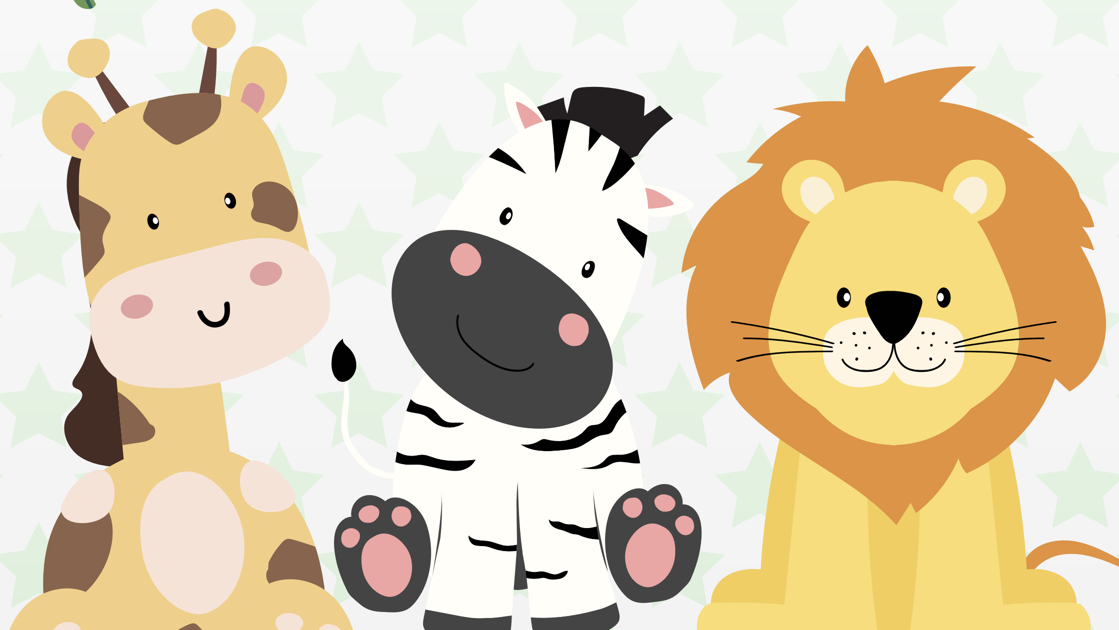
Dream International Limited

DREAM INTERNATIONAL LIMITED
德林國際有限公司

Incorporated in Hong Kong with limited liability

Stock Code : 1126

INTERIM REPORT 2020



MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

Given the unprecedented challenges including the outbreak of novel coronavirus ("COVID-19") pandemic and the escalating tensions of US-China trade war during the first half of 2020, the global market sentiment was inevitably and severely impacted. Nevertheless, leveraging its effective business strategies already in place, particularly the timely diversification of production bases and product portfolios, along with the well-executed cost control strategy, the Group has delivered a reasonable set of results despite the adversity, mitigating risk exposure while strengthening competitive advantages.

For the six months ended 30 June 2020, despite a combination of challenges, the Group managed to maintain revenue growth across most of its business segments with a total half-year revenue of HK$1,629.6 million, up 1.2% year-on-year (six months ended 30 June 2019: HK$1,609.5 million). Given the price pressure from existing customers in the midst of such difficult operating environment, gross profit decreased to HK$259.1 million (six months ended 30 June 2019: HK$297.2 million) while gross profit margin was 15.9% (six months ended 30 June 2019: 18.5%). Profit of the Group stood at HK$87.4 million (six months ended 30 June 2019: HK$110.3 million) and net profit margin was 5.4% (six months ended 30 June 2019: 6.9%).

As at 30 June 2020, the Group was in a healthy financial position with cash and cash equivalents and bank deposits amounting to HK$545.6 million. The board (the "Board") of directors (the "Director(s)") of the Company has recommended the payment of an interim dividend of HK2 cents per ordinary share for the six month ended 30 June 2020 (2019: HK3 cents per ordinary share).

Business Review

Product Analysis

Plush Stuffed Toys Segment

During the period under review, despite the delay and even cancellation of orders due to the COVID-19 pandemic, the plush stuffed toys segment still recorded a revenue of HK$653.8 million (six months ended 30 June 2019: HK$775.4 million), representing 40.1% of the Group's total revenue. Sales of the Original Equipment Manufacturing business was HK$608.6 million (six months ended 30 June 2019: HK$722.1 million), contributing 93.1% of total revenue of plush stuffed toys. Notwithstanding a tough macro environment, the overall sales volume of baby doll business increased compared to the same period last year, thanks to cross-selling opportunities from existing customers and high-standard product quality treasured top-tier character owners and licensors. The Group also continuously explores the opportunity of expanding the promotional product business to enlarge the revenue stream.

