK") from non-controlling interests of CHHK and CHHK becomes a wholly-owned subsidiary of the Company.

PRINCIPAL RISKS AND UNCERTAINTIES

The global economy continued to experience challenges, fluctuations in both raw material prices and currency exchange rates, as well as rising operation costs have all combined to exert pressure on the Group's business and operations. Under the complicated macroeconomic environment, the Group's two-pronged strategy has been proven effective in maintaining growth in both scale of business and revenue.

Socio-political volatility around the world and global economic instability are likely to persist. Uncertainties in the global economy linger, triggering toy retailers to be more cost-conscious in procurement, hence toy companies are exploring how to better work with manufacturers who can produce quality products at a more competitive price. This overriding trend accelerates the consolidation of the industry and is driving many toy manufacturers to relocate their plants to either China's interior or to Southeast Asia for lower manufacturing costs and look for production capacity outside China.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with laws and regulations and any non-compliance with such requirements could lead to disruption to the Group's businesses. The Group has been closely monitoring the ongoing compliance with laws and regulations in various jurisdictions in which the Group has operations.

RELATIONSHIP WITH KEY STAKEHOLDERS

The support from key stakeholders, including employees, customers, suppliers and shareholders, contributes greatly to the Group's success. The Group has an objective to devote resources to promote and maintain long term and sustainable relationships with these stakeholders.

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 year ended 31 December 2019, 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.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

The Group is committed to achieving environmental sustainability and has implemented its Corporate Social Responsibility strategy across the organization by deeply embedding social responsibility into daily operations. The in-house manufacturing facilities operate in compliance with all applicable local and international environmental regulations. The Group provides constant training programs for employees in different positions to fulfill environmental, social and corporate responsibility.

The Group encourages environmental protection and promotes awareness towards environmental protection to the employees. The Group resolves to adopt and encourage practices that prevent or minimize pollution and optimize efficient use of energy and natural resources in order to provide employees with a safe and healthy working and living environment.

The Group endeavours to refine our approach to addressing our environmental, social and ethical responsibilities along with improving our corporate governance and should generate greater value for all of our stakeholders including our shareholders, customers, and employees as well as the communities where we work and live.

The Company's Environmental, Social and Governance Report is set out on pages 35 to 51 of this annual report.

CAPITAL COMMITMENTS

Details of capital commitments are included in note 29 to the consolidated financial statements.

CONTINGENT LIABILITIES

As of 31 December 2019, the Group did not have any significant contingent liabilities.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Kyoo Yoon Choi, aged 71, is the Chairman and the Chief Executive Officer of the Company and the founder of the Group. He studied at Seoul National University in Korea between 1968 and 1972 and graduated with a bachelor's degree in engineering. Prior to setting up the Group in Korea in 1984, Mr Choi had over eight years of experience in the plush toy business at Daewoo Corporation, which was one of the leading conglomerates in Korea at the time. Mr Choi is responsible for the strategic planning and overall business development of the Group.

Mr Young M. Lee, aged 64, is the President and the Chief Financial Officer of the Company. Mr Lee has 20 years of working experience in the US in the areas of accounting and finance such as public accounting, consulting to financial institutions, mergers and acquisitions, corporate controllership and investment banking. Prior to joining the Group in May 2001, Mr Lee was the managing director of Kohap (Hong Kong) Ltd, which is the trading and financing arm of a Korean conglomerate, Kohap Ltd. He is responsible for the overall financial management, strategic and business planning of the Group.

Mr Hyun Ho Kim, aged 54, is currently the Head of accounting and administration department of the Company. He joined the accounting department of C & H in October 1994. After nine years of service, Mr Kim was gradually promoted to the position of general manager before he was relocated to Hong Kong to take charge of the accounting department of the Company in October 2003. Prior to joining C & H, Mr Kim acquired eight years of comprehensive accounting experience in Poong Han Co., Ltd, a manufacturer of fabric and yarn, in Korea. Mr Kim graduated from the Seo Kyeong University in Korea, with a bachelor's degree of Economics in 1995.

Mr Sung Sick Kim, aged 68, is the Vice Chairman of Dream Vina Co., Ltd. Mr Kim has been responsible for the administration of C & H and its subsidiaries ("C & H Group") and the Group since 1985 and is in charge of cost control within the Group. Mr Kim was an executive director of the Company from 1998 to 2003 and relocated to C & H Group until 2010. He was appointed as an executive director of the Company on 4 May 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Cheong Heon Yi, aged 55, received his bachelor's degree and master's degree in business administration from Seoul National University in Korea. Professor Yi was also awarded a philosophy of doctorate degree in accounting in 1997 from the University of California, Los Angeles. Professor Yi taught at the University of California, Los Angeles, Hong Kong Polytechnic University, and the City University of Hong Kong. He was appointed as the Company's independent non-executive director on 22 November 2003.

Mr Tae Woong Kang, aged 59, received his bachelor's degree in business from Swinburne University of Technology and master's degree in commerce from The University of Melbourne in Australia. He is a CPA member of the CPA Australia. Mr Kang was the Vice-President of Highpoint Limited, a Hong Kong consulting company providing advisory services on business and mergers and acquisitions issues. Before joining Highpoint Limited, Mr Kang had extensive experience in the area of financial management and business restructuring in Hong Kong and overseas. He was appointed as the Company's independent non-executive director on 20 August 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Dr Chan Yoo, aged 55, graduated from Massachusetts Institute of Technology ("MIT") in the US with a bachelor degree in Electrical Engineering in 1989. He was awarded a philosophy of doctorate degree in Nuclear Engineering from MIT in 1995. Dr Yoo was a management consultant over four years at McKinsey & Company, in Chicago and Seoul Offices. In 2000, Dr Yoo founded McQs, Incorporated in Seoul, Korea to provide consulting services for Korean and Asian manufacturing companies to achieve world-class operational excellence. Dr Yoo was an independent non-executive director of the Company from September 2004 to September 2008. In 2008, he co-founded TheCobaltSky to build and operate hydrogen fuel cell power plants in Korea. He was an independent non-executive director of Woojin Inc. from February 2010 to March 2016. He is currently the President of McQs, Incorporated. He was appointed as the Company's independent non-executive director on 30 May 2016.

SENIOR MANAGEMENT

Mrs Shin Hee Cha, aged 65, is the Vice Chairman of Dream Inko Co., Ltd. Mrs Cha joined C & H in 1984 and has been in charge of the sales and marketing function of the Group. Mrs Cha was an executive director of the Company from 2006 to 2007 and relocated to Dream Inko Co., Ltd since 2007. She is the younger sister-in-law of Mr Kyoo Yoon Choi.

Mr Dong Wook Cha, aged 59, is the President of Hanoi management office of the Group. Mr Cha has over seven years of experience in the field of accounting from his employments with Dongkook Trading Co. and Hyundai Heavy Industrial Co., Ltd. He joined C & H Group on 1 February 1986 and has been working in the accounting and administration department of the Group since 1996.

Mr James Chuan Yung Wang, aged 58, is the President of Dream International USA, Inc. He joined Dream International USA, Inc. on 1 July 1991 and has been in charge of the Group's marketing function in the US. Mr Wang graduated from the University of California, Los Angeles, with a bachelor's degree in business administration in 1986. Prior to joining the Group, Mr Wang had extensive experience in the fields of logistics and trading from his previous employments with Trans-union Line, KAL Trading Co. and Daewoo America Corp.

Ms Hyun Ju Kim, aged 54, is the Vice President of the sales and marketing department of the Company. She graduated from Korea University in Korea with a bachelor's degree of English Literature in 1987. She joined C & H in 1987 as a staff in the sales department. Throughout the years, she has gained extensive knowledge of the toy industry and the market before she was relocated to Hong Kong as the executive managing director of the sales and marketing department in 2013.

Report of the Directors

The directors of the Company (the "Directors") have pleasure in submitting their annual report together with the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 6/F, Tower 1, South Seas Centre, 75 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the design, development, manufacture and sale of plush stuffed toys, plastic figures, and die-casting products and investment holding. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Cap. 622) ("Companies Ordinance"), including a discussion of the principal risks and uncertainties facing by the Group and an indication of likely future developments in the Group's business, can be found in the Chairman's Statement and Management Discussion and Analysis set out on pages 4 to 5 and pages 6 to 11 of this annual report respectively. The discussion forms part of this Report of the Directors. The principal activities and other particulars of the subsidiaries are set out in note 17 to the consolidated financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 11 to the consolidated financial statements.

DIVIDENDS

An interim dividend of HK3 cents per ordinary share (2018: HK1 cent per ordinary share) was paid on 27 September 2019.

The Directors recommended the payment of a final dividend of HK10 cents per ordinary share (2018: HK8 cents per ordinary share) in respect of the year ended 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's revenue from sales of goods attributable to the major customers during the financial year is as follows:

	Percentage of the Group's total sales
The largest customer	34.4%
Five largest customers in aggregate	79.5%

Combined purchases attributable to the five largest suppliers of the Group accounted for less than 30% by value of the Group's total purchases for the year.

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had any interest in these major customers and suppliers.

CONNECTED TRANSACTIONS

During the year, the Group has entered into connected transactions and continuing connected transactions with connected persons and has complied with the disclosure requirements in accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") (the "Listing Rules"). The Directors, including the independent non-executive Directors ("INEDs"), of the Company confirmed that the aforesaid connected transactions were entered into:

(i) in the ordinary and usual course of business;

(ii) either on normal commercial terms or, on terms no less favourable to the Group than available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The board of Directors (the "Board") has received from its auditor a letter confirming that the continuing connected transactions (the "Transactions"):

(i) have been approved by the Board;

(ii) for those transactions that involve provision of goods or services by the Group, the Transactions were, in all material respects, in accordance with the pricing policies of the Company;

(iii) were entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iv) have not exceeded the maximum aggregate annual value disclosed in the relevant announcement made by the Company in respect of each transaction.

Mr Kyoo Yoon Choi is the controlling shareholder of both C & H Group and the Group, therefore, each member of the C & H Group is deemed to be a connected person of the Company.

During the year, the details of the continuing connected transactions, which were exempt from the approval of independent shareholders of the Company but were subject to the announcement and reporting requirements under the Listing Rules, with C & H Group were as follows:

(1) On 1 April 2016, the Company entered into a supply agreement with C & H, which the Company agreed to supply various types of toy products and processing services for the period of three years ended 31 March 2019.

    The supply agreement renewed on 1 April 2019 for the period of three years ending 31 December 2021.

    During the year, the amount of HK$36,679,000 received by the Company in relation to supply various types of toy products and processing services to C & H.

    Relevant details of the above continuing connected transaction were set out in the announcements of the Company dated 1 April 2016, 29 September 2016, 7 December 2016, 16 June 2017, 29 September 2017 and 1 April 2019 respectively published on the website of the SEHK at www.hkexnews.hk and the website of the Company at www.dream-i.com.hk.

CONNECTED TRANSACTIONS *(Continued)*

(2) On 1 August 2018, the Group entered into an office lease agreement with C & H for Dream Inko Co., Ltd.'s principal place of business in Seoul, Korea. The office lease agreement is renewable upon its expiry on 31 July 2019. The terms of the office lease agreement are comparable to the terms offered to other non-connected tenants in the same building.

On 19 April 2019, C & H has entered into a sales and purchase agreement with an independent third party in relation to sell the whole of C & H Building, including Dream Inko Co., Ltd.'s principal place of business in Seoul, Korea. The office lease agreement was terminated with effect from 30 April 2019 and the renting of Dream Inko Co., Ltd.'s principal place of business in Seoul, Korea no longer constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

During the period from 1 January 2019 to 29 April 2019, the rent and administrative expenses paid to C & H amounted to HK$1,042,000 (year ended 31 December 2018: HK$3,281,000).

Relevant details of the above continuing connected transaction were set out in the announcements of the Company dated 1 August 2018 and 30 April 2019 respectively published on the website of the SEHK at www.hkexnews.hk and the website of the Company at www.dream-i.com.hk.

During the year, the details of the connected transactions, which were subject to the announcement, approval of independent shareholders of the Company and reporting requirements under the Listing Rules, with C & H Group were as follows:

(1) On 29 November 2019, the Company entered into the share transfer agreement (the "Share Transfer Agreement") with C & H, Mr. Tae Sub Choi and Mr. Jae Dong Shin to acquire the entire issued share capital of C & H Vina Joint Stock Company ("C & H Vina") at a consideration of US$11,000,000 (equivalent to approximately HK$86,130,000). C & H Vina, incorporated in Vietnam with limited liability, is principally engaged in the manufacture and sales of tarpaulin.

(2) On 29 November 2019, the Company entered into the capital contribution transfer agreement (the "Capital Contribution Transfer Agreement") with C & H to acquire the entire issued share capital of C & H Tarps Co., Ltd. ("C & H Tarps") at a consideration of US$5,000,000 (equivalent to approximately HK$39,150,000). C & H Tarps, incorporated in Vietnam with limited liability, is principally engaged in the manufacture and sales of tarpaulin.

The transactions contemplated under the Share Transfer Agreement and the Capital Contribution Transfer Agreement have not yet been completed as at the date of this annual report. After completion of the transactions, C & H Vina and C & H Tarps will become the wholly-owned subsidiaries of the Company.

Relevant details of the above connected transactions were set out in the announcements of the Company dated 29 November 2019, 10 December 2019, 17 December 2019 and 6 January 2020, and circular of the Company dated 3 March 2020 respectively published on the website of the SEHK at www.hkexnews.hk and the website of the Company at www.dream-i.com.hk.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, the Group conducted certain transactions with parties deemed as "related parties" under applicable accounting standard. The details of these transactions are set out in note 30 to the consolidated financial statements on pages 149 to 150 of this annual report. Save for the transactions mentioned in the above section "Connected Transactions" which are subject to announcement and disclosure requirements under Chapter 14A of the Listing Rules, certain transactions mentioned under the note also constituted connected transactions or continuing connecting transactions as defined in Chapter 14A of the Listing Rules but are exempt from the disclosure requirements under Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 23 to 34 of this annual report.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2019 amounted to HK$1,481,000 (2018: HK$2,753,000).

SHARE CAPITAL

Details of the share capital of the Company are set out in note 27(c) to the consolidated financial statements. There were no movements during the year.

DISTRIBUTABILITY OF RESERVES

At 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of Companies Ordinance was HK$1,026,960,000 (2018: HK$882,283,000). After the end of the reporting period, the Directors proposed a final dividend of HK10 cents per ordinary share (2018: HK8 cents per ordinary share), amounting to HK$67,687,000 (2018: HK$54,149,000). This dividend has not been recognised as a liability at the end the reporting period.

EQUITY-LINKED AGREEMENTS

No equity-linked agreement was entered into by the Company during the year ended 31 December 2019.

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The Directors during the financial year and up to the date of this annual report were:

Executive Directors

Mr Kyoo Yoon Choi (Chairman and Chief Executive Officer)
Mr Young M. Lee (President and Chief Financial Officer)
Mr Hyun Ho Kim
Mr Sung Sick Kim

Independent non-executive Directors

Professor Cheong Heon Yi
Mr Tae Woong Kang
Dr Chan Yoo

The biographical details of the Directors are set out under the section "Directors and Senior Management" of this annual report.

A full list of the names of the Directors of the Group's subsidiaries can be found in the Company's website at www.dream-i.com.hk under "Investor Relations/Board Committees".

In accordance with Article 101 of the Articles of Association of the Company, Mr Sung Sick Kim, Mr Hyun Ho Kim and Dr Chan Yoo shall retire by rotation, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company (the "AGM").

DIRECTORS' SERVICE CONTRACTS

The service contract of Professor Cheong Heon Yi, INED, was renewed on 22 November 2019 for a term of two years commencing on 22 November 2019.

The service contract of Mr Tae Woong Kang, INED, was renewed on 20 August 2018 for a term of two years commencing on 20 August 2018.

The service contract of Dr Chan Yoo, INED, was renewed on 30 May 2018 for a term of two years commencing on 30 May 2018.

Their remuneration is determined by the remuneration committee of the Company (the "Remuneration Committee") and is approved by the Board on the renewal of their service contracts and letters of engagement.

No Director proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The Directors who held office as at 31 December 2019 had the following interests in the shares of the Company, its subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), at that date as recorded in the register of Directors' and chief executives' interests and short positions required to be kept under Section 352 of Part XV of the SFO or otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

Long positions in ordinary shares

	Number of ordinary shares held				
	Personal interests (Note 1)	Family interests	Corporate interests	Total	Percentage of issued shares of the company
The Company					
Kyoo Yoon Choi	386,525,000	–	72,150,000 (Note 2)	458,675,000	67.76%
Young M. Lee	2,500,000	–	–	2,500,000	0.37%
Hyun Ho Kim	150,000	–	–	150,000	0.02%
Sung Sick Kim	3,486,000	–	–	3,486,000	0.52%

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.

Save as disclosed above, as at 31 December 2019, 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 SEHK pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year 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 31 December 2019, the Company had been notified of the following 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	386,525,000	57.10%
	Corporate interest (Note 1)	72,150,000	10.66%
Uni-Link Technology Limited	Beneficial owner	72,150,000	10.66%
FIL Limited	Interest in a controlled corporation (Note 2)	47,488,000	7.02%
Pandanus Partners L.P.	Interest in a controlled corporation (Note 3)	47,488,000	7.02%
Pandanus Associate Inc.	Interest in a controlled corporation (Note 3)	47,488,000	7.02%
Fidelity Funds	Beneficial owner	36,936,000	5.46%

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) FIL Limited owns a series of controlled corporations which directly or indirectly hold 47,488,000 shares of the Company in aggregate. By virtue of the SFO, FIL Limited is deemed to be interested in these shares.

(3) Pandanus Partners L.P. owns a series of controlled corporations which directly or indirectly hold 47,488,000 shares of the Company in aggregate. Pandanus Partners L.P. is a wholly-owned subsidiary of Pandanus Associates Inc. By virtue of the SFO, Pandanus Partners L.P. and Pandanus Associates Inc. are deemed to be interested in these shares.

Save as disclosed above, as at 31 December 2019, 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

PERMITTED INDEMNITY PROVISIONS

During the financial year and up to the date of this annual report, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Apart from the related party transactions as disclosed in note 30 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company, or any of its subsidiaries or related companies was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019 and up to the date of this annual report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2019, C & H Group is principally engaged in the business of property investment in Seoul, Korea, leather goods and accessories agency, garments, fabrics and textiles manufacturing and investment holding in Vietnam. Mr Kyoo Yoon Choi is a shareholder and a director of C & H and Mr Sung Sick Kim is a shareholder of C & H, therefore, are deemed to be interested in these businesses, some of which may compete with the Group's businesses.

The transactions with the above companies are set out in the paragraphs headed "Connected transactions" and "Related party transactions" and note 30 to the consolidated financial statements.

BANK LOANS

Particulars of the bank loans of the Group as at 31 December 2019 are set out in note 24 to the consolidated financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 155 to 156 of the annual report.

RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund Scheme in Hong Kong and a defined contribution retirement plan in Korea.

The employees of the subsidiaries in the People's Republic of China (the "PRC") and Vietnam are members of the state-sponsored retirement schemes organised by the government of the PRC and Vietnam. The subsidiaries are required to contribute a certain percentage of payroll to the retirement schemes to fund the benefits. The only obligation of the subsidiaries with respect to the retirement schemes is the required contributions under the retirement schemes.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the INEDs an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the INEDs to be independent.

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. The Company has made specific enquires of all Directors, and all Directors have confirmed that they had complied with the required standard as set out in the Model Code at all applicable times during the year ended 31 December 2019.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has reviewed with the management of the Company with respect to the accounting policies, principles and practices adopted by the Group and discussed risk management and internal control system, and financial reporting matters, including a review of the annual results for the year ended 31 December 2019.

AUDITORS

KPMG will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming AGM.

By order of the Board

Young M. Lee
Director

Hong Kong, 27 March 2020

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2019.

The Board believes that corporate governance is essential to the sustainable success of the Company and trust that all stakeholders of the Company can benefit from better transparency and accountability of a high standard of corporate governance. The corporate governance principles of the Company emphasize a quality Board, sound internal control, transparency, independence and accountability to all shareholders.