The Original Design Manufacturing business under the plush stuffed toys segment recorded revenue totalling HK$45.2 million (six months ended 30 June 2019: HK$53.3 million), accounting for 6.9% of the total revenue of the segment. The Group continued to make efforts in communicating with US retailers, the main revenue contributor of this business, so as to assist in the development of new designs and hence generate a higher profit margin.

Plastic Figures Segment

Leveraging its strong customer base, the plastic figures segment remained as a key revenue contributor and achieved growth amidst the challenging market condition. Revenue was HK$799.9 million (six months ended 30 June 2019: HK$770.2 million), up by 3.9% and accounted 49.1% of the Group's total revenue. This was partly driven by the positive sales momentum from last year, despite a certain level of price pressure. While the Group actively strengthened its cooperation with existing customers, it has been in contact with potential business partners to drive sales orders. Meanwhile, a new plant started operation at the end of second quarter of this year in Vietnam to support the potential inflow of new orders.

Die-casting Products Segment

Since the ceased production of ride-on toys, the Group has accelerated its expansion in die-casting products segment and secured new customers during the review period. Revenue surged by 66.0% to HK$75.5 million during the review period, accounting for 4.6% of the Group's total revenue. Driven by the synergies created with plastic figures segment and the substantial increase in order volume from existing customers, this segment has established a strong foundation and is expected to bring greater contributions in the coming years.

Tarpaulin Segment

Given the increasing volatility of global economy, in particular the uncertainty brought by the US-China conflict, the Group acquired the tarpaulin business which could become an attractive investment opportunity to accelerate the Group's revenue and profit growth. The acquisitions were completed on 31 March 2020. As an industrial product, tarpaulin has a less sensitive market compared to the retail sector. This newly acquired business continued to receive more orders from existing customers for the three months operation ended 30 June 2020, with revenue amounting to HK$100.4 million, accounting for 6.2% of the Group's total revenue.

Geographic Market Analysis

For the six months ended 30 June 2020, despite the pandemic outbreak, North America remained the largest geographical market of the Group, accounting for 67.5% of total revenue. Japan accounted for 20.6%, remaining the second largest market of revenue contribution. Contributions from China accounted for 4.5% of total revenue, followed by Europe at 3.3% and others at 4.1%.

Operational Analysis

As at 30 June 2020, the Group operated 21 plants in total, four of which were in China and 17 in Vietnam, achieving an average utilisation rate of approximately 69.6%. Construction of the plant located in Ninh Binh Province was completed during the second quarter of this year, commencing its operation now. Among the 17 plants in Vietnam, two plants were operated for the newly acquired tarpaulin business.

Prospects

The COVID-19 outbreak has dealt a blow to most industries worldwide yet there is still no sign of improvement. Inevitably, the overall market sentiment will be adversely affected in the near future. Besides, the tension of US-China conflict has been escalating, thus driving a growing number of customers to look for alternative production bases outside China. As an industry pioneer with well-established facilities in Vietnam and potential for further expansion, the Group is able to benefit from this situation, which will partly offset the impacts from the COVID-19 pandemic. Having said that, the Group remains cautious as the market outlook is fraught with uncertainties to say the least.

The persistently changing market environment has led to growing uncertainties in the toy industry. For example, customers exert additional pressure from price cuts as well as the delay or cancellation of orders, while the US-China dispute imposes further burdens on toy manufacturers that solely rely on their production bases in the PRC. Such trends result in the deterioration of operating environment and accelerate industry consolidation that will oust the weaker players. As an industry leader with a strong financial position to weather the tough period, the Group will be able to seize a larger market share in the medium to long-term. The Group will closely monitor the market and remain prudent and flexible in its capacity expansion plan with a parcel of land previously acquired in Vietnam.

While the well-established business segments of plush stuffed toys and plastic figures have provided a solid foundation for the Group to further pursue and explore new opportunities, it is worth noting that the newly acquired tarpaulin business, which is less sensitive to the retail market sentiment, has witnessed a growing demand from the existing customers. Alongside with that, the Group sees the growth potential of the new die-casting products segment, and will nurture the business with existing customers as well as grasp the cross-selling opportunities with its top-tier customers from other segments.