During the year ended 31 December 2019, the Company has applied the principles and complied with the code provisions contained in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules, save for the deviation from the code provision A.2.1, details of which are stated in the section headed "Chairman and Chief Executive Officer" in this Corporate Governance Report.

In view of the latest amendments to the Listing Rules and the CG Code, the Board has taken actions and measures to ensure that the Company is in compliance with the requirements.

BOARD OF DIRECTORS

Composition and responsibilities

The principal functions of the Board are to supervise management of the business and affairs; to approve strategic plans, investment and funding decisions; and to review the Group's financial performance and operating initiatives.

As at 31 December 2019, the Board consisted of four executive Directors, namely Mr Kyoo Yoon Choi (Chairman and Chief Executive Officer ("CEO")), Mr Young M. Lee (President and Chief Financial Officer ("CFO")), Mr Hyun Ho Kim and Mr Sung Sick Kim, and three INEDs, namely Professor Cheong Heon Yi, Mr Tae Woong Kang and Dr Chan Yoo. There is no financial, business, family or other material/relevant relationship among members of the Board.

All Directors are committed to devote sufficient time and attention to the affairs of the Group. Directors have also disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisations. Directors are reminded to notify the Company in a timely manner of any changes of such information.

The Board will conduct meetings on a regular basis and on an ad hoc basis so far as the business required. The INEDs may take independent professional advice at the Company's expense in carrying out their functions. The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each regular Board meeting. At least 14 days notice of a regular Board meeting is given to all Directors to give them the opportunity to attend. Board papers are dispatched to the Directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting.

The Company has arranged for appropriate liability insurance since the year of 2002 to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

BOARD OF DIRECTORS *(Continued)*

Directors' securities transactions

The Company has adopted the code of conduct regarding Directors' securities transactions as set out in the Model Code of the Listing Rules. The Company has made specific enquiry to all Directors, and all Directors have confirmed that they had complied with the required standards as set out in the Model Code at all applicable times throughout the year.

Board meeting and general meeting

Eight Board meetings and an AGM were held during the year. The attendance of each Director at the Board meetings, committee meetings and general meeting during the year ended 31 December 2019 is set out as follows:

	Number of attendance/Meetings held				
Name of Director	**Board meetings**	**Remuneration Committee**	**Audit Committee**	**Nomination Committee**	**AGM**
Executive Directors					
Kyoo Yoon Choi	3/8	N/A	N/A	N/A	1/1
Young M. Lee	7/8	2/2	3/3	2/2	1/1
Hyun Ho Kim	7/8	N/A	N/A	N/A	1/1
Sung Sick Kim	1/8	N/A	N/A	N/A	1/1
INEDs					
Cheong Heon Yi	4/8	2/2	3/3	2/2	1/1
Tae Woong Kang	4/8	2/2	3/3	2/2	1/1
Chan Yoo	3/8	1/2	2/3	1/2	1/1

Minutes of the Board and committee meetings are recorded in appropriate detail and are kept by the company secretary of the Company (the "Company Secretary"). Draft minutes are circulate to the Directors for comment within reasonable time after each meeting and the final version is always open for Directors' inspection.

Directors' training and professional development

During the year, Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

All Directors have participated in appropriate continuous professional development activities by receiving training courses and reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

BOARD OF DIRECTORS *(Continued)*

Directors' training and professional development *(Continued)*

According to the records provided by the Directors, a summary of training received by the Directors during the year ended 31 December 2019 is as follows:

Name of Director	Type of continuous professional development activities
Kyoo Yoon Choi (Chairman)	A,B
Young M. Lee	A,B
Hyun Ho Kim	A,B
Sung Sick Kim	A,B
Cheong Heon Yi	A,B
Tae Woong Kang	A,B
Chan Yoo	A,B

Notes:

A: Receiving training courses and/or seminars relevant to corporate governance and laws and regulations update

B: Reading materials relevant to the Company's business or to the Directors' duties and responsibilities

Independent non-executive Directors

The role of INEDs is to bring an independent and objective view to the Board's deliberations and decisions. Professor Cheong Heon Yi is experienced in teaching financial accounting and reporting and financial statement analysis in different universities and Mr Tae Woong Kang is a CPA member of CPA Australia. Dr Chan Yoo is running his own consultancy firm which has no business with the Group. The Board considers all of them to have profound professional qualifications and expertise in accounting and financial management so that they are of sufficient caliber and number for their independent views to carry weight.

The Company has received from each of the INEDs, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

Professor Cheong Heon Yi was appointed as the Company's INED on 22 November 2003 and has served on the Board for more than 10 years. To the best knowledge of the Board, Professor Cheong Heon Yi has not relied on the remuneration given by the Company and he is independent of any connected person and substantial shareholder of the Company. Therefore, the Board believes that Professor Cheong Heon Yi is able to exercise his professional judgment and draw upon his extensive knowledge in accounting and financial management and corporate governance matters for the benefit of the Company and its shareholders as a whole and, in particular, the independent shareholders. The Board considers that Professor Cheong Heon Yi meets the independence guidelines set out in Rule 3.13 of the Listing Rules and is independent in accordance with the terms of the guidelines.

DELEGATION BY THE BOARD

The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorised, undertaken and monitored. All policy matters of the Group and material transactions where there is conflict of interests, considered as being notifiable or connected transactions within the meaning ascribed to by the Listing Rules, should be reserved to the decision of the Board.

The Board has delegated functions that are necessary and incidental to carry out the decisions of the Board or to facilitate the day-to-day operations of the Group in ordinary course of business to the executive management and divisional heads of different business units under the instruction/supervision of the CEO and CFO. The Board and management will also seek advice from the Audit Committee, Remuneration Committee and the nomination committee of the Company (the "Nomination Committee"). These committees are mainly composed of and chaired by INEDs. In case of urgency, executive management is empowered to make any decisions in prompt response to the opportunities and threats that might arise from time to time. However, those emergency decisions or any other exceptional decisions made by management should be reported back to the Board for ratification as soon as practical.

The three INEDs are persons of high caliber, with academic and professional qualifications in the fields of finance, accounting and business management. With their experience gained from senior positions held in other companies, they provide valuable support towards the effective discharge of the duties and responsibilities of the Board. Each of the INEDs gives an annual confirmation of his independence to the Company, and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules. These three INEDs constitute the Audit Committee, Remuneration Committee and Nomination Committee formed by the Board.

All of the INEDs are appointed for a term of two years and are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Those Directors appointed by the Board during the year shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. The circular dispatched to the shareholders before the general meeting contains, inter alia, detailed information on election of Directors including detailed biography of all Directors standing for election or re-election to ensure shareholders are able to make an informed decision on their election.

According to the Articles of Association of the Company, (i) any Director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the Company's next following general meeting after the appointment rather than the Company's next following AGM after the appointment, (ii) every Director shall be subject to retirement by rotation at least once every three years and Directors holding office as the Chairman of the Board or the managing director shall also be subject to retirement by rotation and (iii) the Company may remove any Director by an ordinary resolution instead of special resolution.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1 of the CG Code, the roles of Chairman and CEO should be separated and should not be held by the same individual. The Chairman of the Board is responsible for formulating the strategic planning, business development, overall leadership and effective running of the Board, by ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner, and also takes primary responsibility for ensuring that good corporate governance practices and procedures are established. The CEO, supported by other chief executives, is delegated with the authority and responsible for running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives.

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 INEDs has a fairly independent element in the composition and will play an active role to ensure a balance of power and authority.

REMUNERATION COMMITTEE

The Remuneration Committee comprises one executive Director (Mr Young M. Lee) and three INEDs (Dr Chan Yoo, Professor Cheong Heon Yi and Mr Tae Woong Kang) and is chaired by Dr Chan Yoo. The Remuneration Committee was formed in January 2005 and held meeting at least once a year. Two meetings were held during the year.

At the meetings held during the year, the retirement compensation and incentive bonus for the Directors were reviewed and discussed. The emolument payable to the Directors and key senior management will depend on their respective contractual terms and nature under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' emoluments are set out in note 7 to the consolidated financial statements. Emoluments of the members of the senior management by band for the year ended 31 December 2019 is set out in note 8 to the consolidated financial statements. The major roles and functions of the Group's Remuneration Committee are as follows:

1. To review annually and recommend to the Board the overall remuneration policy for the Directors and key senior management officers;

2. To review annually the performance of the executive Directors and key senior management officers and recommend to the Board specific adjustments in remuneration and/or reward payments;

3. To ensure that the level of remuneration for non-executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board of the respective companies in the Group and recommend to the Board on the remuneration of non-executive Directors; and

4. To ensure that no Director is involved in deciding his own remuneration.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the approval by the Board.

The Directors acknowledge their responsibility to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders in a timely manner. The Directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the requirements of the Companies Ordinance, all applicable individual Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and all applicable disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2019, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate HKFRSs which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the financial statements.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other inside information announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The auditor's responsibilities are set out in the Independent Auditor's Report.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs (Professor Cheong Heon Yi, Mr Tae Woong Kang and Dr Chan Yoo) and is chaired by Professor Cheong Heon Yi. The Audit Committee shall meet at least twice a year. Three meetings were held during the year. A report of the major findings raised in Audit Committee meeting are presented by the Chairman of the Audit Committee to the Board immediately in the subsequent Board meeting. The minutes of the Audit Committee meetings were circulated to the Board for information and for action by the Board where appropriate.

During the year ended 31 December 2019, the Audit Committee performed the following works:

(i) reviewed the annual financial report for the year ended 31 December 2018 and interim financial report for the six months ended 30 June 2019;

(ii) reviewed the major impact of the changes in accounting policies and practices and Listing Rules on the accounting treatment and financial reporting of the Company;

(iii) reviewed the effectiveness of risk management and internal control system;

AUDIT COMMITTEE *(Continued)*

(iv) discussed the nature and scope of the external audit and reporting obligations and reviewed the external auditors' statutory audit plan;

(v) reviewed the findings and recommendations of the management letter from the external auditors in relation to the interim review and final audit of the Group;

(vi) reviewed and recommended to the Board for approval of the 2019 audit scope, fee and supply of any other audit-related services; and

(vii) reviewed the connected transactions entered into by the Group during the year.

The major roles and functions of the Audit Committee are as follows:

1. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the Group.

2. To discuss with the internal and external auditors the nature and scope of the audit.

3. To review the interim and annual financial statements before submission to the Board.

4. To discuss problems and reservations arising from the interim review and final audit, and any matters the auditors may wish to discuss.

5. To review the external auditors' management letters and management's response.

6. To supervise the performance of the internal auditor's review on the Group's financial control, risk management and internal control systems.

7. To consider the major findings of internal investigations and management's response.

Under the code provision C.3.3 of the CG Code, the Audit Committee's role should include to discuss with management the systems of risk management and internal control and ensure that management has discharged its duty to have an effective risk management and internal control systems, including the adequacy of resources, qualifications, and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

NOMINATION COMMITTEE

Nomination Committee of the Company was established by the Board on 23 March 2012 and comprises one executive Director (Mr Young M. LEE) and three INEDs (Mr Tae Woong Kang, Professor Cheong Heon Yi and Dr Chan Yoo) and is chaired by Mr Tae Woong Kang. The Nomination Committee is primarily responsible to consider and recommend to the Board suitably qualified persons to become the member of the Board and is also responsible for reviewing the structure, size and composition of the Board on a regular basis and as required. Two meetings were held during the year.

The Board adopted a Board diversity policy setting out the approach to diversify members of the Board. The Company believes that a diversified perspective can be achieved through considering a number of factors, including but not limited to skills, regional and industry experience, background, race, gender and other qualities. The Company will also take into account factors based on its own business model and specific needs from time to time. Board appointments will continue to be made on a merit basis and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board.

The Nomination Committee reviews the Board diversity policy on a regular basis to ensure its continued effectiveness.

During the year ended 31 December 2019, the Nomination Committee performed the following work:

(i) reviewed the structure, size, composition (including the skills, knowledge and experience) and diversity, and the Board diversity policy of the Board;

(ii) assessed the independence of INEDs;

(iii) made recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and

(iv) reviewed the directors nomination policy of the Company.

NOMINATION POLICY

The Board adopted a nomination policy (the “Nomination Policy”) on 1 January 2019. The purpose is to identify and evaluate a candidate for nomination to the Board for appointment or to the shareholders for election as a Director. The Nomination Committee shall consider, among others, the following criteria in evaluating and selecting candidates for directorships:

(i) age, skills, knowledge, experience, expertise, professional and educational qualifications, background and other personal qualities of the candidate;

(ii) effect on the board’s composition and diversity;

(iii) commitment of the candidate to devote sufficient time to effectively carry out his/her duties. In this regard, the number and nature of offices held by the candidate in public companies or organisations, and other executive appointments or significant commitments will be considered;

(iv) potential/actual conflicts of interest that may arise if the candidate is selected;

NOMINATION POLICY *(Continued)*

(v) independence of the candidate;

(vi) in the case of a proposed re-appointment of an INED, the number of years he/she has already served; and

(vii) other factors considered to be relevant by the Nomination Committee on a case by case basis.

Each proposed new appointment, election or re-election of a director shall be assessed and/or considered against the criteria and qualifications set out in the Nomination Policy by the Nomination Committee which shall recommend its views to the Board and/or the shareholders for consideration and determination.

The Board will from time to time review the Nomination Policy and monitor its implementation to ensure its continued effectiveness and compliance with regulatory requirements and good corporate governance practice.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(i) To develop and review the Group's policies and practices on corporate governance and make recommendations;

(ii) To review and monitor the training and continuous professional development of Directors and senior management;

(iii) To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements;

(iv) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and Directors of the Group; and

(v) To review the Group's compliance with the CG Code and disclosure requirements in the Corporate Governance Report.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's auditors, KPMG, is set out as follows:

Services rendered	**Fees paid/payable** HK$'000
Audit services	4,829
Non-audit services	526
	5,355

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems, as well as, overseeing the risk management and internal control systems of the Group and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in relation to the Group's financial, operational, compliance, risk management and internal controls, and internal audit functions.

The Group has established an organizational structure with defined levels of responsibility and reporting procedures. The Risk Management Working Group assists the Board and/or the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The Directors through the Audit Committee are kept regularly apprised of significant risks that may impact on the Group's performance.

The Group's internal control system is designed in consideration of the nature of business as well as the organization structure of the Group as a whole. The systems and internal controls are designed to manage rather than eliminate the risk of failure in operational systems and to provide reasonable, but not absolute, assurance against material misstatement or loss. Appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed.

The Group's risk management process is guided by the Three Lines of Defense system, which allows the board to consider control issues effectively. The Risk Management Working Group reports to the Audit Committee at each regularly scheduled meeting including amongst other things, significant risks of the Group and the appropriate mitigation and/or transfer of identified risks. The operating units of the Group, as risk owners, identify, evaluate, mitigate and monitor their own risks, and report such risk management activities to Risk Management Working Group on a half-yearly basis.

Management of the Group are responsible for conducting periodic assessment of risks in respective process areas, planning and implementing actions to manage risks and escalate ad-hoc risk events to the Risk Management Working Group. Moreover, Risk Management Working Group will facilitate and consolidate periodic risk assessment done by the management, monitor the implementation actions and report priority risks and any breach of risk appetite to the Audit Committee and the Board.

The Group has adopted policies and procedures for assessing and improving the effectiveness of its risk management and internal control systems, including requiring the management of the Group to regularly assess and evaluate that the risk management framework is appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Group and its business practices in the future.

The Group regulates the handling and dissemination of inside information as set out in Policies and Procedures for Handling Inside Information and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

RISK MANAGEMENT AND INTERNAL CONTROLS *(Continued)*

During 2019, the Risk Management Working Group has worked closely with the operating units, senior management, and the Directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and workshops; more closely aligning the assessment of internal controls with their potential risks; and increasing the depth and frequency of interaction with Directors on the Company's risk management system's design, operation, and findings. The Risk Management Working Group has presented update reports to the Board and the Audit Committee on the monitoring of the risk management and assisted the Directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

The Audit Committee considers the scope of internal control review performed by the Risk Management Working Group to be adequate given the size and complexity of the Group's operations and the Group's risk appetite. During 2019, the Risk Management Working Group has assisted the Group to perform a review of the effectiveness of internal controls system for certain selected processes. The review results and proposed improvement opportunities were discussed and agreed with management and were reported to the Audit Committee. Based on the review results, the Board were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the Group and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

DIVIDEND POLICY

The Board adopted a dividend policy (the "Dividend Policy") on 1 January 2019. It is the policy of the Board, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth.

The Board shall consider the following factors before declaring or recommending dividends:

(i) the Company's actual and expected financial performance;

(ii) retained earnings and distributable reserves of the Company and each of the members of the Group;

(iii) the Group's working capital requirements, capital expenditure requirements and future expansion plans;

(iv) the Group's liquidity position;

(v) general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

(vi) other factors that the Board may consider relevant.

The declaration and payment of dividends shall remain to be determined at the sole discretion of the Board and subject to all applicable requirements under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Articles of Association of the Company.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time. The Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

COMPANY SECRETARY

Ms Po Ying Wong acted as the Company Secretary during the year ended 31 December 2019. The Company engaged Ms Sau Ping Wong, an associate director of the Listing Services Department of TMF Hong Kong Limited (a global corporate services provider) as the Company Secretary with effect from 1 January 2020. All Directors have access to the advice and services of the Company Secretary. Ms Sau Ping Wong's primary contact person at the Company is Mr Young M. Lee, the Executive Director, President and Chief Financial Officer of the Company. During the year ended 31 December 2019, Ms Po Ying Wong has taken no less than 15 hours of relevant professional trainings to update her skills and knowledge.

COMMUNICATIONS WITH SHAREHOLDERS

The Board recognises the importance of good communications with all shareholders. The Company's 2019 AGM is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board and the Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee together with the external auditors are also present at the AGM to answer shareholders' questions.

All shareholders' circulars set out the relevant information of the proposed resolutions. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Pursuant to the Companies Ordinance, an extraordinary general meeting ("EGM") may be convened by a written request signed by shareholder(s) representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meeting of the Company, stating the objects of the meeting, and deposited at our registered office in Hong Kong at 6/F, Tower 1, South Seas Centre, 75 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong. Shareholders should follow the requirements and procedures as set out in Section 566 of the Companies Ordinance for convening an EGM.

Shareholder(s) representing at least 2.5% of the total voting rights of all shareholders; or not less than 50 shareholders having a relevant right to vote, may make requisition in writing for proposing resolution or business to be dealt with at the next general meeting. Shareholders should follow the requirements and procedures as set out in Section 580 of the Companies Ordinance for putting forward a proposal at a general meeting.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced all its inside information, announcements, interim and annual results in a timely manner in compliance with the Listing Rules. The Company also maintains a company website as a channel to let shareholders know the Company's news and raise questions through emails and telephone.

There have been no changes in the Company's constitutional documents during the year.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholder at a general meeting must be taken by a poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

The Chairman of the AGM shall therefore demand voting on all resolutions set out in the notice of the AGM be taken by way of poll pursuant to Article 73 of the Company's Articles of Association.

On a poll, every shareholder present in person or by proxy or (being a corporation) by its duly authorized representative shall have one vote for each share registered in his name in the register of members of the Company. A shareholder entitled to more than one vote needs not use all his votes or cast all the votes he uses in the same way.

The results of the poll will be published on the website of the SEHK at www.hkexnews.hk and the Company's website at www.dream-i.com.hk on the same day after the AGM.

1 ABOUT THIS REPORT

This Environmental, Social and Governance ("ESG") Report has been prepared in accordance with the SEHK Environmental, Social and Governance Reporting Guide ("ESG Guide") for the period from 1 January 2019 to 31 December 2019.

1.1 Core business of the Group

In the period under review, Dream International Limited (the "Company") and its subsidiaries (collectively the "Group" or "we") have principally engaged in the design, development, manufacture and sales of plush stuffed toys, plastic figures, and die-casting products.