Leveraging its well-established facilities in both Vietnam and China, the top-tier international customer base, its extensive product portfolios as well as proven track record in the toy industry, the Group remains resilient against the adverse impact brought by the COVID-19 pandemic, as it has surmounted the market ups and downs over the previous decades. What is more, the management of the Company will closely monitor the market and look for potential targets on a timely basis, all in a bid to create the best possible value for shareholders.

Number and Remuneration of Employees

As at 30 June 2020, the Group had 24,445 (31 December 2019: 26,717) employees in Hong Kong, China, Korea, the US, Japan and Vietnam. The Group values its human resources and recognises the importance of attracting and retaining quality staff for its continuing success. Staff bonuses are awarded based on individual performance.

Liquidity and Financial Resources and Gearing

The Group continued to maintain a reasonable liquidity position. As at 30 June 2020, the Group had net current assets of HK$998.7 million (31 December 2019: HK$1,072.6 million). The Group's total cash and cash equivalents as at 30 June 2020 amounted to HK$465.9 million (31 December 2019: HK$583.1 million). The total bank loans of the Group as at 30 June 2020 amounted to HK$245.8 million (31 December 2019: HK$125.3 million).

The Group's gearing ratio, calculated on the basis of total bank loans over total equity, was 10.4% at 30 June 2020 (31 December 2019: 5.3%).

Pledge on Group Assets

A property of the Group with carrying amount of HK$210.7 million (31 December 2019: HK$214.5 million) as at 30 June 2020 was pledged as security for a mortgage instalment loan of the Group of HK$67.0 million (31 December 2019: HK$70.7 million).

Factory buildings, certain leasehold land and other property, plant and equipment of the Group with an aggregate carrying amount of HK$155.1 million (31 December 2019: HK$99.0 million) as at 30 June 2020 were pledged as security for bank loans of the Group of HK$45.7 million (31 December 2019: HK$40.7 million).

Bank deposits of the Group with an aggregate carrying amount of HK$60.9 million (31 December 2019: HK$6.7 million) as at 30 June 2020 were pledged as security for bank loans of the Group of HK$94.3 million (31 December 2019: HK$6.5 million).

Significant Investment Held

There was no significant investment held by the Group during the six months ended 30 June 2020.

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 ("C & H Vina") with total consideration of US$11,000,000 (equivalent to HK$85,793,000). On the same date, the Company entered into an agreement with C & H to acquire 100% of the interests in C & H Tarps Co., Ltd. ("C & H Tarps") with consideration of US$5,000,000 (equivalent to HK$38,998,000). 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 Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 been completed as at 31 March 2020. Upon the completion of the transactions, C & H Vina and C & H Tarps become wholly-owned subsidiaries of the Group.

Exposure to Fluctuations in Exchange Rates and Any Related Hedges

The majority of the Group's assets and liabilities and business transactions were denominated in Hong Kong dollars, United States dollars, Renminbi Yuan, Vietnamese Dong and Japanese Yen. During the six months ended 30 June 2020, the Group had not entered into any hedging arrangements. The management will continue to monitor closely its foreign currency exposure and to consider hedging significant foreign currency exposure when necessary.

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Interim Dividend and Closure of Register of Members

The Board declared an interim dividend of HK2 cents per ordinary share for the six months ended 30 June 2020 (six months ended 30 June 2019: HK3 cents per ordinary share). The interim dividend of HK$13,537,000 (six months ended 30 June 2019: HK$20,306,000) will be paid on 13 October 2020 to shareholders registered at the close of business on the record date, 29 September 2020.

The register of members will be closed for one day on 30 September 2020, during that day no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 29 September 2020.

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

As at 30 June 2020, the interests and short positions of each Director and chief executive in the shares, underlying shares and debentures of the Company, its subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of Part XV of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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

Long positions in ordinary shares

	Number of ordinary shares held				
	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 30 June 2020, none of the Directors or chief executives of the Company or any of their spouses or children under 18 years of age had interests or short positions in the shares, underlying shares or debentures of the Company, or any of its subsidiaries or other associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

At no time during the six months ended 30 June 2020 was the Company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company and its associated corporations and none of the Directors or chief executives of the Company (including their spouses and children under the age of 18) held any interests in or was granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

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

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 30 June 2020, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's ordinary shares in issue.

Substantial shareholders	Capacity	Number of ordinary shares held (long position)	Percentage of the issued shares of the Company
Kyoo Yoon Choi	Beneficial owner	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 Associates Inc.	Interest in a controlled corporation *(Note 3)*	47,488,000	7.02%
Fidelity Fund	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 30 June 2020, the Company is not aware of any other registered substantial shareholder who holds 5% or more of the issued shares of the Company and none of other person who had interest or short position in the shares and underlying shares of the Company which were required, pursuant to Section 336 of Part XV of the SFO, to be recorded into the register referred to therein.

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

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

During the six months ended 30 June 2020, the Board considered that the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules, save for the deviation from the code provision A.2.1.

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

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the securities transactions by the Directors on terms no less exacting than the required standard. The Company has made specific enquires of all the Directors, and all Directors have confirmed that they had complied with the required standard as set out in the Model Code at all applicable times during the six months ended 30 June 2020.

Audit Committee and Review of Accounts

The audit committee of the Company (the "Audit Committee") has reviewed with management of the Company with respect to the accounting principles and practices adopted by the Group and discussed risk management and internal control systems and financial reporting matters, including a review of the unaudited interim results for the six months ended 30 June 2020. The Audit Committee considered that the unaudited interim results for the six months ended 30 June 2020 were in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made. The interim results for the six months ended 30 June 2020 have not been audited, but have been reviewed by KPMG, the Company's auditor, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

By order of the Board
Kyoo Yoon Choi
Chairman

Hong Kong, 26 August 2020

KPMG

REVIEW REPORT TO THE BOARD OF DIRECTORS OF DREAM INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 14 to 46, which comprises the consolidated statement of financial position of Dream International Limited (the "Company") as of 30 June 2020 and the related consolidated statement of profit or loss, statement of comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

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

(Incorporated in Hong Kong with limited liability)

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

Certified Public Accountants

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

26 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2020	2019
	Notes	**$'000**	$'000
Continuing operations			
Revenue	*3, 4*	**1,629,551**	1,591,075
Cost of sales		**(1,370,461)**	(1,277,344)
Gross profit		**259,090**	313,731
Other revenue		**16,626**	9,152
Other net gain		**1,540**	1,192
Gain on bargain purchase	*19*	**16,406**	–
Distribution costs		**(35,823)**	(38,909)
Administrative expenses		**(139,271)**	(135,409)
Profit from operations		**118,568**	149,757
Finance costs	*5(a)*	**(4,542)**	(2,599)
Share of losses of associates		**(475)**	–
Profit before taxation	*5*	**113,551**	147,158
Income tax	*6*	**(26,103)**	(18,707)
Profit for the period from continuing operations		**87,448**	128,451
Discontinued operations			
Loss for the period from discontinued operations	*20*	**–**	(18,182)
Profit for the period		**87,448**	110,269

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

for the six months ended 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2020	2019
	Notes	**$'000**	$'000
Attributable to:			
Equity shareholders of the Company		**87,448**	112,439
Non-controlling interests		**–**	(2,170)
Profit for the period		**87,448**	110,269
Profit/(loss) attributable to equity shareholders of the Company arises from:			
– Continuing operations		**87,448**	125,945
– Discontinued operations		**–**	(13,506)
		87,448	112,439
Earnings per share attributable to equity shareholders of the Company for the period	*7*		
Basic and diluted			
– From continuing operations		**$0.129**	$0.186
– From discontinued operations		**–**	$(0.020)
Earnings per share for the period		**$0.129**	$0.166

The notes on pages 24 to 46 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2020	2019
	$'000	$'000
Profit for the period	**87,448**	110,269
Other comprehensive income for the period (after tax and reclassification adjustments):		
Item that will not be reclassified to profit or loss:		
Unlisted equity security at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	**(347)**	(829)
	(347)	(829)
Items that may be or are reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**(14,151)**	(5,416)
Reclassification of accumulated exchange differences to profit or loss upon deregistration of a subsidiary	**–**	392
Investment in debt security at fair value through other comprehensive income – net movement in fair value reserve (recycling)	**451**	87
	(13,700)	(4,937)
Other comprehensive income for the period	**(14,047)**	(5,766)
Total comprehensive income for the period	**73,401**	104,503

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Continued)

for the six months ended 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2020	2019
	$'000	$'000
Attributable to:		
Equity shareholders of the Company	**73,401**	106,991
Non-controlling interests	**–**	(2,488)
Total comprehensive income for the period	**73,401**	104,503
Total comprehensive income attributable to equity shareholders of the Company:		
– Continuing operations	**73,401**	120,497
– Discontinued operations	**–**	(13,506)
	73,401	106,991