1.2 Report Boundary

In 2019, our Group's Dream Plastic Nam Dinh factory has been expanding at an accelerating rate. Therefore, the management of the Group has decided to include Dream Plastic Nam Dinh factory in our ESG scope. Hence, in this report, we focus on the key nine (9) subsidiaries[1] including twelve (12) factories in Vietnam and China, majoring the manufacture of plush stuffed toys, plastic figures and die-casting products, during the reporting period.

1.3 Our ESG Approach

The Group has been certified for many years for social compliance standards such as ICTI[2] Care Program and Disney International Labor Standards, which addresses ESG related issues from promoting safety standards, to advancing social responsibility in the industry with programs to address environmental concerns, fair and lawful employment practices and workplace safety etc. In light of this, we have continued to maintain not only our certification compliance status, but we also strive to improve, by embedding the best practices into our daily operations. We continue to engage more of our employees such that health and safety becomes a responsibility for all but not solely that of the management.

For the environment, though our industry does not typically pose significant environmental risks, we implement adequate environmental management control towards our operations to minimize our impact. We pay attention to reduce the resource use in our operations, particularly on energy and water, and implement efficiency measures where practicable.

We have been working continuously to enhance the internal communication between our workers and the management by arranging periodic labor meetings throughout the year. We are implementing this initiative to all of our operating factories from Vietnam to China.

1. The nine subsidiaries include C & H Toys (Chaohu) Co., Ltd ("C & H Chaohu"), Dream Textile Co., Ltd ("Dream Textile"), Dream Mekong Co., Ltd ("Dream Mekong"), J.Y. Vina Co., Ltd ("J.Y. Vina"), J.Y. Hanam Co., Ltd ("J.Y. Hanam"), Dream Plastic Co., Ltd ("Dream Plastic"), J.Y. Plasteel Vina Co., Ltd ("J.Y. Plasteel"), Dream Plastic Nam Dinh Co., Ltd ("Dream Plastic Nam Dinh") and Dream Lingshan Co., Ltd ("Dream Lingshan").

2. The International Council of Toy Industries ("ICTI") is the industry association for the worldwide toy industry. ICTI is a not-for-profit membership organization incorporated in the United States of America.

1.4 Stakeholder Engagement and Materiality Assessment

Stakeholder engagement

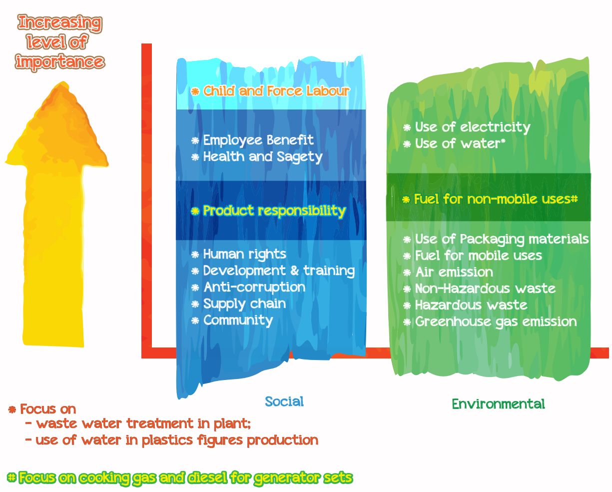
We had carried out stakeholders' engagement with our management team, who have decisive role on the Group's operations, and helped set the scene and direction on the Group's ESG approach. The diligently collected and carefully analyzed data underscores not only the Group's sustainable initiatives for the reporting period, but also the Group's short-term and long-term sustainability strategy. We intend to continuously reach out to more stakeholders for future reviews of our materiality. We will also maintain communication with the stakeholders of our latest developments and status on sustainability issues.

Materiality Assessment

Based on our stakeholder engagement results, we have identified the following as material ESG issues to the Group. We have prioritized the material issues under each environmental and social aspect as our sustainability focus areas.

Our materiality assessment shows that social aspects of child and forced labour, health and safety and employee benefits remains of highest importance to the Group as they are essential and highly expected from our customers as well as the industry. Regarding product responsibility, it is relatively less important as our products are manufactured and labelled strictly according to our customers' requirements, which we have relatively less direct influence over.

In terms of the environmental aspects, the use of electricity and water are key as they have not only environmental impacts but also significant implications on the daily operation costs of our facilities and thus we have high expectation internally in managing these uses.



2 ENVIRONMENTAL

We are committed to build a better environment by adopting an environmental friendly approach in our business operation through management of our resource use in particular. We are committed to environmental management by adequately controlling the emissions from our facilities and more importantly, comply with all applicable environmental laws and regulations in conducting our business.

According to our materiality results, the use of energy and water use are key to our Group's operation, we are also keen to ensure the emissions from our facilities are adequately controlled and managed.

2.1 Use of Resources

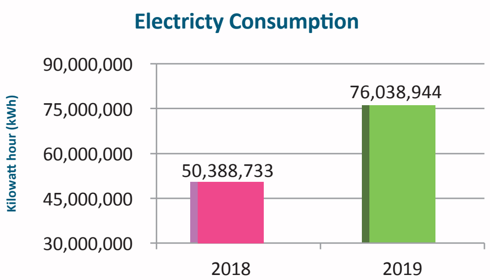
2.1.1 Use of Energy

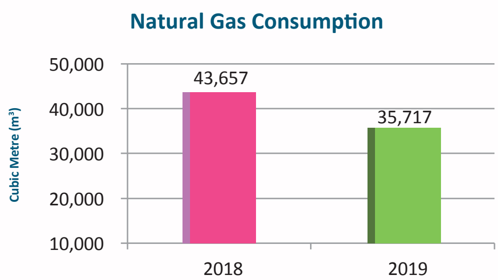
As a manufacturer, energy use is one of the most critical environmental factors in our operations and among which electricity consumption remains the most critical to our operations. Our energy use mainly falls to the following three types:

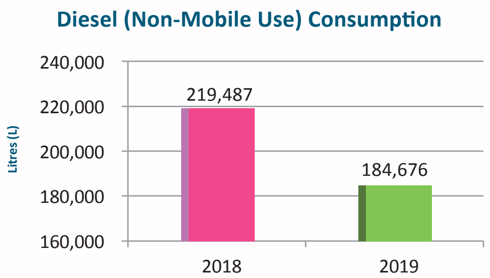
- Consumption of purchased electricity for factory processes and staff dormitories;
- Non-mobile fuel use (natural gas and diesel) for cooking and generators; and
- Mobile fuel use of fuels (diesels and petroleum) in our vehicles.

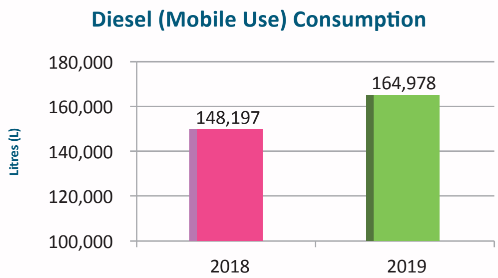
Among the three types of energy use, electricity use from our factory processes makes up the majority of our energy consumption.

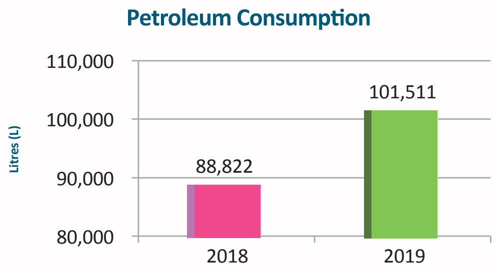
In the year under review, the consumptions of each type of energy[1] are as follows:











[1] The Group's energy consumption has increased due to the inclusion of Dream Plastic Nam Dinh in our scope and the increased production capacity of our subsidiaries.

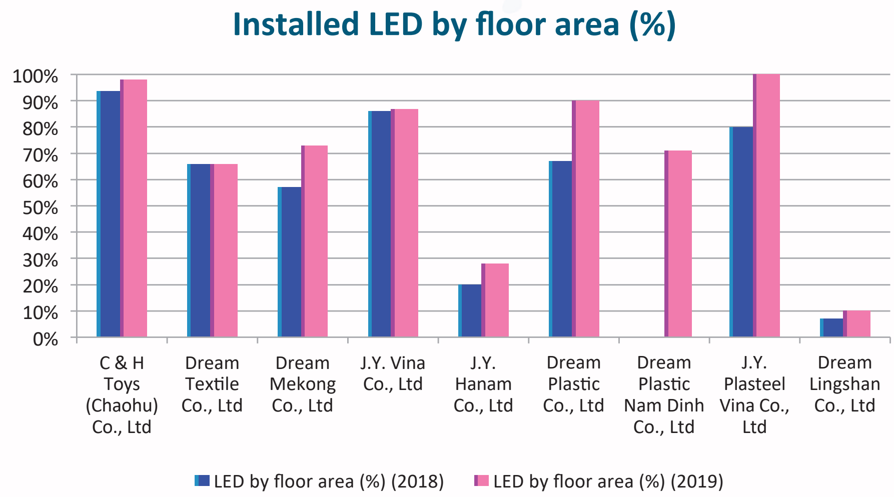
In the year, we have adopted the following initiatives to improve the energy efficiency of our operations:

– Reduce lighting provisions in non-working areas.

– Encourage staff to switch off unnecessary lighting, equipment, personal computers and monitors in lunch time, after office hours, while away or in meeting.

– Continual replacement of equipment to more energy efficient ones. For example, replace existing centrifugal pumps to the more energy efficient and effective screw pumps in 2019.

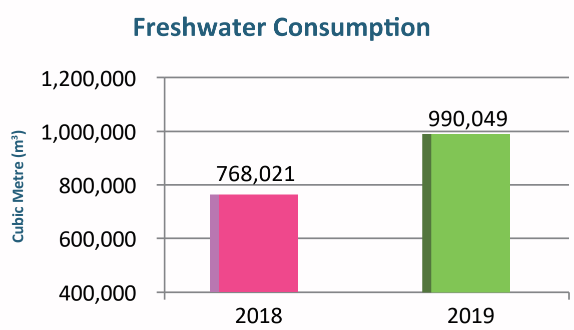
– Continual retrofitting of lighting equipment to LED.



2.1.2 Use of Water

Freshwater use is another key component in our business operations. Majority of the water used are for production processes in our factories, along with the domestic use in staff dormitories.

In the year under review, the consumption of water[2] is follows:



[2] The Group's water consumption has increased due to the inclusion of Dream Plastic Nam Dinh in our scope and the increased production capacity of our subsidiaries.

To reduce freshwater consumption, we improve our water efficiency and seek alternatives to freshwater source when practicable. In the year, we have adopted the following initiatives:

– Use of collected rainwater (as an alternative to freshwater) for cooling of internal temperature of a finished goods warehouse in Vietnam. We are constantly reviewing the applicability of this initiative to other factories.

– Installation of auto valve to water supply pipe to prevent overflow of water tanks and thus reduce wastage of water.

– Reuse of water for production activities and/or toilet flushing from dyeing activities in Dream Textile. The installation of the cooling tower helps cool down the hot water from dyeing activities which would otherwise be drained away. It is anticipated that 10,000 m^3 of water will be saved every month.

2.1.3 Use of Packaging Materials

Use of packaging materials is essential to our products but we do not have direct control over the design and types of packaging materials used as they are prescribed by our customers. Having this said, we strive to minimize the usage and wastage of packaging materials in our operation process. For instance, we have made agreements with fabric buyers of Dream Textile to reuse the paper pipes of sold fabrics. After using the fabrics, buyers would return the remaining paper pipes to us for reuse, reducing the need for new fabric packaging materials.

2.2 Emissions

2.2.1 Air Emissions

Complying with the local air emission requirements are of prime importance to our operations. In our factories, carbon filters, cyclone systems and venturi system are installed for air treatment prior to exhaust with aim to reduce air pollutions like particulate matters, CO and NO_x and SO_2. To ensure our air emissions comply with the regulatory requirements, third party monitoring the air emissions is conducted regularly and all air emissions results in the past year comply with the local standards.

Besides the hardware, we have also adopted the use of more environmentally friendly materials such as powder spray with less volatile organic chemicals (VOC) content in some of the dyeing processes. Since June 2016, we have adopted the use of paint capsule versus paint plate in our painting machines. Such change not only reduces the odour in the production plant, but also enables a more efficient use of paint materials.

In the year, no report of non-compliance regarding air emissions was noted.

2.2.2 Carbon Emissions

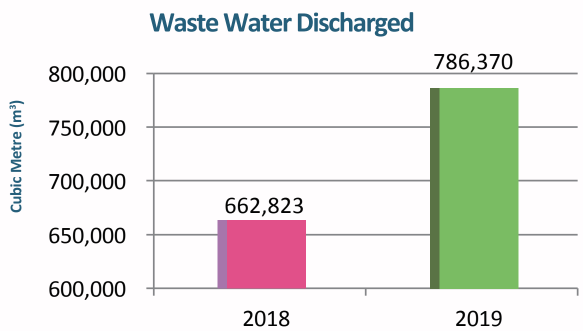
Most of our carbon emissions come from the use of energy in our production processes and staff dormitories. Therefore we mainly focus on reducing our energy consumption to drive down carbon emissions. Please refer to 2.1.1 Use of Energy for our energy reduction initiatives.

Since carbon emission is not deemed a material aspect to our business, we have not yet recorded our carbon emission figures this year. We will consider accounting for this emission next year or when regulatory changes and demands for its disclosure in a nearer future.

2.2.3 Waste Water

We have sewage treatment facilities in the Vietnamese factories to properly treat the sewage prior to discharge, including Dream Plastic, Dream Textile and J.Y. Plasteel, where paints and dyes are used. We ensure the waste water discharges comply with and do not exceed the local regulatory standards. Any sludge produced from the plastics factories are also properly treated and disposed of as hazardous wastes by qualified contractors.

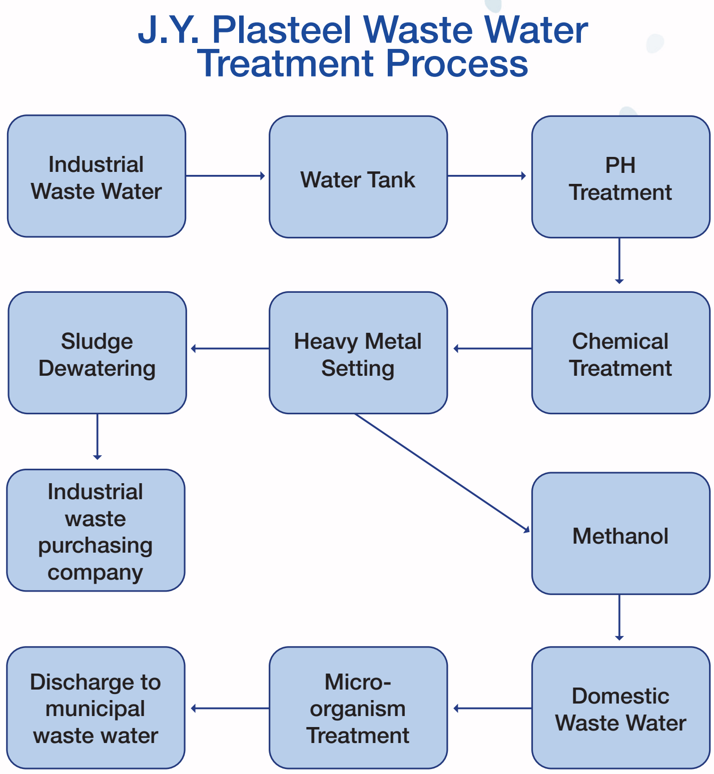
In 2019, the waste water discharge[3] of our nine subsidiaries amounted to:



Waste water facilities were installed for Dream Textile, and the two manufacturing facilities of J.Y. Plasteel. These facilities were equipped to treat industrial waste water prior to discharge to the municipal sewage system.

3 The Group's waste water discharge has increased due to the inclusion of Dream Plastic Nam Dinh in our scope and the increased production capacity of our subsidiaries.

In the year, no significant incident of non-compliance regarding waste water discharge was noted.



Simplified flowchart of the waste water treatment facilities in J.Y. Plasteel

Micro-organism treatment of domestic waste water in J.Y. Plasteel

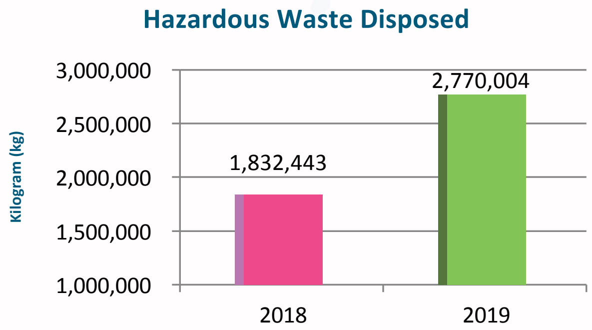
Waste water treating facilities in Dream Textile

2.2.4 Waste Management

Hazardous waste

We encourage our workers to minimize their resource consumption and provide recycling equipment to reduce wastes. We try to recycle and reuse raw materials such as polypropylene (PP), polyvinyl chloride (PVC) and acrylonitrile butadiene styrene (ABS) and paints where applicable. Other non recyclable hazardous wastes are handled by qualified service providers in accordance with local regulatory requirements.

Total amount of hazardous waste disposed[4] in 2019 is provided below:



In the year, no report of non-compliance regarding the disposal of hazardous wastes was noted.

Non-hazardous waste

We try to recycle and reuse raw materials, besides chemicals, other recyclables include also carton boxes in our factories. In Vietnam, kitchen waste is also recycled as livestock feeds.

Since non-hazardous waste is not deemed a material aspect of the Group's business, we have yet to obtain a complete statistics of the non-hazardous waste produced. We shall closely follow regulatory changes and update our disclosure according in the future.

[4] The Group's hazardous waste disposed has increased due to the inclusion of Dream Plastic Nam Dinh in the scope and the increased production capacity of our subsidiaries.

3 EMPLOYMENT AND LABOUR STANDARD

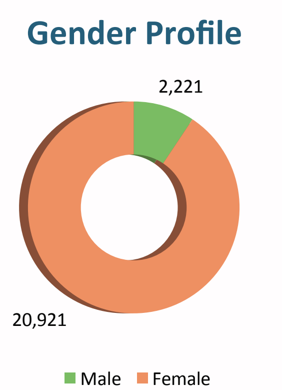
3.1 Employment

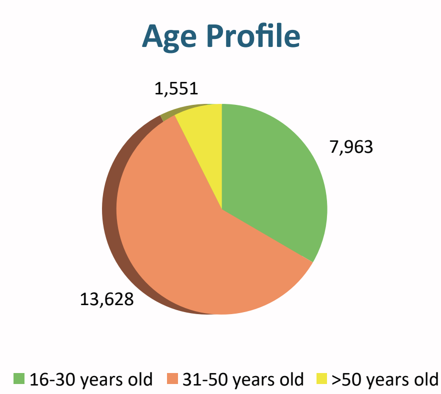
The Group promotes fair competition and prohibits discrimination or harassment against any employee on their gender, age, marital status, religion, race, nationality, disability or any status protected by law.

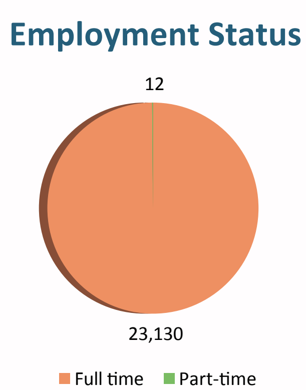
Equal opportunities are applied in all employment policies, in particular to recruitment, training, career development and promotion of employee. Remuneration and benefit packages of employees are structured on market terms with regard to individual responsibility and performance. All eligible employees are enrolled to a defined contribution on retirement or social insurance scheme. Other employment benefits are awarded at the discretion of the Group. In the year, there was no reported non compliance regarding employment, nor were there any on discrimination or harassment incidents.