The notes on pages 24 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

	Notes	At 30 June 2020 $'000	At 31 December 2019 $'000
Non-current assets			
Investment properties		**3,313**	3,981
Other property, plant and equipment	*8*	**1,329,203**	1,251,019
Long term receivables and prepayments		**32,225**	34,497
Other intangible assets		**5,919**	6,063
Goodwill		**2,753**	2,753
Interests in associates		**13,193**	7,360
Deferred tax assets		**5,955**	5,767
Other financial assets	*9*	**4,121**	4,583
		1,396,682	1,316,023
Current assets			
Inventories	*10*	**660,046**	594,541
Trade and other receivables	*11*	**675,070**	681,849
Current tax recoverable		**123**	86
Time deposits	*12*	**79,710**	85,647
Cash and cash equivalents	*12*	**465,915**	583,063
		1,880,864	1,945,186
Current liabilities			
Trade and other payables and contract liabilities	*13*	**581,621**	636,635
Bank loans	*14*	**245,782**	125,334
Lease liabilities		**11,795**	13,459
Current tax payable		**42,999**	97,121
		882,197	872,549
Net current assets		**998,667**	1,072,637
Total assets less current liabilities		**2,395,349**	2,388,660

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

at 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

	Notes	At 30 June 2020 $'000	At 31 December 2019 $'000
Non-current liabilities			
Lease liabilities		15,065	14,470
Deferred tax liabilities		10,072	9,692
		25,137	24,162
NET ASSETS		2,370,212	2,364,498
CAPITAL AND RESERVES	*15*		
Share capital		236,474	236,474
Reserves		2,133,738	2,150,515
Total equity attributable to equity shareholders of the Company		2,370,212	2,386,989
Non-controlling interests		–	(22,491)
TOTAL EQUITY		2,370,212	2,364,498

The notes on pages 24 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company									
	Notes	Share capital $'000	General reserve fund $'000	Other reserve $'000	Exchange reserve $'000	Fair value reserve (recycling) $'000	Fair value reserve (non-recycling) $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 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 the six months ended 30 June 2019:											
Profit for the period		–	–	–	–	–	–	112,439	112,439	(2,170)	110,269
Other comprehensive income		–	–	–	(4,706)	87	(829)	–	(5,448)	(318)	(5,766)
Total comprehensive income		–	–	–	(4,706)	87	(829)	112,439	106,991	(2,488)	104,503
Final dividend approved in respect of the previous year	*15(b)*	–	–	–	–	–	–	(54,149)	(54,149)	–	(54,149)
Balance at 30 June 2019		236,474	21,917	(6,246)	37,641	51	(8,375)	1,769,979	2,051,441	(25,664)	2,025,777
Balance at 1 July 2019		236,474	21,917	(6,246)	37,641	51	(8,375)	1,769,979	2,051,441	(25,664)	2,025,777
Changes in equity for the six months ended 31 December 2019:											
Profit for the period		–	–	–	–	–	–	365,030	365,030	3,148	368,178
Other comprehensive income		–	–	–	(9,381)	41	164	–	(9,176)	25	(9,151)
Total comprehensive income		–	–	–	(9,381)	41	164	365,030	355,854	3,173	359,027
Appropriation to general reserve fund		–	4,532	–	–	–	–	(4,532)	–	–	–
Dividends declared in respect of the current year	*15(a)*	–	–	–	–	–	–	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

for the six months ended 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company									
	Notes	Share capital $'000	General reserve fund $'000	Other reserve $'000	Exchange reserve $'000	Fair value reserve (recycling) $'000	Fair value reserve (non-recycling) $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2020		236,474	26,449	(6,246)	28,260	92	(8,211)	2,110,171	2,386,989	(22,491)	2,364,498
Changes in equity for the six months ended 30 June 2020:											
Profit for the period		–	–	–	–	–	–	87,448	87,448	–	87,448
Other comprehensive income		–	–	–	(14,151)	451	(347)	–	(14,047)	–	(14,047)
Total comprehensive income		–	–	–	(14,151)	451	(347)	87,448	73,401	–	73,401
Appropriation to general reserve fund		–	2,510	–	–	–	–	(2,510)	–	–	–
Acquisition of non-controlling interest of a subsidiary		–	–	(23,145)	654	–	–	–	(22,491)	22,491	–
Final dividend approved in respect of the previous year	*15(b)*	–	–	–	–	–	–	(67,687)	(67,687)	–	(67,687)
Balance at 30 June 2020		236,474	28,959	(29,391)	14,763	543	(8,558)	2,127,422	2,370,212	–	2,370,212

The notes on pages 24 to 46 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2020	2019
	Notes	**$'000**	$'000
Operating activities			
Cash generated from operations		**161,931**	117,288
Tax paid		**(87,737)**	(34,703)
Net cash generated from operating activities		**74,194**	82,585
Investing activities			
Payment for purchase of leasehold land and other property, plant and equipment		**(93,367)**	(55,658)
Proceeds from the disposal of property, plant and equipment		**8,183**	1,757
Prepayment for purchase of leasehold land and other property, plant and equipment		**(5,529)**	(4,660)
Payment for investing in an associate		**–**	(7,360)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	*19*	**(104,692)**	–
Decrease/(increase) in time deposits with maturity over three months when placed		**41,118**	(174)
Other cash flows arising from investing activities		**7,672**	8,468
Net cash used in investing activities		**(146,615)**	(57,627)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

for the six months ended 30 June 2020 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2020	2019
	Notes	**$'000**	$'000
Financing activities			
Capital element of lease rentals paid		**(7,840)**	(5,495)
Interest element of lease rentals paid		**(1,140)**	(990)
Dividends paid		**(67,687)**	(54,149)
Proceeds from new bank loans		**186,817**	139,287
Repayment of bank loans		**(146,906)**	(105,998)
Other cash flows arising from financing activities		**(3,403)**	(1,610)
Net cash used in financing activities		**(40,159)**	(28,955)
Net decrease in cash and cash equivalents		**(112,580)**	(3,997)
Cash and cash equivalents at 1 January		**583,063**	378,503
Effect of foreign exchange rate changes		**(4,568)**	(1,565)
Cash and cash equivalents at 30 June	*12*	**465,915**	372,941

The notes on pages 24 to 46 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 26 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Dream International Limited (the "Company") and its subsidiaries (the "Group") since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on pages 12 to 13.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the "Companies Ordinance") is as follows:

1 Basis of preparation *(Continued)*

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

2 Accounting policies adopted in 2020 financial statements

(i) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*

None of these 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 in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to HKFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see note 8(a)). There is no impact on the opening balance of equity at 1 January 2020.

2 Accounting policies adopted in 2020 financial statements *(Continued)*

(ii) Revenue and other income

Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

3 Revenue and segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified four (six months ended 30 June 2019: four) reportable segments. No operating segments have been aggregated to form the following reportable segments.

As discussed in note 20, the Group no longer carried on business of ride-on toys segment. The results of this segment have been classified as discontinued operations of the Group for the period ended 30 June 2019.

3 Revenue and segment reporting *(Continued)*

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines and geographical location of customers is as follows:

	Six months ended 30 June		
	2020	Continuing operations 2019	Discontinued operations 2019
	$'000	$'000	$'000
Revenue from sales of goods within the scope of HKFRS 15			
Disaggregated by major product lines			
– Plush stuffed toys	**653,773**	775,420	–
– Plastic figures	**799,901**	770,175	–
– Die-casting products	**75,492**	45,480	–
– Tarpaulin	**100,385**	–	–
– Ride-on toys	**–**	–	18,377
	1,629,551	1,591,075	18,377

	Six months ended 30 June		
	2020	Continuing operations 2019	Discontinued operations 2019
	$'000	$'000	$'000
Disaggregated by geographical location of customers			
– Hong Kong (place of domicile)	**15,204**	23,840	–
– North America	**1,099,709**	943,838	18,377
– Japan	**336,437**	349,718	–
– The PRC	**72,795**	104,642	–
– Europe	**53,053**	80,616	–
– Vietnam	**38,179**	65,278	–
– Korea	**10,040**	18,932	–
– Other countries	**4,134**	4,211	–
	1,629,551	1,591,075	18,377