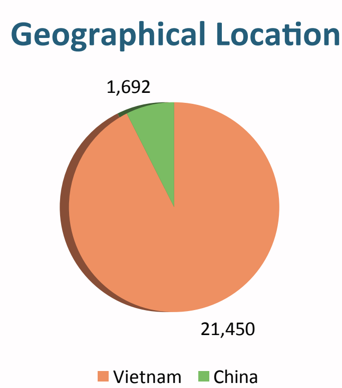
We value employee's satisfaction and encourage our staff to provide feedbacks. We have channels in place for our employees to express grievances and complaints which will be well handled according to the predetermined procedures to ensure equality to all employees.

As at 31 December 2019, we have a total of 23,142 employees in our 9 subsidiaries in China and Vietnam. The turnover rate of the year is 26.2%. The working composition as of 31 December 2019 is as shown below:









3.2 Health and Safety

The Group is committed to providing a healthy and safe workplace to employees and fulfil relevant ICTI requirements. As part of the employee benefits, annual body checks are provided to all factory workers to ensure their health conditions are taken care of. Safety guidelines are formulated and communicated to all employees. Relevant training, such as training to new workers on proper use of sewing machines, are organized in the year to improve our employees' awareness on health and safety.

Health, safety and environment meeting and fire drill in our JY Hanam factory

Regular inspections on the factories are carried out to ensure safety hazards are alleviated. We ensure relevant certifications and/or permits in compliance to relevant laws and regulations were obtained. Furthermore, our Environmental, Healthy and Safety ("EHS") committee conducts out occupational risk assessments periodically within the factory to identify potential hazards. The Group has implemented several safety practices to protect our employees, including, but not limited to:

– Providing health and safety trainings to newly employed employees.

– Providing pre-job, annual and post health examinations to employees.

– Conducting regular internal inspection of fire safety equipments, machineries and industrial safety.

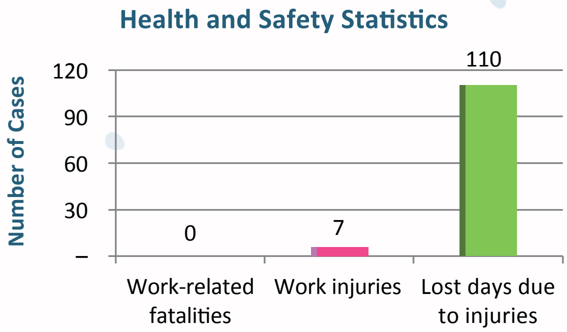
– Providing Correct Personal Protective Equipment (PPE), such as safety glasses, mask and ear plugs, to employees and correctly worn according to the needs of the operation.

– Performing bi-annual fire drills for all employees.

– Ensuring first-aid kits are readily available and accessable at all times.

During the year, we do not have any significant regulatory non-compliance on health and safety.

As at 31 December 2019, the health & safety statistics is as shown below:



3.3 Development and Training

We encourage sustainable learning of our employees through coaching and further studies. In house trainings and online learning materials are provided to employees. Sponsorships are provided as an initiative for further studies by application. In 2019, the Group has organized a number of training to employees. We have provided training to our staff of the nine subsidiaries, aggregating to a total of 1,088,934 training hours.

3.4 Labour Standards

The Group strictly fulfils the ICTI requirements as well as the local regulatory requirements on employment of child and forced labour. We prohibit the employment of child and forced labour and have adopted such provisions in respective guidelines and handbooks of our factories.

During the reporting period, there were no reported non-compliance on child labour or forced labour.

3.5 Anti Corruption

We are against corruption among the Group's activities and procurements. We have Corporate Code of Conducts, Code of Ethics, and the policy on Anti corruption/Anti bribery/Whistle blowing in place and communicated to our staff, guiding our approach on the matter throughout our daily operations. In the reporting period, no reported instances on corruption were noted.

4 PRODUCT RESPONSIBILITY AND SUPPLY CHAIN MANAGEMENT

Product Responsibility

We are committed to provide quality services to our customers. Nine of our factories are certified of their production process with ISO 9001 Quality Management System. We apply stringent quality controls in our production lines. Our quality assurance and quality control department manages and ensures quality inspections are being conducted at all stages of our production process from incoming materials to finished goods. And quality testing is also carried out for our products prior to shipping to our warehouse.

The Group is committed to respecting the intellectual property rights of our customers, business partners, competitors, and others. No Company employee, independent contractor, or agent should steal or misuse the intellectual property rights owned or maintained by another intellectual property rights of product design.

During the year, we are not aware of any regulatory non-compliance regarding intellectual property and other relevant laws and regulations as related to product responsibility that has a significant impact on the Group.

Supply Chain Management

We engage a number of service providers from the provision of raw materials for toy production to logistics arrangements. We work closely with the service providers and suppliers to ensure that they collaborate with us to fulfil the ICTI requirements and they are familiar with the respective environmental and social requirements. Periodic meetings are held to facilitate our communication to ensure product safety at the end user level is properly taken care of. Feedbacks from customers are conveyed to suppliers promptly. We carry out suppliers' appraisals prior to accepting them on the qualified suppliers list and we assess their performance based on their environmental and social risk biannually.

5 COMMUNITY

With factories established in Vietnam and China, the Group is contributing positively towards the community as the factories provide employment locally within the communities. In addition, the Group encourages employees to be involved in CSR activities. We contributed to local communities through both direct donations and organising activities. Examples include supporting local firefighters for buying equipment and direct donations to communities in need. In 2019, our donations totalled to HKD1,481,000.

The Group not only recognizes the importance of the external community at our factories but also recognizes the importance of the internal community within the factory. The Group truly believes that the Group's ongoing success derives from the mental well-being and the satisfaction our employees. One of our many examples included Dream Textile to organize an all-expense-paid travelling tour, in which employees enjoyed team building games, gala dinner and visits to famous landmarks.

Dream Textile employees participating in team building activities

A ESG Data Disclosure

	KPI	Unit	Total
Environmental	Energy used		
	Electricity	kWh	76,038,944
	Natural gas	m^3	35,717
	Diesel (non-mobile uses)	Litre	184,676
	Diesel (mobile uses)	Litre	164,978
	Petroleum	Litre	101,511
	Freshwater used	m^3	990,049
	Waste water discharged	m^3	786,370
	Hazardous waste disposed	Kg	2,770,004
Social	Employment		
	Total number of employee	No. of people	23,142
	By gender		
	Male	No. of people	2,221
	Female	No. of people	20,921
	By age		
	16-30 years old	No. of people	7,963
	31-50 years old	No. of people	13,628
	>50 years old	No. of people	1,551
	By employment type		
	Full-time	No. of people	23,130
	Part-time	No. of people	12
	By geographical region		
	China	No. of people	1,692
	Vietnam	No. of people	21,450
	Staff turnover rate	%	26.2%
	Health and safety		
	No. of work-related fatalities	No. of cases	0
	No. of work injuries	No. of cases	7
	Lost-days due to injuries	No. of days	110
	Non-compliance against health and safety regulatory requirements	No. of cases	0
	Labour standards		
	Non-compliance against child and forced labour	No. of cases	0
	Training and development		
	Total training hours	Hours	1,088,934
	Anti-corruption		
	Non-compliance regarding anti-corruption	No. of cases	0
	Community Investment	HK$	1,481,000

Note:

1. The data covers the nine subsidiaries as listed in the report boundary.

B HKEX ESG Content Index

	Aspects	Section No.	Remarks
A	**Environmental**		
A1	**Emissions** (a) Policies and (b) Compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	1.3, 2.2	–
A1.1	The types of emissions and respective emission data	2.2.1	Not material
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	2.2.2	Not material
A1.3	Total hazardous waste produced (in kg) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	2.2.3 – 2.2.4	Not material
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	2.2.3 – 2.2.4	Not material
A1.5	Description of measures to mitigate emissions and result achieved.	2.2.1 – 2.2.4	–
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	2.2.3 – 2.2.4	–
A2	**Use of Resources** Policies on the efficient use of resources, including energy, water and other raw materials.	1.3, 2.1	–
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	2.1.1	–

	Aspects	Section No.	Remarks
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	2.1.2	–
A2.3	Description of energy use efficiency initiatives and result achieved.	2.1.1	–
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	2.1.2	–
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	2.1.3	Not relevant to our operation.
A3	**The Environment and Natural Resources**	1.3, 2.1 - 2.2	–
	Policies on minimizing the issuer's significant impact on the environment and natural resources.		
A3.1	Description of the significant impacts of activities on the environment and natural resources and the action taken to manage them.	1.3, 2.1 - 2.2	–
B	**Social**		
B1	**Employment**	3.1	–
	Policies on employment and compliance with local laws and regulations that have a significant impact on the issuer on the following aspects: • Compensation and dismissal • Recruitment and promotion • Working hours and rest periods • Equal opportunity and anti-discrimination • Diversity • Other benefits and welfare		
B1.1	Total workforce by gender, employment type, age group and geographical region.	3.1	–

	Aspects	Section No.	Remarks
B1.2	Employee turnover rate by gender, age group and geographical region.	3.1	–
B2	**Health and Safety**	3.2	–
	Policies on providing a safe working environment and protecting employees from occupational hazards and compliance with relevant laws and regulations.		
B2.1	Number and rate of work-related fatalities.	3.2	–
B2.2	Lost days due to work injury.	3.2	–
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	3.2	–
B3	**Development and Training**	3.3	–
	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		
B4	**Labour Standard**	3.4	–
	Policies and Compliance with laws and regulations on preventing child and forced labour.		
B4.1	Description of measures to review employment practices to avoid child and forced labour.	3.4	–
B3.2	Description of steps taken to eliminate such practices when discovered.	3.4	–
B5	**Supply Chain Management**	4	–
	Policies on managing environmental and social risks of the supply chain.		
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	4	–

	Aspects	Section No.	Remarks
B6	**Product Responsibility**	4	–
	Policies and compliance with relevant laws and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		
B6.3	Description of practices relating to observing and protecting intellectual property rights.	4	–
B6.4	Description of quality assurance process and recall procedures.	4	–
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	4	–
B7	**Anti-corruption**		
	Policies and compliance with relevant laws and regulations relating to bribery, extortion, fraud and money laundering.	3.5	–
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	3.5	–
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	3.5	–
B8	**Community Investment**	5	–
	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	5	–
B8.2	Resources contributed (e.g. money or time) to the focus area.	5	–

Independent Auditor's Report

KPMG

Independent auditor's report to the members of Dream International Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Dream International Limited ("the Company") and its subsidiaries ("the Group") set out on pages 57 to 154, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

Assessing the carrying value of inventories

Refer to note 20 to the consolidated financial statements and the accounting policies in note 1(l) on page 77.

The Key Audit Matter	How the matter was addressed in our audit
The Group held significant quantities of inventories, which principally comprised of plush stuffed toys, plastic figures and die-casting products in different phases of their manufacturing life cycles. Products are manufactured based on actual or anticipated orders which can be impacted by the popularity of the product characters and figures as a result of the changing trends in the toy and entertainment industries. Management performs regular reviews of the carrying values of inventories with reference to the inventory ageing report and projections of expected future sales or utilisation of individual items and their selling prices based on management's experience and judgement. A write-down will be made when it is expected that an item cannot be sold or utilised or the estimated net realisable value would fall below its carrying amount. In addition, the allocation of labour and production overheads to be absorbed in inventories, which requires management experience and involves voluminous calculations for a large number of products, can impact the carrying amount of work-in-progress and finished goods.	Our audit procedures to assess the carrying value of inventories included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls over the process of cost absorption for the products; • assessing whether the inventory write-down at the reporting date was calculated on a basis consistent with the Group's inventory provisioning policy by recalculating the write-down based on the percentages and other parameters in the Group's inventory provisioning policy; • assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with underlying documentation, including purchase invoices, goods received notes and finished goods stock-in report; • inspecting, on a sample basis, the relevant underlying documentation for sales orders received and where applicable delivery of inventories subsequent to the end of the reporting period; • inquiring of management about any slow-moving or obsolete inventories and comparing their representations with actual transactions and utilisation subsequent to the end of the reporting period;

Key audit matters *(Continued)*

Assessing the carrying value of inventories *(Continued)*

Refer to note 20 to the consolidated financial statements and the accounting policies in note 1(l) on page 77.

The Key Audit Matter *(Continued)*	**How the matter was addressed in our audit** *(Continued)*
We identified assessing the carrying value of inventories as a key audit matter because of the significant judgement exercised by management in determining an appropriate inventory write-down, which involves assessing the latest consumer preferences and estimating the inventories that cannot be sold or utilised and their selling prices, and because the calculations for the allocation of labour and production overheads to individual products are susceptible to errors due to the significant number of products involved.	• comparing, on a sample basis, the unit cost of inventories at the reporting date with sales price achieved subsequent to the end of the reporting period; • assessing the Group's inventory provisioning policy and the relevant disclosures in the consolidated financial statements with reference to the requirements of the prevailing accounting standards; and • evaluating the allocation of labour and production overheads to inventories by assessing the method of calculation, recalculating the absorption of labour and production overheads, on a sample basis, and comparing total overhead costs absorbed with actual total overhead costs incurred for the year.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Kong Tat.

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

27 March 2020

Consolidated Statement of Profit or Loss

for the year ended 31 December 2019

	Notes	2019 HK$'000	2018 (Notes) HK$'000 (Restated)
Continuing operations			
Revenue	3 & 11	**3,973,461**	3,466,212
Cost of sales		**(3,015,954)**	(2,722,656)
Gross profit		**957,507**	743,556
Other revenue	4(a)	**24,412**	16,530
Other net income/(loss)	4(b)	**3,834**	(714)
Distribution costs		**(98,955)**	(89,296)
Administrative expenses		**(286,458)**	(273,513)
Profit from operations		**600,340**	396,563
Finance costs	5(a)	**(6,647)**	(3,757)
Profit before taxation	5	**593,693**	392,806
Income tax	6	**(97,064)**	(64,527)
Profit for the year from continuing operations		**496,629**	328,279
Discontinued operations			
Loss for the year from discontinued operations	12	**(18,182)**	(7,754)
Profit for the year		**478,447**	320,525
Attributable to:			
Equity shareholders of the Company		**477,469**	332,498
Non-controlling interests		**978**	(11,973)
Profit for the year		**478,447**	320,525
Profit/(loss) attributable to equity shareholders of the Company arises from:			
– Continuing operations		**490,975**	338,257
– Discontinued operations		**(13,506)**	(5,759)
		477,469	332,498

Consolidated Statement of Profit or Loss

for the year ended 31 December 2019

	Notes	2019 HK$'000	2018 (Notes) HK$'000 (Restated)
Earnings/(loss) per share attributable to equity shareholders of the Company for the year	10		
Basic and diluted			
– From continuing operations		**HK72.54 ¢**	HK49.97 ¢
– From discontinued operations		**HK(2.00) ¢**	HK(0.85) ¢
Earnings per share for the year		**HK70.54 ¢**	HK49.12 ¢

Notes:

(i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

(ii) The results of ride-on toys segment have been classified as discontinued operations of the Group for the year ended 31 December 2019. In this regard, the Group has restated the comparative information for the year ended 31 December 2018.

The notes on pages 64 to 154 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 27(b).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	2019 HK$'000	2018 (Notes) HK$'000 (Restated)
Profit for the year		**478,447**	320,525
Other comprehensive income for the year (after tax and reclassification adjustments):	9		
Items that will not be reclassified to profit or loss:			
– Remeasurement of net defined benefit retirement obligation		**–**	(923)
– Unlisted equity security at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)		**(665)**	(174)
		(665)	(1,097)
Items that may be or are reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**(14,772)**	(6,968)
– Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary	17(a)	**392**	–
– Investment in debt security at fair value through other comprehensive income – net movement in fair value reserve (recycling)		**128**	255
		(14,252)	(6,713)
Other comprehensive income for the year		**(14,917)**	(7,810)
Total comprehensive income for the year		**463,530**	312,715
Attributable to:			
Equity shareholders of the Company		**462,845**	324,575
Non-controlling interests		**685**	(11,860)
Total comprehensive income for the year		**463,530**	312,715
Total comprehensive income attributable to equity shareholders of the Company			
– Continuing operations		**476,351**	330,334
– Discontinued operations		**(13,506)**	(5,759)
		462,845	324,575

Notes:

(i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

(ii) The results of ride-on toys segment have been classified as discontinued operations of the Group for the year ended 31 December 2019. In this regard, the Group has restated the comparative information for the year ended 31 December 2018.

The notes on pages 64 to 154 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2019

	Notes	2019 HK$'000	2018 (Note) HK$'000
Non-current assets			
Investment properties	14	**3,981**	3,900
Other property, plant and equipment	14	**1,251,019**	1,165,227
Long term receivables and prepayments	13	**34,497**	23,090
Other intangible assets	15	**6,063**	7,046
Goodwill	16	**2,753**	2,753
Interest in an associate	18	**7,360**	–
Deferred tax assets	26(b)	**5,767**	4,511
Other financial assets	19	**4,583**	5,843
		1,316,023	1,212,370
Current assets			
Inventories	20	**594,541**	459,210
Trade and other receivables	21	**681,849**	633,121
Current tax recoverable	26(a)	**86**	206
Time deposits	22(a)	**85,647**	53,705
Cash and cash equivalents	22(a)	**583,063**	378,503
		1,945,186	1,524,745
Current liabilities			
Trade and other payables and contract liabilities	23	**636,635**	592,124
Bank loans	24	**125,334**	116,895
Lease liabilities	25	**13,459**	–
Current tax payable	26(a)	**97,121**	44,046
		872,549	753,065
Net current assets		**1,072,637**	771,680
Total assets less current liabilities		**2,388,660**	1,984,050

Consolidated Statement of Financial Position

at 31 December 2019

	Notes	2019 HK$'000	2018 (Note) HK$'000
Non-current liabilities			
Lease liabilities	25	**14,470**	–
Deferred tax liabilities	26(b)	**9,692**	8,627
		24,162	8,627
NET ASSETS		**2,364,498**	1,975,423
CAPITAL AND RESERVES			
Share capital	27(c)	**236,474**	236,474
Reserves		**2,150,515**	1,762,125
Total equity attributable to equity shareholders of the Company		**2,386,989**	1,998,599
Non-controlling interests		**(22,491)**	(23,176)
TOTAL EQUITY		**2,364,498**	1,975,423

Approved and authorised for issue by the board of directors on 27 March 2020.