3 Revenue and segment reporting *(Continued)*

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

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

	Plush stuffed toys		Plastic figures		Die-casting products		Tarpaulin		Continuing operations sub-total		Ride-on toys – discontinued operations		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
For the six months ended 30 June														
Revenue from external customers	**653,773**	775,420	**799,901**	770,175	**75,492**	45,480	**100,385**	–	**1,629,551**	1,591,075	**–**	18,377	**1,629,551**	1,609,452
Inter-segment revenue	**8,902**	9,930	**11,834**	4,907	**23,798**	15,670	**–**	–	**44,534**	30,507	**–**	–	**44,534**	30,507
Reportable segment revenue	**662,675**	785,350	**811,735**	775,082	**99,290**	61,150	**100,385**	–	**1,674,085**	1,621,582	**–**	18,377	**1,674,085**	1,639,959
Reportable segment profit/(loss) (adjusted EBITDA)	**120,046**	112,223	**41,264**	94,048	**8,926**	15,196	**8,794**	–	**179,030**	221,467	**–**	(18,117)	**179,030**	203,350
As at 30 June/ 31 December														
Reportable segment assets	**1,235,435**	1,261,817	**1,180,623**	1,043,586	**256,674**	324,556	**189,035**	–	**2,861,767**	2,629,959	**–**	–	**2,861,767**	2,629,959
Reportable segment liabilities	**213,970**	275,676	**379,954**	336,087	**335,795**	328,634	**31,568**	–	**961,287**	940,397	**–**	–	**961,287**	940,397

The measure used for reporting segment profit/(loss) is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income. To arrive at the adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as gain on bargain purchase, share of losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

3 Revenue and segment reporting *(Continued)*

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June		
	2020 **$'000**	Continuing operations 2019 $'000	Discontinued operations 2019 $'000
Reportable segment profit/(loss)	**179,030**	221,467	(18,117)
Interest income	**7,672**	4,539	–
Depreciation	**(68,950)**	(61,411)	(30)
Gain on bargain purchase	**16,406**	–	–
Finance costs	**(4,542)**	(2,599)	–
Share of losses of associates	**(475)**	–	–
Unallocated head office and corporate expenses	**(15,590)**	(14,838)	(35)
Consolidated profit/(loss) before taxation	**113,551**	147,158	(18,182)

4 Seasonality of operations

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

For the twelve months ended 30 June 2020, the plush stuffed toys, plastic figures, die-casting products, tarpaulin and ride-on toys segments reported reportable segment revenue of $1,758,927,000, $2,021,279,000, $233,081,000, $100,385,000 and $Nil respectively (twelve months ended 30 June 2019: $1,824,427,000, $1,829,644,000, $93,515,000, $Nil and $58,005,000 respectively), and reportable segment profit of $338,790,000, $330,578,000, $29,844,000, $8,794,000 and $Nil respectively (twelve months ended 30 June 2019: profit of $252,196,000, $278,412,000, $22,695,000, $Nil and loss of $5,292,000 respectively).

During the six months ended 30 June 2019, ride-on toys segment had been classified as discontinued operations. See note 20.

5 Profit before taxation

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

(a) Finance costs

	Six months ended 30 June		
	2020	Continuing operations 2019	Discontinued operations 2019
	$'000	$'000	$'000
Interest expense on bank borrowings	**3,403**	1,609	–
Interest on lease liabilities	**1,139**	990	–
	4,542	2,599	–

(b) Other items

	Six months ended 30 June		
	2020	Continuing operations 2019	Discontinued operations 2019
	$'000	$'000	$'000
Depreciation charge			
– owned property, plant and equipment	**59,360**	53,797	–
– leasehold land held for own use	**1,186**	1,245	30
– right-of-use assets	**8,404**	6,369	–
Total minimum lease payments for short-term leases	**4,280**	6,260	–
Inventories write-down *(Note 10)*	**–**	7,424	–
Reversal of write-down of inventories *(Note 10)*	**(566)**	(307)	(3,672)
Bank interest income	**(7,543)**	(4,479)	–
Interest income from other financial assets	**(129)**	(60)	–
Net gain on disposal of other property, plant and equipment	**(1,171)**	(316)	(82)
Net gain on disposal of other intangible assets	**(7)**	–	–

6 Income tax

	Six months ended 30 June		
		Continuing operations	Discontinued operations
	2020	2019	2019
	$'000	$'000	$'000
Current tax – Hong Kong Profits Tax	**9,943**	12,554	–
Current tax – Outside Hong Kong	**21,720**	8,289	–
Deferred taxation	**(5,560)**	(2,136)	–
	26,103	18,707	–

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30 June 2019: 16.5%) to the six months ended 30 June 2020 except for the Company which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For the Company, the first $2,000,000 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 2019.

Taxation for subsidiaries outside Hong Kong is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

Current tax outside Hong Kong for the six months ended 30 June 2020 includes withholding tax of $4,571,000 (six months ended 30 June 2019: $Nil) paid on dividend income from subsidiaries.