Young M. Lee
Director

Hyun Ho Kim
Director

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The notes on pages 64 to 154 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

		Attributable to equity shareholders of the Company									
	Notes	Share capital HK$'000	General reserve fund HK$'000	Other reserve HK$'000	Exchange reserve HK$'000	Fair value reserve (recycling) HK$'000	Fair value reserve (non-recycling) HK$'000	Retained profits (note) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
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 2018:											
Profit for the year		–	–	–	–	–	–	332,498	332,498	(11,973)	320,525
Other comprehensive income		–	–	–	(7,081)	255	(174)	(923)	(7,923)	113	(7,810)
Total comprehensive income for the year		–	–	–	(7,081)	255	(174)	331,575	324,575	(11,860)	312,715
Appropriation to general reserve fund		–	1,715	–	–	–	–	(1,715)	–	–	–
Final dividend approved in respect of the previous year	27(b)(ii)	–	–	–	–	–	–	(20,306)	(20,306)	–	(20,306)
Dividends declared in respect of the current year	27(b)(i)	–	–	–	–	–	–	(6,769)	(6,769)	–	(6,769)
Balance at 31 December 2018 and 1 January 2019		236,474	21,917	(6,246)	42,347	(36)	(7,546)	1,711,689	1,998,599	(23,176)	1,975,423
Changes in equity for 2019:											
Profit for the year		–	–	–	–	–	–	477,469	477,469	978	478,447
Other comprehensive income		–	–	–	(14,087)	128	(665)	–	(14,624)	(293)	(14,917)
Total comprehensive income for the year		–	–	–	(14,087)	128	(665)	477,469	462,845	685	463,530
Appropriation to general reserve fund		–	4,532	–	–	–	–	(4,532)	–	–	–
Final dividend approved in respect of the previous year	27(b)(ii)	–	–	–	–	–	–	(54,149)	(54,149)	–	(54,149)
Dividends declared in respect of the current year	27(b)(i)	–	–	–	–	–	–	(20,306)	(20,306)	–	(20,306)
Balance at 31 December 2019		236,474	26,449	(6,246)	28,260	92	(8,211)	2,110,171	2,386,989	(22,491)	2,364,498

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The notes on pages 64 to 154 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2019

	Notes	2019 HK$'000	2018 (Note) HK$'000
Operating activities			
Cash generated from operations	22(b)	**553,308**	476,660
Tax (paid)/refunded			
– Hong Kong Profits Tax paid		**–**	(36,749)
– Hong Kong Profits Tax refunded		**–**	8,881
– Tax paid outside Hong Kong		**(45,001)**	(42,436)
Net cash generated from operating activities		**508,307**	406,356
Investing activities			
Payment for purchase of other property, plant and equipment		**(163,464)**	(441,693)
Prepayment for purchase of other property, plant and equipment		**(25,035)**	(12,905)
Proceeds from the disposal of other property, plant and equipment		**2,064**	605
Proceeds from the disposal of other intangible asset		**1,009**	–
Payment for interest in an associate		**(7,360)**	–
Interest received		**10,918**	6,634
(Increase)/decrease in time deposits with maturity over three months		**(31,942)**	22,765
Proceeds received upon maturity and/or sale of other financial assets		**–**	14,570
Net cash used in investing activities		**(213,810)**	(410,024)
Financing activities			
Capital elements of lease rentals paid	22(c)	**(13,114)**	–
Interest elements of lease rentals paid	22(c)	**(2,805)**	–
Interest paid	22(c)	**(3,842)**	(3,757)
Proceeds from new bank loans	22(c)	**217,637**	122,290
Repayment of bank loans	22(c)	**(208,848)**	(21,016)
Dividends paid		**(74,455)**	(27,075)
Net cash (used in)/generated from financing activities		**(85,427)**	70,442
Net increase in cash and cash equivalents		**209,070**	66,774
Cash and cash equivalents at 1 January	22(a)	**378,503**	316,739
Effect of foreign exchange rate changes		**(4,510)**	(5,010)
Cash and cash equivalents at 31 December	22(a)	**583,063**	378,503

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The notes on pages 64 to 154 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") (the "Listing Rules"). Significant accounting policies adopted by Dream International Limited (the "Company") and its subsidiaries (together the "Group") are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investments in debt and equity securities (see note 1(f)) are stated at their fair values.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 31.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)), or when appropriate, the cost on initial recognition of an investment in an associate (see note 1(d)) or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)(ii)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(e) and (k)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate (after applying the expected credit loss ("ECL") model to such other long-term interests where applicable (see note 1(k)(i))).

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)).

In the Company's statement of financial position, investment in an associate is stated at cost less impairment losses (see note 1(k)(ii)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and an associate, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 28(e). These investments are subsequently accounted for as follows, depending on their classification.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in debt and equity securities *(Continued)*

(i) Investments other than equity investments

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 (see note 1(t)(ii)).

– fair value through other comprehensive income ("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.

– 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.

(ii) Equity investments

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 irrevocable 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, are recognised in profit or loss as other income in accordance with the policy set out in note 1(t)(iv).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(k)(ii)). Depreciation is calculated to write off the cost of investment properties, using the straight line method over the shorter of the unexpired term of leases and their estimated useful lives.

Gains or losses arising from the retirement or disposal of an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the investment property and are recognised in profit or loss on the date of retirement or disposal. Rental income from investment properties is accounted for as described in note 1(t)(iii).

(h) Other property, plant and equipment

The following items of other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)(ii)):

– freehold land and buildings;

– interests in leasehold land and buildings where the Group is the registered owner of the property interest (see note 1(j));

– right-of-use assets arising from leases of underlying properties where the Group is not the registered owner of the property interest; and

– items of plant and equipment, including right-of-use assets arising from leases of underlying plant (see note 1(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Other property, plant and equipment *(Continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Freehold land is not depreciated.

– Buildings situated on freehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion.

– Leasehold land is depreciated over unexpired term of lease.

– The Group's interests in buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and the buildings' estimated useful lives, being no more than 50 years after the date of completion.

– Plant and machinery 5 – 10 years

– Others 3 – 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)(ii)).

Patents are carried at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)(ii)). Amortisation of patent with finite useful lives is charged to profit or loss on a straight line basis over its estimated useful lives of five years. Both the period and method of amortisation are reviewed annually.

Club memberships with indefinite useful lives are stated in the statement of financial position at cost less accumulated impairment losses, and are tested annually for impairment (see note 1(k)(ii)).

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected to separate non-lease components and accounts for each lease component and any associated non-lease components separately for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and lease of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(h) and 1(k)(ii)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets *(Continued)*

(i) As a lessee *(Continued)*

(A) Policy applicable from 1 January 2019 (Continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exception:

– land held for own use under an operating lease, the fair value of which could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Group or taken over from the previous lessee.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. The cost of acquiring land held under an operating lease was amortised on a straight-line basis over the period of the lease term.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets *(Continued)*

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(t)(iii).

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for ECLs on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, time deposits, trade and other receivables, including loan to an associate, which are held for the collection of contractual cash flows which represent solely payments of principal and interest); and

– debt securities measured at FVOCI (recycling).

Other financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling), 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 rate determined at initial recognition or an approximation thereof; and

– variable-rate financial assets: current effective interest rate.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(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.

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. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

Significant increases in credit risk (Continued)

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

– failure to make payments of principal or interest on their contractually due dates;

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

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

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

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

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments 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).

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– investment properties;

– other property, plant and equipment, including right-of-use assets;

– other intangible assets;

– goodwill; and

– investments in subsidiaries and an associate in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and other intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other non-current assets *(Continued)*

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and (ii)).

(l) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(k)(i)).

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(v)).

(o) Trade and other payables and contract liabilities

(i) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(ii) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(t)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(m)).

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 1(k)(i).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the goods.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(k)(i)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue and other income *(Continued)*

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(iv) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(u) Translation of foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency").

The consolidated financial statements are presented in Hong Kong dollar ("HKD"), which is different from the Company's functional currency of United States dollar ("USD"). The Company has used HKD as its presentation currency in view of the fact that the Company's shares are listed on the SEHK.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations outside Hong Kong are translated into HKD at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of an operation acquired on or after 1 January 2005, are translated into HKD at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(w) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(x) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Related parties *(Continued)*

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have 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.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and there are no adjustments to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKFRS 16, *Leases* *(Continued)*

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to properties as disclosed in note 29(b). For an explanation of how the Group applies lessee accounting, see note 1(j)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6.7%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKFRS 16, *Leases* *(Continued)*

b. Lessee accounting and transitional impact *(Continued)*

The following table reconciles the operating lease commitments as disclosed in note 29(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK$'000
Operating lease commitments at 31 December 2018	28,345
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(4,601)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will not exercise the termination options	36,602
	60,346
Less: total future interest expenses	(31,845)
Present value of remaining lease payments, discounted using the incremental borrowing rate and total lease liabilities recognised at 1 January 2019	28,501

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by an amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKFRS 16, *Leases* *(Continued)*

b. Lessee accounting and transitional impact *(Continued)*

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 HK$'000	Capitalisation of operating lease contracts HK$'000	Carrying amount at 1 January 2019 HK$'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Other property, plant and equipment	1,165,227	30,683	1,195,910
Non-current assets	1,212,370	30,683	1,243,053
Trade and other receivables	633,121	(2,182)	630,939
Current assets	1,524,745	(2,182)	1,522,563
Lease liabilities (current)	–	8,453	8,453
Current liabilities	753,065	8,453	761,518
Net current assets	771,680	(10,635)	761,045
Total assets less current liabilities	1,984,050	20,048	2,004,098
Lease liabilities (non-current)	–	20,048	20,048
Non-current liabilities	8,627	20,048	28,675
Net assets	1,975,423	–	1,975,423

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKFRS 16, Leases *(Continued)*

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. There is no material impact on the reported profit from the operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 22(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see note 22(d)).

d. Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at stated at cost less accumulated depreciation and impairment losses.

e. Lessor accounting

In addition to leasing out the investment property referred to in paragraph d. above, the Group leases out certain property, plant and equipment as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

3 REVENUE

The principal activities of the Group are the design, development, manufacture and sale of plush stuffed toys, plastic figures, die-casting products and ride-on toys. Revenue represents the sales value of goods supplied to customers and excludes value added tax or other sales taxes and is after deduction of any trade discounts. Further details regarding the Group's principal activities are disclosed in note 11.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products lines is as follows:

	Continuing operations		Discontinued operations	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)
Revenue from contracts with customers within the scope of HKFRS 15				
Disaggregated by major products lines				
– Plush stuffed toys	**1,870,502**	1,692,184	**–**	–
– Plastic figures	**1,972,381**	1,774,028	**–**	–
– Die-casting products	**130,578**	–	**–**	–
– Ride-on toys	**–**	–	**18,377**	70,724
	3,973,461	3,466,212	**18,377**	70,724

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in note 11(c).

The Group's customer base is diversified and includes four (2018: four) customers with whom the value of transactions have exceeded 10% (2018: 10%) of the Group's revenues as follows:

	Continuing operations		Discontinued operations	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)
Customer A	**1,372,122**	1,090,464	**–**	–
Customer B	**615,463**	602,612	**–**	–
Customer C	**549,490**	556,190	**–**	–
Customer D	**466,296**	422,543	**–**	–

These transactions are attributable to the plush stuffed toys and plastic figures segments, which arose in Hong Kong, the People's Republic of China (the "PRC"), North America, Japan and Europe.

Details of concentrations of credit risk arising from these customers are set out in note 28(a). Further details regarding the Group's principal activities are disclosed in note 11 to these financial statements.

4 OTHER REVENUE AND NET INCOME/(LOSS)

(a) Other revenue

	Continuing operations		Discontinued operations	
	2019 HK$'000	2018 HK$'000 (Restated)	**2019 HK$'000**	2018 HK$'000 (Restated)
Bank interest income	**10,630**	6,240	**–**	3
Interest income from other financial assets	**288**	391	**–**	–
Sundry income	**13,494**	9,899	**247**	3,339
	24,412	16,530	**247**	3,342

(b) Other net income/(loss)

	Continuing operations		Discontinued operations	
	2019 HK$'000	2018 HK$'000 (Restated)	**2019 HK$'000**	2018 HK$'000 (Restated)
Loss on deregistration of a subsidiary (note 17(a))	**(392)**	–	**–**	–
Net gain/(loss) on disposal of other property, plant and equipment	**508**	(1,463)	**82**	–
Gain on disposal of other intangible assets	**202**	–	**–**	–
Net loss on disposal of other financial assets	**–**	(235)	**–**	–
Impairment loss on other property, plant and equipment (note 14(f))	**–**	–	**–**	(321)
Net foreign exchange gain/(loss)	**5,940**	2,991	**89**	(40)
Others	**(2,424)**	(2,007)	**15**	–
	3,834	(714)	**186**	(361)

5 PROFIT BEFORE TAXATION

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

		Notes	Continuing operations		Discontinued operations	
			2019	2018 (i)	**2019**	2018 (i)
			HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
(a)	***Finance costs***					
	Interest expense on bank loans	22(c)	**3,842**	3,757	**–**	–
	Interest on lease liabilities	22(c)	**2,805**	–	**–**	–
			6,647	3,757	**–**	–
(b)	***Staff costs (iii)***					
	Income recognised in respect of defined benefit retirement plan		**–**	(936)	**–**	–
	Contributions to defined contribution retirement plan		**81,017**	62,565	**325**	1,303
	Total retirement costs		**81,017**	61,629	**325**	1,303
	Salaries, wages and other benefits		**1,017,559**	917,785	**4,826**	26,730
			1,098,576	979,414	**5,151**	28,033
(c)	***Other items***					
	Depreciation charge (iii)	14(a)				
	– owned property, plant and equipment (ii)		**111,904**	89,877	**–**	5,367
	– leasehold land held for own use		**2,417**	2,255	**30**	176
	– right-of-use assets (ii)		**16,157**	–	**–**	–
	Total minimum lease payments for leases previously classified as operating leases under HKAS 17 ((ii) and (iii))		**–**	27,604	**–**	443
	Total minimum lease payments for short-term leases		**8,528**	–	**–**	–
	Reversal of loss allowances of trade receivables	28(a)	**(224)**	(2,940)	**–**	–
	Auditors' remuneration					
	– audit services		**4,829**	3,841	**–**	655
	– other services		**526**	1,051	**–**	–
	Cost of inventories (iii)	20(b)	**3,015,954**	2,722,656	**34,907**	71,275

5 PROFIT BEFORE TAXATION *(Continued)*

Notes:

(i) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

(ii) The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.

(iii) Cost of inventories includes HK$1,024,869,000 (2018: HK$931,965,000) relating to staff costs, depreciation and lease expenses, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	Continuing operations		Discontinued operations	
	2019	2018	**2019**	2018
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Current tax – Hong Kong Profits Tax				
Provision for the year	**42,022**	31,934	**–**	–
Under/(over)-provision in respect of prior years	**7**	(8,829)	**–**	–
	42,029	23,105	**–**	–
Current tax – Outside Hong Kong				
Provision for the year	**55,092**	46,098	**–**	–
Under/(over)-provision in respect of prior years	**2**	(2,046)	**–**	–
	55,094	44,052	**–**	–
Deferred tax				
Origination and reversal of temporary differences (note 26(b))	**(59)**	(2,630)	**–**	–
	97,064	64,527	**–**	–

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(Continued)

(a) Taxation in the consolidated statement of profit or loss represents: *(Continued)*

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for the Company which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For the Company, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated at the same basis in 2018.

Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

The provision for Hong Kong Profits Tax for 2019 is taken into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2018-19 subject to a maximum reduction of HK$20,000 for each business (2018: a maximum reduction of HK$30,000 was granted for the year of assessment 2017-18 and was taken into account in calculating the provision for 2018).

Current tax outside Hong Kong for the year ended 31 December 2019 includes withholding tax of HK$1,133,000 (2018: HK$4,479,000) paid on dividend income from a subsidiary.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(Continued)

(b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	Continuing operations		Discontinued operations	
	2019 HK$'000	2018 HK$'000 (Restated)	**2019 HK$'000**	2018 HK$'000 (Restated)
Profit/(loss) before taxation	**593,693**	392,806	**(18,182)**	(7,754)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profits in the countries concerned	**110,527**	71,124	**(3,000)**	(1,279)
Tax effect of non-deductible expenses	**4,463**	5,983	**3,041**	1,830
Tax effect of non-taxable income	**(7,358)**	(6,180)	**(41)**	(551)
Tax effect of utilisation of previously unrecognised tax losses	**(2,715)**	(72)	**–**	–
Tax effect of unused tax losses not recognised	**161**	13,935	**–**	–
Tax effect of deductible temporary differences not recognised	**239**	723	**–**	–
Statutory tax concession	**(8,520)**	(13,555)	**–**	
Under/(over)-provision in prior years	**9**	(10,875)	**–**	–
Withholding tax paid	**2,205**	2,293	**–**	–
Others	**(1,947)**	1,151	**–**	–
	97,064	64,527	**–**	–

7 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2019 Total HK$'000
Chairman and executive director					
Kyoo Yoon Choi	–	5,374	2,039	–	7,413
Executive directors					
Young M. Lee	–	1,928	659	–	2,587
Hyun Ho Kim	–	1,671	512	–	2,183
Sung Sick Kim	–	1,978	839	–	2,817
Independent non-executive directors					
Cheong Heon Yi	163	–	–	–	163
Tae Woong Kang	151	–	–	–	151
Chan Yoo	139	–	–	–	139
	453	10,951	4,049	–	15,453

7 DIRECTORS' EMOLUMENTS *(Continued)*

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2018 Total HK$'000
Chairman and executive director					
Kyoo Yoon Choi	–	5,740	2,114	–	7,854
Executive directors					
Young M. Lee	–	2,155	675	–	2,830
Hyun Ho Kim	–	2,039	526	–	2,565
Sung Sick Kim	–	1,957	858	–	2,815
Independent non-executive directors					
Cheong Heon Yi	163	–	–	–	163
Tae Woong Kang	147	–	–	–	147
Chan Yoo	136	–	–	–	136
	446	11,891	4,173	–	16,510

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2018: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining two (2018: two) individual are as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other emoluments	**6,947**	7,236
Discretionary bonuses	**–**	–
Retirement scheme contributions	**–**	–
	6,947	7,236

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

The emoluments of the remaining two (2018: two) individual with the highest emoluments are within the following bands:

	2019 No. of individuals	2018 No. of individuals
HK$		
2,500,001 – 3,000,000	1	1
3,000,001 – 3,500,000	–	–
3,500,001 – 4,000,000	–	–
4,000,001 – 4,500,000	1	–
4,500,001 – 5,000,000	–	1

9 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	2019			2018		
	Before-tax amount HK$'000	Tax (expense)/ credit HK$'000	Net-of-tax amount HK$'000	Before-tax amount HK$'000	Tax (expense)/ credit HK$'000	Net-of-tax amount HK$'000
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	(14,772)	–	(14,772)	(6,968)	–	(6,968)
Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary	392	–	392	–	–	–
Remeasurement of net defined benefit retirement obligation	–	–	–	(923)	–	(923)
Debt securities at FVOCI: net movement in fair value reserve (recycling)	164	(36)	128	327	(72)	255
Unlisted equity investment at FVOCI: net movement in fair value reserve (non-recycling)	(852)	187	(665)	(223)	49	(174)
Other comprehensive income	(15,068)	151	(14,917)	(7,787)	(23)	(7,810)

9 OTHER COMPREHENSIVE INCOME *(Continued)*

(b) Components of other comprehensive income, including reclassification adjustments

	2019 HK$'000	2018 HK$'000
Equity investments measured at FVOCI		
Changes in fair value recognised during the year	**(665)**	(174)
Net movement in the fair value reserve (non-recycling) during the year recognised in other comprehensive income	**(665)**	(174)

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$477,469,000 (2018: HK$332,498,000) and the weighted average number of 676,865,000 ordinary shares (2018: 676,865,000 ordinary shares) in issue during the year.

	2019 HK$'000	2018 HK$'000
Profit/(loss) attributable to equity shareholders of the Company arises from:		
– Continuing operations	**490,975**	338,257
– Discontinued operations	**(13,506)**	(5,759)
	477,469	332,498

(b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as there were no dilutive potential ordinary shares in existence during the years ended 31 December 2019 and 2018.

11 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified four (2018: three) reportable segments. No operating segments have been aggregated to form the following reportable segments.

Effective from 1 January 2019, as a re-alignment of business segments for the purposes of reporting to the Group's senior executive management, segment revenue and results from die-casting products were presented as a separate operating segment. Comparative information presented have been adjusted to conform to current year's presentation.

As discussed in note 12, the Group no longer carried on the business of ride-on toys segment. The results of this segment have been classified as discontinued operations of the Group for the year ended 31 December 2019.

– Plush stuffed toys: this segment is involved in the design, development, manufacture and sale of plush stuffed toys. These products are either sourced externally or are manufactured in the Group's manufacturing facilities located primarily in the PRC and Vietnam.

– Plastic figures: this segment is involved in the design, development, manufacture and sale of plastic figures. These products are manufactured in the Group's manufacturing facilities located primarily in the PRC and Vietnam.

– Die-casting products: this segment is involved in the design, development, manufacture and sale of die-casting products. These products are manufactured in the Group's manufacturing facilities located primarily in Vietnam.

– Ride-on toys – discontinued operations: this segment is involved in the design, development, manufacture and sale of ride-on toys. These products are manufactured in Vietnam and sold to customers mainly located in Japan and the United States.

11 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, other intangible assets, goodwill and current assets with the exception of interest in an associate, club memberships, other financial assets, deferred tax assets, current tax recoverable and other corporate assets. Segment liabilities include trade creditors, accruals and lease liabilities attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

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" 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 specially attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning inter-segment sales, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

11 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

	Plush stuffed toys		Plastic figures		Die-casting products		Continuing operations Sub-total		Ride-on toys – discontinued operations		Total	
	2019	2018 (Note)	**2019**	2018 (Note)	**2019**	2018 (Note)	**2019**	2018 (Note)	**2019**	2018 (Note)	**2019**	2018 (Note)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000
Revenue from external customers	**1,870,502**	1,692,184	**1,972,381**	1,774,028	**130,578**	–	**3,973,461**	3,466,212	**18,377**	70,724	**3,991,838**	3,536,936
Inter-segment revenue	**11,100**	36,389	**12,245**	16,473	**64,363**	–	**87,708**	52,862	**–**	1,956	**87,708**	54,818
Reportable segment revenue	**1,881,602**	1,728,573	**1,984,626**	1,790,501	**194,941**	–	**4,061,169**	3,519,074	**18,377**	72,680	**4,079,546**	3,591,754
Reportable segment profit/(loss) (adjusted EBITDA)	**330,967**	232,162	**383,362**	283,916	**36,114**	–	**750,443**	516,078	**(18,117)**	(1,236)	**732,326**	514,842
Bank interest income	**10,487**	6,198	**129**	42	**14**	–	**10,630**	6,240	**–**	3	**10,630**	6,243
Interest expense	**(5,841)**	(3,757)	**(806)**	–	**–**	–	**(6,647)**	(3,757)	**–**	–	**(6,647)**	(3,757)
Depreciation for the year	**(64,129)**	(45,173)	**(53,236)**	(46,959)	**(13,113)**	–	**(130,478)**	(92,132)	**(30)**	(5,543)	**(130,508)**	(97,675)
Impairment loss on other property, plant and equipment	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(321)	**–**	(321)
Reportable segment assets	**1,261,817**	1,185,256	**1,043,586**	1,067,704	**324,556**	–	**2,629,959**	2,252,960	**–**	57,084	**2,629,959**	2,310,044
Additions to non-current segment assets during the year	**65,388**	65,618	**93,616**	138,583	**25,723**	–	**184,727**	204,201	**–**	4,864	**184,727**	209,065
Reportable segment liabilities	**275,676**	238,397	**336,087**	420,458	**328,634**	–	**940,397**	658,855	**–**	178,122	**940,397**	836,977

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

11 SEGMENT REPORTING *(Continued)*

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

	Continuing operations		Discontinued operations	
	2019	2018 (Note)	**2019**	2018 (Note)
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Revenue				
Reportable segment revenue	**4,061,169**	3,519,074	**18,377**	72,680
Elimination of inter-segment revenue	**(87,708)**	(52,862)	**–**	(1,956)
Consolidated revenue (note 3)	**3,973,461**	3,466,212	**18,377**	70,724
Profit				
Reportable segment profit/(loss)	**750,443**	516,078	**(18,117)**	(1,236)
Interest income	**10,918**	6,631	**–**	3
Depreciation	**(130,478)**	(92,132)	**(30)**	(5,543)
Finance costs	**(6,647)**	(3,757)	**–**	–
Impairment loss on other property, plant and equipment	**–**	–	**–**	(321)
Unallocated head office and corporate expenses	**(30,543)**	(34,014)	**(35)**	(657)
Consolidated profit/(loss) before taxation	**593,693**	392,806	**(18,182)**	(7,754)

11 SEGMENT REPORTING *(Continued)*

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

	2019 HK$'000	2018 (Note) HK$'000
Assets		
Reportable segment assets	**2,629,959**	2,310,044
Elimination of inter-segment receivables	**(275,834)**	(244,853)
	2,354,125	2,065,191
Interest in an associate	**7,360**	–
Club memberships	**6,063**	7,046
Other financial assets	**4,583**	5,843
Deferred tax assets	**5,767**	4,511
Current tax recoverable	**86**	206
Unallocated head office and corporate assets	**883,225**	654,318
Consolidated total assets	**3,261,209**	2,737,115
Liabilities		
Reportable segment liabilities	**940,397**	836,977
Elimination of inter-segment payables	**(275,834)**	(244,853)
	664,563	592,124
Deferred tax liabilities	**9,692**	8,627
Current tax payable	**97,121**	44,046
Unallocated head office and corporate liabilities	**125,335**	116,895
Consolidated total liabilities	**896,711**	761,692

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

11 SEGMENT REPORTING *(Continued)*

(c) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, other property, plant and equipment, other intangible assets, goodwill and interest in an associate ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of investment properties and other property, plant and equipment, the location of the operation to which they are allocated in the case of other intangible assets, prepayments for leasehold land and other property, plant and equipment and goodwill, and the location of operations, in the case of interest in an associate.

	Revenue from external customers			
	Continuing operations		Discontinued operations	
	2019 HK$'000	2018 HK$'000 (Restated)	**2019 HK$'000**	2018 HK$'000 (Restated)
Hong Kong (place of domicile)	**82,389**	52,450	**–**	–
North America	**2,531,539**	2,228,938	**18,377**	51,109
Japan	**805,722**	715,478	**–**	11,869
Europe	**247,845**	182,496	**–**	–
The PRC	**162,448**	144,932	**–**	–
Vietnam	**94,007**	60,489	**–**	–
Korea	**41,111**	78,015	**–**	7,590
Other countries	**8,400**	3,414	**–**	156
	3,891,072	3,413,762	**18,377**	70,724
	3,973,461	3,466,212	**18,377**	70,724

11 SEGMENT REPORTING *(Continued)*

	Specified non-current assets	
	2019	2018
		(Note)
	HK$'000	HK$'000
Hong Kong (place of domicile)	**225,670**	229,064
North America	**4,379**	434
Japan	**6,147**	3,310
The PRC	**56,552**	59,139
Vietnam	**996,673**	894,237
Korea	**6,790**	5,647
	1,070,541	962,767
	1,296,211	1,191,831

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

12 DISCONTINUED OPERATIONS

During the year ended 31 December 2019, the Group ceased the operations and scrapped all of the plant and equipment, with full impairment loss made as at 31 December 2018, of the ride-on toys segment. As the ride-on toys segment is considered as a separate major line of business, the corresponding operations have been classified as discontinued operations as a result of the cessation of operations of this segment.

As at 31 December 2019, no assets or liabilities of the ride-on toys segment were held by the Group.

12 DISCONTINUED OPERATIONS *(Continued)*

The result of the discontinued operations for the year ended 31 December 2019 is set out below:

	2019 HK$'000	2018 HK$'000
Revenue	**18,377**	70,724
Cost of sales	**(34,907)**	(71,275)
Gross loss	**(16,530)**	(551)
Other revenue	**247**	3,342
Other net income/(loss)	**186**	(361)
Distribution costs	**(323)**	(2,989)
Administrative expenses	**(1,762)**	(7,195)
Loss before taxation	**(18,182)**	(7,754)
Income tax	**–**	–
Loss for the year from discontinued operations	**(18,182)**	(7,754)
Attributable to:		
Equity shareholders of the Company	**(13,506)**	(5,759)
Non-controlling interests	**(4,676)**	(1,995)
	(18,182)	(7,754)
Cash flow		
Operating cash outflows	**(8,423)**	(4,573)
Investing cash inflows/(outflows)	**82**	(2,551)
Net cash outflows	**(8,341)**	(7,124)

13 LONG TERM RECEIVABLES AND PREPAYMENTS

	2019	2018
	HK$'000	HK$'000
Loans to a supplier (note 13(a))	**2,826**	2,841
Prepayments (note 13(b))	**31,671**	16,756
Other receivables	**–**	3,493
	34,497	23,090

(a) Loans to a supplier bear interest at 6.5% per annum (2018: 6.5% per annum) and are repayable in 2022. Loans amounting to HK$2,826,000 (2018: HK$2,841,000) are guaranteed by the parent company of the supplier.

(b) The prepayments relate to the purchase of leasehold land and other property, plant and equipment.

14 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Freehold land and buildings HK$'000	Interests in leasehold land held for own use HK$'000	Other properties leased for own use carried at cost HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Sub-total HK$'000	Investment properties HK$'000	Total HK$'000
Cost:											
At 1 January 2018	500,924	105,680	–	10,242	413,855	40,837	17,106	47,431	1,136,075	1,553	1,137,628
Exchange adjustments	(1,230)	(175)	–	(1,507)	(1,028)	(180)	(190)	130	(4,180)	(78)	(4,258)
Additions	279,151	11,937	–	9,358	85,269	24,306	1,834	19,740	431,595	–	431,595
Disposals	(200)	–	–	(4,765)	(11,876)	(1,876)	(1,851)	–	(20,568)	–	(20,568)
Transfers	40,705	–	–	–	–	–	–	(44,282)	(3,577)	3,577	–
At 31 December 2018	819,350	117,442	–	13,328	486,220	63,087	16,899	23,019	1,539,345	5,052	1,544,397
Impacts on initial application of HKFRS 16 (Note)	–	–	30,683	–	–	–	–	–	30,683	–	30,683
At 1 January 2019	819,350	117,442	30,683	13,328	486,220	63,087	16,899	23,019	1,570,028	5,052	1,575,080
Exchange adjustments	(4,842)	(855)	(307)	(115)	(3,492)	(573)	(212)	1,281	(9,115)	407	(8,708)
Additions	10,200	17,911	16,876	404	66,738	5,456	2,733	71,642	191,960	–	191,960
Disposals	(72)	–	–	(446)	(6,875)	(106)	(2,560)	–	(10,059)	–	(10,059)
Transfers	43,884	–	–	–	3,246	145	–	(47,275)	–	–	–
At 31 December 2019	868,520	134,498	47,252	13,171	545,837	68,009	16,860	48,667	1,742,814	5,459	1,748,273
Accumulated depreciation and impairment loss:											
At 1 January 2018	50,119	7,774	–	7,564	206,519	17,530	9,002	–	298,508	281	298,789
Exchange adjustments	(248)	(13)	–	(1,344)	(1,045)	(218)	(128)	–	(2,996)	(19)	(3,015)
Charge for the year	30,684	2,431	–	2,318	49,872	9,878	2,335	–	97,518	157	97,675
Written back on disposals	(7)	–	–	(3,422)	(11,780)	(1,635)	(1,656)	–	(18,500)	–	(18,500)
Transfers	(733)	–	–	–	–	–	–	–	(733)	733	–
Impairment loss (note 14(f))	–	–	–	–	321	–	–	–	321	–	321
At 31 December 2018	79,815	10,192	–	5,116	243,887	25,555	9,553	–	374,118	1,152	375,270
At 1 January 2019	79,815	10,192	–	5,116	243,887	25,555	9,553	–	374,118	1,152	375,270
Exchange adjustments	(841)	(83)	(93)	(97)	(2,568)	(336)	(156)	–	(4,174)	254	(3,920)
Charge for the year	37,902	2,447	16,157	3,648	59,986	7,864	2,432	–	130,436	72	130,508
Written back on disposals	(72)	–	–	(82)	(6,022)	(120)	(2,289)	–	(8,585)	–	(8,585)
Transfers	–	–	–	–	–	–	–	–	–	–	–
At 31 December 2019	116,804	12,556	16,064	8,585	295,283	32,963	9,540	–	491,795	1,478	493,273
Net book value:											
At 31 December 2019	751,716	121,942	31,188	4,586	250,554	35,046	7,320	48,667	1,251,019	3,981	1,255,000
At 31 December 2018	739,535	107,250	–	8,212	242,333	37,532	7,346	23,019	1,165,227	3,900	1,169,127

14 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Reconciliation of carrying amount *(Continued)*

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 2.

(b) The carrying amount and fair value of the Group's investment properties and the level of fair value hierarchy (as defined in note 28(e)) at 31 December 2019 and 2018 are disclosed below:

(i) Fair value hierarchy

	Carrying amount at 31 December 2019 HK$'000	Fair value at 31 December 2019 HK$'000	Fair value measurement as at 31 December 2019 categorised into		
			Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurement					
Investment properties					
– the PRC	**1,227**	**2,246**	**–**	**–**	**2,246**
– Vietnam	**2,754**	**2,841**	**–**	**–**	**2,841**

	Carrying amount at 31 December 2018 HK$'000	Fair value at 31 December 2018 HK$'000	Fair value measurement as at 31 December 2018 categorised into		
			Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurement					
Investment properties					
– the PRC	1,058	1,626	–	–	1,626
– Vietnam	2,842	2,850	–	–	2,850

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

14 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) The carrying amount and fair value of the Group's investment properties and the level of fair value hierarchy (as defined in note 28(e)) at 31 December 2019 and 2018 are disclosed below: *(Continued)*

(i) Fair value hierarchy *(Continued)*

For the fair value of an investment property in the PRC as at 31 December 2019, the Group has engaged independent firm of surveyor, Roma Appraisals Limited who has among their staff fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of the property being valued, to value its investment property. The Group's management has discussion with the surveyor on the valuation assumptions and valuation results when the valuation is performed at the end of the reporting period.

For the fair value of an investment property in Vietnam as at 31 December 2019, the Group determined the fair value using depreciated replacement cost approach by considering the cost to reproduce or replace in new condition the investment property appraised in accordance with current construction costs for similar properties in the locality.

For the fair value of investment properties in Vietnam and the PRC as at 31 December 2018, the Group engaged independent firms of surveyors, Roma Appraisals Limited and CBRE (Vietnam) Co., Ltd who have among their staff fellows of the Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors ("RICS") respectively with recent experience in the locations and categories of properties being valued, to value its investment properties.

The Group's management has discussion with the surveyor on the valuation assumptions and valuation results when the valuation is performed at the end of the reporting period.

(ii) Information about Level 3 fair value measurements

	Valuation technique	Unobservable input	Amount
Investment properties			
– The PRC	Depreciated replacement cost approach	Adjusted replacement cost per sq. m.	RMB562 (2018: RMB525)
– Vietnam	Depreciated replacement cost approach	Adjusted replacement cost per sq. m.	USD166 (2018: USD155)

The fair values of the investment properties are determined using depreciated replacement cost approach by considering the cost to reproduce or replace in new condition the investment properties appraised in accordance with current construction costs for similar properties in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence percent, whether arising from physical, functional or economic causes.

14 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(c) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Notes	**31 December 2019 HK$'000**	1 January 2019 HK$'000
Interests in leasehold land held for own use, carried at depreciated cost, with remaining lease term of:			
– between 10 and 50 years	(i)	**121,942**	107,250
Other properties leased for own use, carried at depreciated cost	(ii)	**31,188**	30,683
		153,130	137,933

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 HK$'000	2018 (Note) HK$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Interests in leasehold land held for own use	**2,447**	2,431
Other properties leased for own use	**16,157**	–
	18,604	2,431
Interest expense on lease liabilities (note 5(a))	**2,805**	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**8,528**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	28,047

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.

14 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(c) Right-of-use assets *(Continued)*

During the year, additions to right-of-use assets were HK$34,787,000. This amount included the purchase of a leasehold property of HK$17,911,000 (2018: HK$11,937,000), and the remaining primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 22(d) and 25, respectively.

(i) Interests in leasehold land held for own use

The Group holds several plants, where its manufacturing are primarily located. The Group is the registered owner of these property interests. There are no lump sum or ongoing payments to be made under the terms of the land lease other than payments made based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(ii) Other properties leased for own use

The Group has obtained the right to use other properties through tenancy agreements. The leases typically run for an initial period of 2 to 5 years.

(d) Pledged assets

Certain leasehold land and other property, plant and equipment of the Group with an aggregate carrying amount of HK$17,448,000 (2018: HK$17,726,000) as at 31 December 2019 were pledged as security for an unutilised banking facility of the Group of HK$11,682,000 (2018: HK$11,749,000).

A property of the Group with an aggregate carrying amount of HK$214,515,000 (2018: HK$222,109,000) as at 31 December 2019 was pledged as security for a mortgage instalment loan of the Group of HK$70,714,000 (2018: HK$77,785,000).

Factory buildings of the Group with an aggregate carrying amount of HK$81,558,000 (2018: HK$Nil) as at 31 December 2019 was pledged as security for a bank loan of the Group of HK$40,718,000 (2018: HK$Nil).

14 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(e) Assets leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two years, with an option to renew the lease after the date at which time all terms are renegotiated. None of the leases includes variable lease payments.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property. Total future minimum lease payments under non-cancellable operating leases had been received in advance.

(f) Impairment loss

The ride-on toys segment – discontinued operations engaged in the design, development, manufacture and sale of ride-on toys, which is considered to be a separate cash generating unit of the Group.

During the year ended 31 December 2018, in view of the loss sustained by the ride-on toys segment, management decided to cease its operations in 2019. As a result, management considered indicators of impairment of the leasehold land and buildings and other property, plant and equipment associated with this segment existed at 31 December 2018 and performed an impairment assessment thereon. Having considered the physical conditions of the plant and equipment, management planned to scrap such assets on cessation of the ride-on toys segment and accordingly made a full impairment loss of HK$321,000 at the reporting date, which was recognised as "other net loss" in the consolidated statement of profit or loss for the year ended 31 December 2018.

In respect of the ride-on toys segment's leasehold land and buildings amounting to HK$21,546,000 as at 31 December 2018, management performed an impairment assessment by reference to its fair value less costs of disposal in order to determine the amount of impairment which should be recognised for the year, using market comparison approach by referencing to recent sales price of similar leasehold land and buildings, adjusted for difference between the comparable and subject property. The recoverable amounts of the leasehold land and buildings were higher than the carrying amounts and therefore, no impairment was considered necessary.

15 OTHER INTANGIBLE ASSETS

	Club memberships HK$'000	Patent HK$'000	Total HK$'000
Cost:			
At 1 January 2018	12,944	3,382	16,326
Exchange adjustment	(409)	–	(409)
At 31 December 2018	12,535	3,382	15,917
At 1 January 2019	12,535	3,382	15,917
Disposals	(1,009)	–	(1,009)
Exchange adjustment	(344)	–	(344)
At 31 December 2019	11,182	3,382	14,564
Accumulated amortisation and impairment losses:			
At 1 January 2018	5,689	3,382	9,071
Exchange adjustment	(200)	–	(200)
At 31 December 2018	5,489	3,382	8,871
At 1 January 2019	5,489	3,382	8,871
Written back on disposal	(202)	–	(202)
Exchange adjustment	(168)	–	(168)
At 31 December 2019	5,119	3,382	8,501
Net book value:			
At 31 December 2019	6,063	–	6,063
At 31 December 2018	7,046	–	7,046

15 OTHER INTANGIBLE ASSETS *(Continued)*

Club memberships of the Group were assessed to have indefinite useful lives during the years ended 31 December 2019 and 2018 and, accordingly, no amortisation was charged.

The Group assessed the recoverable amounts of club memberships as at 31 December 2019 and 2018. The estimates of recoverable amount are based on the club memberships' fair values less costs of disposal, using market comparison approach by reference to recent sales price of similar assets. The fair values on which the recoverable amounts are based on are categorised as a level 2 measurement. The fair values of club memberships in Level 2 are mainly determined by prices for identical or similar assets in the market.

16 GOODWILL

	HK$'000
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	2,753

During the year ended 31 December 2012, the Group acquired 100% equity interest in JM Mekong Co., Ltd ("JM Mekong") in Vietnam, for a cash consideration of US$386,000 (equivalent to approximately HK$3,000,000). JM Mekong is principally engaged in the manufacturing of plush stuffed toys. The goodwill represented the cash consideration over the fair value of identifiable assets and liabilities acquired of HK$247,000. The goodwill is attributable to the economies of scale expected from combining the operations of the Group and the acquired businesses.

The fair values of the assets and liabilities of JM Mekong as at the date of acquisition were based on management's estimation.

In accordance with the accounting policies set out in notes 1(e) and (k)(ii), the carrying value of goodwill was tested for impairment and no impairment was considered necessary as at 31 December 2019 and 2018.

(Expressed in Hong Kong dollars unless otherwise indicated)

17 INTEREST IN SUBSIDIARIES

The following list contains the particulars of subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ registration and operation	Particulars of issued/registered and paid up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Dream International USA, Inc.	United States of America	Registered and paid up capital of US$1,000,000	100%	100%	–	Trading of plush stuffed toys
J.Y. International Company Limited	Hong Kong	3,500,000 shares	100%	100%	–	Trading of plush stuffed toys and investment holding
C & H Trading (Suzhou) Co., Ltd#	The PRC	Registered and paid up capital of US$7,200,000 (2018: Registered and paid up capital of US$9,200,000)	100%	100%	–	Trading of plush stuffed toys and investment holding
Dream Inko Co., Ltd	Korea	Registered and paid up capital of KRW100,000,000	100%	–	100%	Design, development and trading of plush stuffed toys and investment holding
Dream Vina Co., Ltd	Vietnam	Registered and paid up capital of US$12,764,827	100%	60.83%	39.17%	Manufacture of plush stuffed toys
Dream Textile Co., Ltd	Vietnam	Registered and paid up capital of US$5,500,000	100%	100%	–	Manufacture of fabrics and dyeing
Dream Mekong Co., Ltd	Vietnam	Registered and paid up capital of US$5,000,000	100%	–	100%	Manufacture of plush stuffed toys and investment holding
Dream Plastic Co., Ltd	Vietnam	Registered and paid up capital of US$13,500,000	100%	100%	–	Manufacture of plastic figures and investment holding
C & H HK Corp., Ltd	Hong Kong	10,500,002 shares	74.29%	74.29%	–	Trading of ride-on toys, plastic figures and investment holding
C & H Toys (Mingguang) Co., Ltd#	The PRC	Registered and paid up capital of US$1,000,000	100%	100%	–	Manufacture of plush stuffed toys
C & H Toys (Chaohu) Co., Ltd*	The PRC	Registered and paid up capital of US$8,000,000	100%	–	100%	Manufacture of plush stuffed toys
Shenzhen C & H Plastic & Hardware Co., Ltd*	The PRC	Registered and paid up capital of RMB2,200,000	100%	–	100%	Manufacture of plastic figures
JM Mekong Co., Ltd	Vietnam	Registered and paid up capital of US$675,437	100%	–	100%	Manufacture of plush stuffed toys
Dream Lingshan Co., Ltd*	The PRC	Registered and paid up capital of RMB1,800,000	100%	–	100%	Manufacture of plush stuffed toys
J.Y. Hanam Co., Ltd	Vietnam	Registered and paid up capital of VND107,000,000,000	100%	–	100%	Manufacture of plush stuffed toys

(Expressed in Hong Kong dollars unless otherwise indicated)

17 INTEREST IN SUBSIDIARIES *(Continued)*

			Proportion of ownership interest			
Name of company	Place of incorporation/ registration and operation	Particulars of issued/registered and paid up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
J.Y. Vina Co., Ltd	Vietnam	Registered and paid up capital of VND105,850,000,000	100%	–	100%	Manufacture of plush stuffed toys
J.Y. Plasteel Vina Co., Ltd	Vietnam	Registered and paid up capital of US$7,000,000 (2018: Registered and paid up capital of US$3,500,000)	74.29%	–	100%	Manufacture of die-casting products and plastic figures
J.Y. Plastic Co., Ltd	Vietnam	Registered and paid up capital of US$4,000,000	100%	–	100%	Manufacture of plastic figures
C & H Toys (Shuyang) Co., Ltd*	The PRC	Registered and paid up capital of RMB5,000,000	100%	–	100%	Manufacture of plush stuffed toys
Dream Printing & Package Co., Ltd	Vietnam	Registered capital of US$3,000,000 and paid up capital of US$2,000,000	100%	–	100%	Manufacture of business color box and printing products
Dream Plastic Nam Dinh Co., Ltd	Vietnam	Registered and paid up capital of US$15,500,000 (2018: Registered capital of US$12,500,000 and paid up capital of US$6,400,000)	100%	–	100%	Manufacture of plastic figures
C & H Trading (Shenzhen) Co., Ltd*	The PRC	Registered and paid up capital of US$1,500,000	100%	–	100%	Manufacture of plush stuffed toys
Dream International SG Pte. Ltd	Singapore	Registered and paid up capital of US$1,000,000	100%	100%	–	Trading of plush stuffed toys
Dream An Giang Co., Ltd	Vietnam	Registered and paid up capital of US$5,000,000	100%	–	100%	Manufacture of plush stuffed toys
Dream Plastic Ninh Binh Co., Ltd	Vietnam	Registered and paid up capital of US$8,000,000	100%	100%	–	Manufacture of plush stuffed toys
J.Y Toys Co., Ltd.	Hong Kong	Registered and paid up capital of US$1,500,000	100%	100%	–	Inactive

These are wholly-owned foreign investment enterprises registered in the PRC.

* These are wholly domestic-owned enterprises under PRC law.

The subsidiaries of the Group do not have material non-controlling interests.

17 INTEREST IN SUBSIDIARIES *(Continued)*

(a) Deregistration of a subsidiary

During the year ended 31 December 2019, Dream Shenzhen Co., Ltd., a wholly-owned subsidiary of the Group, was deregistered and a one-off non-cash loss of HK$392,000 arising from the release of exchange reserve upon deregistration was recognised in profit or loss.

18 INTEREST IN AN ASSOCIATE

The following list contains the particulars of an associate, which is an unlisted corporate entity whose quoted market price is not available:

				Proportion of ownership interest			
Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the company	Held by a subsidiary	Principal activity
HH Dream Printing Co., Ltd.	Incorporated	Vietnam	950,000 ordinary shares of US$1 each	9.5%	9.5%	–	Manufacture of business colour book and printing products

Note 1: The investment in HH Dream Printing Co., Ltd. ("HH Dream") enables the Group to have exposure to achieve synergies in saving cost of packaging.

The Group holds a 9.5% ownership interest in HH Dream. The investment in HH Dream is classified as an interest in an associate as the Group can exercise significant influence over HH Dream by virtue of its contractual right to appoint one out of three directors to the board of directors of HH Dream and has the power to participate in the key financial and operating decisions of HH Dream. As a result, the investment is accounted for using the equity method in the consolidated financial statements.

The associate is considered to be not individually material to the Group. Summarised information of the associate is disclosed below:

	2019 HK$'000
Carrying amount in the consolidated financial statements	7,360

HH Dream has not commenced operations as at 31 December 2019.

19 OTHER FINANCIAL ASSETS

	2019 HK$'000	2018 HK$'000
Debt securities measured at FVOCI (recycling) (note (i))	**1,609**	1,538
Unlisted equity security measured at FVOCI (non-recycling) (note (ii))	**2,974**	4,305
	4,583	5,843

Notes:

(i) Debt securities represent an investment in bond amounting to HK$1,609,000 (2018: HK$1,538,000) with fixed interest rate at 3.95% (2018: 3.95%) per annum.

(ii) Unlisted equity security represents an investment in Joongang Tongyang Broadcasting Company ("JTBC"), a company incorporated in Korea and engaged in multimedia and broadcasting. The Group designated its investment in JTBC at FVOCI (non-recycling), as the investment is held for strategic purpose. No dividends were received on this investment during the year (2018: HK$Nil).

20 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2019 HK$'000	2018 HK$'000
Raw materials	**198,936**	145,819
Work in progress	**201,724**	177,551
Finished goods	**193,881**	135,840
	594,541	459,210

20 INVENTORIES *(Continued)*

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2019 HK$'000	2018 HK$'000
Carrying amount of inventories sold	**3,051,294**	2,779,303
Write-down of inventories	**10,889**	15,154
Reversal of write-down of inventories	**(11,322)**	(526)
	3,050,861	2,793,931

The reversal of write-down of inventories made in prior years arose upon utilisation, disposal or an increase in the estimated net realisable value of these inventories.

21 TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade debtors and bills receivable, net of loss allowance	**543,719**	486,097
Other receivables and prepayments	**112,647**	128,932
Loan to an associate	**4,080**	–
Amounts due from related companies	**21,403**	18,092
	681,849	633,121

The amount of the Group's other receivables and prepayments expected to be recovered or recognised as expense after more than one year is HK$2,460,000 (2018: HK$651,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

As at 31 December 2019, loan to an associate of HK$4,080,000 (2018: HK$Nil) is unsecured, interest-bearing at 5% (2018: HK$Nil) per annum and recoverable within one year.

Included in amounts due from related companies, HK$4,046,000 (2018: HK$6,138,000) is non-trade related and HK$17,357,000 (2018: HK$11,954,000) is trade related. All of the amounts due from related companies are unsecured, interest-free and recoverable within one year.

21 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

As at 31 December 2019, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date or date of revenue recognition, if earlier and net of loss allowance, is as follows:

	2019 HK$'000	2018 HK$'000
Within 1 month	**329,468**	277,047
1 to 2 months	**171,169**	156,745
2 to 3 months	**30,939**	31,091
3 to 4 months	**8,765**	18,914
Over 4 months	**3,378**	2,300
	543,719	486,097

Trade debtors and bills receivable are due within 30 to 60 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 28(a).

22 CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

(a) Cash and cash equivalents and time deposits comprise:

	2019 HK$'000	2018 HK$'000
Bank deposits within three months to maturity when placed	**112,807**	65,747
Cash at bank and on hand	**470,256**	312,756
Cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow statement	**583,063**	378,503
Time deposits with more than three months to maturity when placed	**85,647**	53,705
	668,710	432,208

Included in the balance of cash and cash equivalents and time deposits with more than three months to maturity when placed is an amount of approximately HK$79,670,000 (2018: HK$101,564,000) representing deposits placed with banks in the PRC by the Group. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

22 CASH AND CASH EQUIVALENTS AND TIME DEPOSITS *(Continued)*

(b) Reconciliation of profit before taxation to cash generated from operations:

	Notes	2019 HK$'000	2018 (Note) HK$'000
Profit before taxation		**575,511**	385,052
Adjustments for:			
Bank interest income	4(a)	**(10,630)**	(6,243)
Interest income from other financial assets	4(a)	**(288)**	(391)
Loss on deregistration of a subsidiary	17(a)	**392**	–
Net (gain)/loss on disposal of other property, plant and equipment	4(b)	**(590)**	1,463
Gain on disposal of other intangible assets	4(b)	**(202)**	–
Net loss on disposal of other financial assets	4(b)	**–**	235
Impairment loss on other property, plant and equipment	4(b)	**–**	321
Finance costs	5(a)	**6,647**	3,757
Depreciation	5(c)	**130,508**	97,675
Reversal of loss allowances of trade receivables	5(c)	**(224)**	(2,940)
Foreign exchange gain		**(3,756)**	(2,557)
Changes in working capital:			
Increase in inventories		**(140,053)**	(138,280)
(Increase)/decrease in trade and other receivables		**(52,832)**	17,023
(Increase)/decrease in long term receivables and prepayments		**(2,752)**	380
Decrease in net defined benefit retirement obligation		**–**	(2,398)
Increase in trade and other payables and contract liabilities		**51,577**	123,563
Cash generated from operations		**553,308**	476,660

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of HK$28,047,000 were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 22(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

22 CASH AND CASH EQUIVALENTS AND TIME DEPOSITS *(Continued)*

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loan HK$'000 (Note 24)	Lease liabilities HK$'000 (Note 25)	Total HK$'000
At 31 December 2018	116,895	–	116,895
Impact of initial application of HKFRS 16 (note)	–	28,501	28,501
At 1 January 2019	116,895	28,501	145,396
Changes from financing cash flows:			
Interest paid	(3,842)	–	(3,842)
Proceeds from new bank loans	217,637	–	217,637
Repayment of bank loans	(208,848)	–	(208,848)
Capital elements of lease rentals paid	–	(13,114)	(13,114)
Interest elements of lease rentals paid	–	(2,805)	(2,805)
Total changes from financing cash flows	4,947	(15,919)	(10,972)
Other changes:			
Increase in lease liabilities from entering into new leases during the year	–	13,401	13,401
Interest expenses (note 5(a))	3,842	2,805	6,647
Exchange difference	(350)	(859)	(1,209)
Total other changes	3,492	15,347	18,839
At 31 December 2019	125,334	27,929	153,263
At 1 January 2018	15,621	–	15,621
Changes from financing cash flows:			
Interest paid	(3,757)	–	(3,757)
Proceeds from new bank loans	122,290	–	122,290
Repayment of bank loans	(21,016)	–	(21,016)
Total changes from financing cash flows	97,517	–	97,517
Other change:			
Interest expenses (note 5(a))	3,757	–	3,757
Total other change	3,757	–	3,757
At 31 December 2018	116,895	–	116,895

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 2 and 22(b).

22 CASH AND CASH EQUIVALENTS AND TIME DEPOSITS *(Continued)*

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 HK$'000	2018 (Note) HK$'000
Within operating cash flows	8,528	28,047
Within investing cash flows	17,911	11,937
Within financing cash flows	15,919	–
	42,358	39,984

Note: As explained in the note to note 22(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 HK$'000	2018 HK$'000
Lease rentals paid	24,447	28,047
Purchase of leasehold property	17,911	11,937
	42,358	39,984

23 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Trade payables	411,510	387,453
Contract liabilities – sales deposit	24,055	8,440
Salary and welfare payables	154,935	143,241
Value-added tax payable	3,150	4,778
Payable for acquisition of other property, plant and equipment	–	1,285
Other payables and accrual	15,137	18,285
Receipt in advance	27,848	28,642
	636,635	592,124

23 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES *(Continued)*

(a) Trade and other payables

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

As at 31 December 2019, the ageing analysis of trade payables, based on the due dates is as follows:

	2019 **HK$'000**	2018 HK$'000
Due within 1 month or on demand	**325,091**	250,005
Due after 1 month but within 3 months	**83,805**	137,310
Due after 3 months but within 6 months	**2,614**	138
	411,510	387,453

(b) Contract liabilities

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

The Group receives 50% of the contract value as a deposit from certain customers when they place sales orders. This deposit is recognised as a contract liability – sales deposit until the sales transactions are completed. The rest of the consideration is typically paid when sales transaction is completed.

	2019 **HK$'000**	2018 HK$'000
Movements in contract liabilities		
Balance at 1 January	**8,440**	1,717
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(8,440)**	(1,717)
Increase in contract liabilities as a result of advance received from customers during the year in respect of sales transactions not completed as at year end	**24,055**	8,440
Balance at 31 December	**24,055**	8,440

No contract liabilities – sales deposit is expected to be recognised as income after more than one year as at 31 December 2019 and 2018.

24 BANK LOANS

At 31 December 2019, the bank loans were repayable as follows:

	2019 HK$'000	2018 HK$'000
Within 1 year or on demand	**125,334**	116,895

At 31 December 2019, the bank loans were secured as follows:

	2019 HK$'000	2018 HK$'000
Bank loans		
– Secured	**117,938**	77,785
– Unsecured	**7,396**	39,110
	125,334	116,895

All of the interest-bearing borrowings are carried at amortised cost and are expected to be settled within one year.

As at 31 December 2019, mortgage instalment loan of HK$70,714,000 (2018: HK$77,785,000) was secured by mortgage over a property of the Group with an aggregate carrying amount of HK$214,515,000 (2018: HK$222,109,000). It is interest-bearing at a rate of 0.88% over HIBOR or lender's prime rate minus 2.3% (2018: 1.0% per annum over HIBOR or lender's prime rate minus 2.25%), whichever is lower and 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 consolidated statement of financial position as at 31 December 2019 and 2018.

As at 31 December 2019, bank loan of HK$40,718,000 (2018: HK$Nil) was secured by factory buildings of the Group with an aggregate amount of HK$81,558,000 (2018: HK$Nil). It is interest-bearing at a rate of 2.9% to 3.1% specified at each withdrawal and repayable within one year.

As at 31 December 2019, bank loan of HK$6,506,000 (2018: HK$Nil) was secured by bank deposits of the Group with an aggregate amount of HK$6,728,000 (2018: HK$Nil). It is interest-bearing at a rate of 3.2% to 3.3% specified at each withdrawal and repayable within one year.

As at 31 December 2019, an unutilised banking facility of HK$Nil (2018: HK$6,990,000) was guaranteed by the Group's related company, C & H Co., Ltd ("C & H").

As at 31 December 2019 and 2018, the Group's banking facilities were not subject to the fulfilment of financial covenants.

(Expressed in Hong Kong dollars unless otherwise indicated)

25 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current reporting period and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (Note)	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**13,459**	**14,501**	8,453	9,216
After 1 year but within 2 years	**4,102**	**4,676**	6,789	7,382
After 2 years but within 5 years	**4,285**	**6,096**	6,861	8,327
After 5 years	**6,083**	**33,040**	6,398	35,421
	14,470	**43,812**	20,048	51,130
	27,929	**58,313**	28,501	60,346
Less: total future interest expenses		**(30,384)**		(31,845)
Present value of lease liabilities		**27,929**		28,501

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2019 HK$'000	2018 HK$'000
Hong Kong Profits Tax		
Provision for the year	**42,022**	31,934
Provisional Profits Tax paid	**–**	(26,709)
	42,022	5,225
Balance of Profits Tax Provision relating to prior years	**5,232**	–
	47,254	5,225
Outside Hong Kong		
Tax recoverable	**(86)**	(206)
Tax payable	**49,867**	38,821
	97,035	43,840
Representing:		
Current tax recoverable	**(86)**	(206)
Current tax payable	**97,121**	44,046
	97,035	43,840

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Depreciation allowances in excess of the related depreciation HK$'000	Defined benefit retirement plan liability HK$'000	Provisions HK$'000	Revaluation of other financial assets HK$'000	Undistributed profits of a foreign subsidiary HK$'000	Others HK$'000	Total HK$'000
At 1 January 2018	1,056	1,825	(4,091)	(1,772)	8,271	1,566	6,855
(Credited)/charged to profit or loss (note 6(a))	(276)	(1,777)	1,731	(48)	(2,186)	(74)	(2,630)
Charged to reserves (note 9)	–	–	–	23	–	–	23
Exchange adjustments	(3)	(48)	26	(107)	–	–	(132)
At 31 December 2018	777	–	(2,334)	(1,904)	6,085	1,492	4,116
At 1 January 2019	777	–	(2,334)	(1,904)	6,085	1,492	4,116
(Credited)/charged to profit or loss (note 6(a))	(666)	–	(530)	–	1,072	65	(59)
Credited to reserves (note 9)	–	–	–	(151)	–	–	(151)
Exchange adjustments	(1)	–	34	(4)	–	(10)	19
At 31 December 2019	110	–	(2,830)	(2,059)	7,157	1,547	3,925

(ii) Reconciliation to the consolidated statement of financial position:

	2019 HK$'000	2018 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**(5,767)**	(4,511)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**9,692**	8,627
	3,925	4,116

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$99,038,000 (2018: HK$110,793,000) and other deductible temporary differences of HK$Nil (2018: HK$321,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Tax losses amounting to HK$11,285,000 (2018: HK$11,285,000) do not expire under current tax legislation, while the remaining tax losses amounting to HK$87,753,000 (2018: HK$99,508,000) expire at various dates up to and including 2024 (2018: 2023) as follows:

	2019 **HK$'000**	2018 HK$'000
2019	**–**	108
2020	**4,812**	10,445
2021	**8,653**	12,163
2022	**8,236**	8,289
2023	**64,415**	68,503
2024	**1,637**	–
	87,753	99,508
No expiry date	**11,285**	11,285
	99,038	110,793

(d) Deferred tax liabilities not recognised

At 31 December 2019, the undistributed profits of subsidiaries based in the PRC and Korea amounted to HK$97,512,000 (2018: HK$111,247,000) and HK$71,578,000 (2018: HK$60,843,000) respectively. Deferred tax liabilities of HK$4,876,000 (2018: HK$5,562,000) relating to the undistributed profits of the PRC subsidiaries have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018		236,474	773,272	1,009,746
Changes in equity for 2018:				
Dividends approved in respect of the previous year	27(b)	–	(20,306)	(20,306)
Dividends declared in respect of the current year	27(b)	–	(6,769)	(6,769)
Total comprehensive income for the year		–	136,086	136,086
At 31 December 2018 and 1 January 2019	33	236,474	882,283	1,118,757
Changes in equity for 2019:				
Dividends approved in respect of the previous year	27(b)	–	(54,149)	(54,149)
Dividends declared in respect of the current year	27(b)	–	(20,306)	(20,306)
Total comprehensive income for the year		–	219,132	219,132
At 31 December 2019	33	236,474	1,026,960	1,263,434

Note: The Group, including the Company, has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See note 2 and 33.

27 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

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

	2019 **HK$'000**	2018 HK$'000
Interim dividend declared and paid of HK3 cents per ordinary share (2018: HK1 cent per ordinary share)	**20,306**	6,769
Final dividend proposed after the end of the reporting period of HK10 cents per ordinary share (2018: HK8 cents per ordinary share)	**67,687**	54,149
	87,993	60,918

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

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

	2019 **HK$'000**	2018 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK8 cents per ordinary share (2018: HK3 cents per ordinary share)	**54,149**	20,306

27 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital

	2019		2018	
	Number of shares '000	**Amount HK$'000**	Number of shares '000	Amount HK$'000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**676,865**	**236,474**	676,865	236,474

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) General reserve fund

The general reserve fund comprises of PRC subsidiaries' general reserve fund and Korean subsidiary's general reserve fund.

According to the PRC laws applicable to wholly-owned foreign investment enterprises, the PRC subsidiaries of the Company are required to set up a general reserve fund and appropriate at least 10% of their annual net profits after taxation, as determined under PRC accounting regulations, to the general reserve fund until the balance of the fund equals to 50% of the respective enterprise's registered capital. This fund can be used, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

According to the Korean Commercial Code, the Korean subsidiary is required to set aside as a legal reserve an amount equal to 10% of the cash portion of the annual dividend or accumulate a legal reserve of not less than 50% of Korean subsidiary's share capital before any payout of its dividend. This fund can be transferred to retained profits or used to reduce an accumulated loss.

27 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(ii) Other reserve

The other reserve comprises the change in equity as a result of change in shareholding of non-controlling interests. The reserve is dealt with in accordance with the accounting policies set out in note 1(c).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(u).

(iv) 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 1(f)).

(v) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 1(f)).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bank loans, lease liabilities and trade and other payables and contract liabilities) plus unaccrued proposed dividends, less cash and cash equivalents and time deposits with more than three months to maturity when placed.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused an increase in the Group's total debt and hence the Group's adjusted net debt-to-capital ratio rose from 16.8% to 18.2% on 1 January 2019 when compared to its position as at 31 December 2018.

27 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Capital management *(Continued)*

Considering the impact of the application of HKFRS 16, during 2019, the Group reassessed the range at which it maintains its adjusted net debt-to-capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The Group's net debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 was as follows:

	Notes	**31 December 2019** HK$'000	1 January 2019 (Note) HK$'000	31 December 2018 (Note) HK$'000
Current liabilities				
Trade and other payables and contract liabilities	23	**636,635**	592,124	592,124
Bank loans	24	**125,334**	116,895	116,895
Lease liabilities	25	**13,459**	8,453	–
		775,428	717,472	709,019
Non-current liabilities				
Lease liabilities	25	**14,470**	20,048	–
Total debt		**789,898**	737,520	709,019
Add: Proposed dividends	27(b)	**67,687**	54,149	54,149
Less: Cash and cash equivalents	22(a)	**(583,063)**	(378,503)	(378,503)
Time deposits with more than three months to maturity when placed	22(a)	**(85,647)**	(53,705)	(53,705)
Net debt		**188,875**	359,461	330,960
Total equity		**2,364,498**	1,975,423	1,975,423
Net debt-to-capital ratio		**8.0%**	18.2%	16.8%

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable are limited because the counterparties are banks, for which the Group considers to have low credit risk. The Group's exposure to credit risk arising from amounts due from related companies is limited because the related companies have no historical default in repayment.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 28% (2018: 21%) and 77% (2018: 79%) of the total trade debtors and bills receivable was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 60 days from the date of billing. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2019		
	Expected loss rate %	**Gross carrying amount HK$'000**	**Loss allowance HK$'000**
Current (not past due)	**0.0%**	**359,001**	**–**
Within 1 month past due	**0.0%**	**162,763**	**–**
1 to 3 months past due	**0.0%**	**19,502**	**–**
More than 3 months but less than 12 months past due	**28.7%**	**3,438**	**(985)**
More than 12 months past due	**100.0%**	**16**	**(16)**
		544,720	**(1,001)**

	2018		
	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	0.0%	305,344	–
Within 1 month past due	0.0%	152,640	–
1 to 3 months past due	1.0%	25,157	(252)
More than 3 months but less than 12 months past due	18.0%	3,912	(704)
More than 12 months past due	100.0%	272	(272)
		487,325	(1,228)

Expected loss rates are based on actual loss experience over the past 5 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019 **HK$'000**	2018 HK$'000
Balance at 1 January	**1,228**	5,587
Amounts written off during the year	**–**	(1,423)
Reversal of loss allowances during the year	**(224)**	(2,940)
Exchange differences	**(3)**	4
Balance at 31 December	**1,001**	1,228

Credit risk arising from debt securities measured at FVOCI (recycling)

The Group assessed that there was no significant loss allowance and change in credit risk for debt securities measured at FVOCI (recycling).

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board in respect of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, if any, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

For term loans subject to repayment on demand clauses which can be exercised at the bank's sole discretion, the analysis shows the cash outflows based on the contractual repayment schedule and, separately, the impact to the timing of the cash outflows if the lender was to invoke its unconditional rights to call the loans with immediate effect.

	2019 Contractual undiscounted cash outflow					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount at 31 Dec HK$'000
Trade and other payables (excluding receipt in advance and contract liabilities)	584,732	–	–	–	584,732	584,732
Bank loans	64,686	9,180	27,540	29,698	131,104	125,334
Lease liabilities (note)	14,501	4,676	6,096	33,040	58,313	27,929
	663,919	13,856	33,636	62,738	774,149	737,995
Adjustments to present cash flows on term loans based on lender's right to demand repayment	60,648	(9,180)	(27,540)	(29,698)	(5,770)	–
	724,567	4,676	6,096	33,040	768,379	737,995

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

	2018 Contractual undiscounted cash outflow					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount at 31 Dec HK$'000
Trade and other payables (excluding receipt in advance and contract liabilities)	555,042	–	–	–	555,042	555,042
Bank loans	48,511	9,180	27,540	44,510	129,741	116,895
	603,553	9,180	27,540	44,510	684,783	671,937
Adjustments to present cash flows on term loans based on lender's right to demand repayment	68,384	(9,180)	(27,540)	(44,510)	(12,846)	–
	671,937	–	–	–	671,937	671,937

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 2.

As shown in the above analysis, bank loans of the Group amounting to HK$64,686,000 (2018: HK$48,511,000) was due to be repaid during 2020 (2018: to be repaid during 2019). The short-term liquidity risk inherent in this contractual maturity has been addressed at the time the loan was drawn and is accounted for in the Group's cash flow forecasts.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank loans. Borrowings issued at fixed and variable rates expose the Group to fair value interest rate risk and cash flow interest rate risk respectively. The Group monitors the level of its fixed rate borrowings and manages the contractual terms of the interest-bearing financial liabilities. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of reporting period.

	2019		2018	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Fixed rate borrowings:				
Lease liabilities (note)	**7.76**	**27,929**	N/A	–
Bank loans	**1.62**	**54,620**	3.17	39,110
		82,549		39,110
Variable rate borrowings:				
Bank loans	**3.00**	**70,714**	2.12	77,785
Total borrowings		**153,263**		116,895
Fixed rate borrowings as a percentage of total borrowings		**53.9%**		33.5%

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK$590,000 (2018: HK$650,000). Other components of consolidated equity would not be affected by changes in interest rates.

The sensitivity analysis above indicates the annualised impact on the Group's interest expense that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rate instruments which expose the Group to cash flow interest rate risk at that date. The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as the Group does not hold any fixed rate instruments which are measured at fair value in the financial statements.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily USD, HKD, Renminbi Yuan, Vietnamese Dong and Japanese Yen.

For the Group's companies with HKD as functional currency, it is not expected that there are any significant movements in the USD/HKD exchange rate as the HKD is pegged to the USD.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk

The following table details the Group's exposure at the end of reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using spot rate at the year end date. Differences resulting from the translation of financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

Exposure to foreign currencies (expressed in HKD)

	2019					2018				
	United States Dollars HK$'000	Hong Kong dollars HK$'000	Renminbi Yuan HK$'000	Vietnamese Dong HK$'000	Japanese Yen HK$'000	United States Dollars HK$'000	Hong Kong dollars HK$'000	Renminbi Yuan HK$'000	Vietnamese Dong HK$'000	Japanese Yen HK$'000
Trade and other receivables	59,683	664	558	100,322	21,196	55,423	1,965	–	169,984	10,899
Cash and cash equivalents	80,741	2,274	–	177,864	15,128	50,600	2,732	–	84,023	1,296
Trade and other payables	(121,170)	(3,679)	(30)	(260,315)	(77,096)	(128,589)	(6,626)	(38)	(118,838)	(593)
Net exposure arising from recognised assets and liabilities	19,254	(741)	528	17,871	(40,772)	(22,566)	(1,929)	(38)	135,169	11,602

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the HKD against other currencies.

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000
Renminbi Yuan	3%	13	3%	(1)
	(3)%	(13)	(3)%	1
Vietnamese Dong	3%	352	3%	3,290
	(3)%	(352)	(3)%	(3,290)
Japanese Yen	20%	(5,922)	20%	1,914
	(20)%	5,922	(20)%	(1,914)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2018.

(e) Fair value measurement

(i) Financial assets measured at fair value

(1) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of each 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

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement *(Continued)*

(i) Financial assets measured at fair value *(Continued)*

(1) Fair value hierarchy (Continued)

	Fair value at 31 December 2019 HK$'000	Fair value measurements as at 31 December 2019 categorised into			Fair value at 31 December 2018 HK$'000	Fair value measurements as at 31 December 2018 categorised into		
		Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000		Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurements								
Financial assets:								
Debt securities	1,609	–	1,609	–	1,538	–	1,538	–
Unlisted equity security	2,974	–	–	2,974	4,305	–	–	4,305
	4,583	–	1,609	2,974	5,843	–	1,538	4,305

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

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.

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

The fair value of debt securities in Level 2 are determined using quoted prices from financial institutions.

(3) 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% (2018: 30%)

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 31 December 2019, 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 HK$212,000 (2018: HK$313,000).

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement *(Continued)*

(i) Financial assets measured at fair value *(Continued)*

(3) Information about Level 3 fair value measurements (Continued)

The movement during the year in the balance of Level 3 fair value measurements are as follows:

	2019 HK$'000	2018 HK$'000
Unlisted equity security:		
At 1 January	**4,305**	–
Reclassified from available-for-sale at cost less impairment loss	–	5,650
Initial adjustment on adoption of HKFRS 9	–	(676)
Net unrealised loss recognised in other comprehensive income during the year	**(665)**	(174)
Exchange difference	**(666)**	(495)
At 31 December	**2,974**	4,305

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.

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

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2019 and 2018.

29 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	2019 **HK$'000**	2018 HK$'000
Contracted for	**316,975**	39,071
Authorised but not contracted for	**46,263**	54,885
	363,238	93,956

The capital commitments outstanding as at 31 December 2019 represented additional investments in land and buildings, plant and equipment and tarpaulin business in Vietnam.

The capital commitments outstanding as at 31 December 2018 represented additional investments in land and buildings and plant and equipment in Vietnam.

(b) At 31 December 2018, the total future minimum lease payments in respect of properties under non-cancellable operating leases were payable as follows:

	2018 HK$'000
Within 1 year	7,521
After 1 year but within 5 years	6,787
After 5 years	14,037
	28,345

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 1(j), and the details regarding the Group's future lease payments are disclosed in note 25.

30 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2019 **HK$'000**	2018 HK$'000
Short-term employee benefits	**24,924**	28,284

Total remuneration is included in "staff costs" (see note 5(b)).

	2019 **HK$'000**	2018 HK$'000
(b) Sales of goods to		
Related companies (notes (i) and (ii))	**10,864**	22,978
(c) Purchase of goods from		
A related company (notes (i) and (iii))	**–**	7
(d) Processing fees received/receivable from		
A related company (notes (i) and (ii))	**25,815**	20,313
(e) Rental paid/payable to		
A related company (notes (i) and (ii))	**1,042**	3,281

30 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Key management personnel remuneration *(Continued)*

Notes:

(i) 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.

(ii) These related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph "Connected transactions" on the report of the directors.

(iii) These related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis transactions threshold under Rule 14A.76(1).

(iv) The above transactions were conducted in accordance with the terms of the respective contracts or orders.

31 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 28 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of leasehold land and other property, plant and equipment

If circumstances indicate that the carrying value of leasehold land and other property, plant and equipment may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, *Impairment of Assets*. The carrying amounts of leasehold land and other property, plant and equipment are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount may not be recoverable. The recoverable amount of leasehold land and other property, plant and equipment is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate fair value because quoted market prices for the Group's assets are not available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling price and amount of operating costs.

31 ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(b) Net realisable value of inventories

The Group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analyses, projections of expected future saleability of goods and, management experience and judgement. Based on this review, a write-down of inventories will be made when the estimated net realisable value of inventories decline below their carrying amounts. Due to changes in customers' preferences, actual saleability of goods may be different from estimation and the statement of profit or loss in future accounting periods could be affected by differences in this estimation.

The net realisable value of inventories is also dependent on the application of up to date costing rates and judgements with regard to the level of labour and production overheads absorbed into the valuation.

(c) Impairment of other intangible assets

The Group performs an annual review at the end of each reporting period to assess the recoverable amount of other intangible assets with indefinite useful life which is the greater of the fair value less costs of disposal and the value in use. The fair value less costs of disposal is determined by the market comparison approach by reference to recent sales price of similar assets. Value in use calculations require the use of estimates and assumptions made by management on the future operation of the relevant cash-generating unit, pre-tax discount rates, and other value in use assumptions underlying the value in use calculations.

(d) Loss allowances of trade debtors

The Group uses a provision of matrix to calculate ECLs for trade debtors. The provision rates are based on days past due for groupings of various trade debtors that have similar loss patterns. The provision matrix is based on management's estimate of the lifetime ECLs to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade debtors, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.

(e) Taxation, indirect taxes and duties

Determining the provision for income tax, indirect taxes and duties involves judgement, including the interpretation and application of tax and other legislation, on the future treatment of certain transactions. The Group carefully evaluates the tax and other implications of transactions and, provisions are set up accordingly. The treatment of such transactions is reconsidered periodically to take into account all changes in, including interpretation of, tax and other legislation. Where the final outcome of these transactions is different from the amounts that were initially recorded, such differences will impact provisions in the year in which such determination is made.

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, the directors consider the Group is controlled by Mr Kyoo Yoon Choi, with his principal place of business at Unit 6/F, Tower 1, South Seas Centre, 75 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong.

33 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	Note	31 December 2019 HK$'000	1 January 2019 (Note) HK$'000	31 December 2018 (Note) HK$'000
Non-current assets				
Other property, plant and equipment		**231,993**	239,432	232,228
Other intangible assets		**2,306**	2,306	2,306
Interest in subsidiaries		**499,130**	495,066	495,066
Interest in an associate		**7,360**	–	–
Long term loans to subsidiaries		**392,038**	375,858	375,858
Deferred tax assets		**1,192**	561	561
		1,134,019	1,113,223	1,106,019
Current assets				
Trade and other receivables		**561,854**	495,062	495,213
Cash and cash equivalents		**179,589**	114,777	114,777
		741,443	609,839	609,990
Current liabilities				
Trade and other payables and contract liabilities		**484,097**	475,133	475,133
Bank loans		**70,714**	116,895	116,895
Lease liabilities		**6,229**	2,893	–
Current tax payable		**47,253**	5,224	5,224
		608,293	600,145	597,252
Net current assets		**133,150**	9,694	12,738
Total assets less current liabilities		**1,267,169**	1,122,917	1,118,757

33 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019 *(Continued)*

	Note	**31 December 2019 HK$'000**	1 January 2019 (Note) HK$'000	31 December 2018 (Note) HK$'000
Non-current liabilities				
Lease liabilities		**3,735**	4,160	–
NET ASSETS		**1,263,434**	1,118,757	1,118,757
CAPITAL AND RESERVES				
Share capital	27(a)	**236,474**	236,474	236,474
Reserves		**1,026,960**	882,283	882,283
TOTAL EQUITY		**1,263,434**	1,118,757	1,118,757

Approved and authorised for issue by the board of directors on 27 March 2020.

Young M. Lee
Director

Hyun Ho Kim
Director

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

(Expressed in Hong Kong dollars unless otherwise indicated)

34 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

a) On 29 November 2019, the Company entered into an agreement with C & H and two independent third parties to acquire 100% of the interests in C & H Vina Joint Stock Company with considerations of US$11,000,000 (equivalent to HK$86,130,000). On the same date, the Company entered into an agreement with C & H to acquire 100% of the interests in C & H Tarps Co., Ltd with considerations of US$5,000,000 (equivalent to HK$39,150,000). C & H is an associate of Mr. Kyoo Yoon Choi, Executive Director and controlling shareholder of the Company. These transactions constitute connected transactions as defined in Chapter 14A of the Listing Rules and were approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 23 March 2020. These transactions have not been completed as at the date of this report.

b) On 6 January 2020, the Company acquired 25.71% shareholding of C & H HK Corp., Ltd ("CHHK") from non-controlling interests of CHHK. CHHK becomes a wholly-owned subsidiary of the Company since then.

35 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

Certain comparative figures have been adjusted to conform to the disclosure requirement in respect of the discontinued operations set out in note 12 to the financial statements. Accordingly, the comparative figures in the consolidated statement of profit or loss have been restated.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts,* which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Five year financial summary

	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000 (Restated) (Note)	**2019 HK$'000**
Results					
Continuing operations					
Revenue	1,814,469	2,151,268	2,896,435	3,466,212	**3,973,461**
Profit from operations	201,143	354,253	487,861	396,563	**600,340**
Finance costs	(524)	(385)	(530)	(3,757)	**(6,647)**
Profit before taxation	200,619	353,868	487,331	392,806	**593,693**
Income tax	(51,231)	(59,755)	(85,120)	(64,527)	**(97,064)**
Profit for the year from continuing operations	149,388	294,113	402,211	328,279	**496,629**
Loss for the year from discontinued operations	–	–	–	(7,754)	**(18,182)**
Profit for the year	149,388	294,113	402,211	320,525	**478,447**
Attributable to:					
– Equity shareholders of the Company	150,783	295,500	406,338	332,498	**477,469**
– Non-controlling interests	(1,395)	(1,387)	(4,127)	(11,973)	**978**
Profit for the year	149,388	294,113	402,211	320,525	**478,447**
Earnings per share					
Basic and diluted					
– From continuing operations	–	–	–	HK49.97 ¢	**HK72.54 ¢**
– From discontinued operations	–	–	–	HK(0.85) ¢	**HK(2.00) ¢**
Earnings per share for the year	HK22.28 ¢	HK43.66 ¢	HK60.03 ¢	HK49.12 ¢	**HK70.54 ¢**

Note:

The ride-on toys segment have been classified as discontinued operations as a result of the cessation of operations of this segment. Certain comparative figures have been adjusted to conform to the disclosure requirement in respect of the discontinued operations.

Five year financial summary

	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Assets and liabilities					
Investment properties	–	1,313	1,272	3,900	**3,981**
Other property, plant and equipment	433,147	598,956	837,567	1,165,227	**1,251,019**
Long term receivables and prepayments	16,105	28,509	17,953	23,090	**34,497**
Goodwill	2,753	2,753	2,753	2,753	**2,753**
Interest in an associate	–	–	–	–	**7,360**
Other intangible assets	7,618	6,688	7,255	7,046	**6,063**
Deferred tax assets	7,603	3,779	4,154	4,511	**5,767**
Other financial assets	21,099	20,852	14,134	5,843	**4,583**
Net current assets	539,687	632,778	823,624	771,680	**1,071,091**
Total assets less current liabilities	1,028,012	1,295,628	1,708,712	1,984,050	**2,387,114**
Deferred tax liabilities	–	(1,147)	(11,009)	(8,627)	**(8,146)**
Other non-current liabilities	(1,126)	(2,597)	(2,761)	–	**(14,470)**
NET ASSETS	1,026,886	1,291,884	1,694,942	1,975,423	**2,364,498**

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