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $87,448,000 (six months ended 30 June 2019: $112,439,000) and the weighted average number of ordinary shares of 676,865,000 shares (six months ended 30 June 2019: 676,865,000 shares) in issue during the interim period.

	Six months ended 30 June	
	2020	2019
	$'000	$'000
Profit/(loss) attributable to equity shareholders of the Company arises from:		
– Continuing operations	**87,448**	125,945
– Discontinued operations	**–**	(13,506)
	87,448	112,439

(b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2020 and 2019.

8 Other property, plant and equipment

(a) Right-of-use assets

During the six months ended 30 June 2020, the Group entered into a number of lease agreements and therefore recognised the additions to right-of-use assets of $13,822,000.

During the six months ended 30 June 2020, the Group received rent concessions in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19 and the amount of COVID-19 rent concessions is $174,000.

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

(a) Right-of-use assets (Continued)

As disclosed in note 2, the Group has early adopted the Amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions*, and has applied the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2020, the Group acquired items of other property, plant and equipment with a cost of $105,789,000 (six months ended 30 June 2019: $67,076,000). Items of other property, plant and equipment with a net book value of $6,767,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: $1,359,000), resulting in a net gain on disposal of $1,171,000 (six months ended 30 June 2019: $398,000).

9 Other financial assets

	At 30 June 2020 $'000	At 31 December 2019 $'000
Debt securities measured at FVOCI (recycling) *(Note (i))*	**1,615**	1,609
Unlisted equity security measured at FVOCI (non-recycling) *(Note (ii))*	**2,506**	2,974
	4,121	4,583

Notes:

(i) Debt securities represents an investment in bond amounting to $1,615,000 (31 December 2019: $1,609,000) with fixed interest rate at 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 fair value through other comprehensive income ("FVOCI") (non-recycling), as the investment is held for strategic purpose. No dividends were received on this investment during the period (2019: $Nil).

10 Inventories

During the six months ended 30 June 2020, there is a reversal of write-down of inventories of $566,000 (six months ended 30 June 2019: $3,979,000). The reversal arose upon utilisation, disposal or an increase in the estimated net realisable value of these inventories.

During the six months ended 30 June 2019, there was a write-down of inventories of $7,424,000. The write-down arose upon a decrease in the estimated net realisable value of these inventories.

11 Trade and other receivables

As at 30 June 2020, 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:

	At 30 June 2020 $'000	At 31 December 2019 $'000
Within 1 month	**345,381**	329,468
1 to 2 months	**136,494**	171,169
2 to 3 months	**16,475**	30,939
3 to 4 months	**3,464**	8,765
Over 4 months	**401**	3,378
Trade debtors and bills receivable, net of loss allowance	**502,215**	543,719
Other receivables and prepayments	**141,043**	112,647
Loan to associates	**20,626**	4,080
Amounts due from related companies *(Note)*	**11,186**	21,403
	675,070	681,849

Trade debtors and bills receivable are due within 30 to 120 days (31 December 2019: 30 to 60 days) from the date of billing.

11 Trade and other receivables *(Continued)*

Note:

As at 30 June 2020, the outstanding balances with C & H Creative Co., Ltd ("C & H Creative") are trading balances. A director of the Company has significant influence over C & H Creative.

As at 30 June 2019, the outstanding balances were trading balances with C & H Creative and C & H Vina Joint Stock Company ("C & H Vina"). A director of the Company had significant influence over these entities. Since 31 March 2020, C & H Vina became a wholly-owned subsidiary of the Company (see note 19).

12 Cash and cash equivalents and time deposits

	At 30 June 2020 $'000	At 31 December 2019 $'000
Bank deposits within three months to maturity when placed	**131,109**	112,807
Cash at bank and on hand	**334,806**	470,256
Cash and cash equivalents in the consolidated statement of financial position and condensed consolidated cash flow statement	**465,915**	583,063
Time deposits with more than three months to maturity when placed	**79,710**	85,647
	545,625	668,710

13 Trade and other payables and contract liabilities

As at 30 June 2020, the ageing analysis of trade payables (which are included in trade and other payables and contract liabilities), based on the due date, is as follows:

	At 30 June 2020 $'000	At 31 December 2019 $'000
Due within 1 month or on demand	**329,673**	325,091
Due after 1 month but within 3 months	**71,864**	83,805
Due after 3 months but within 6 months	**12,965**	2,614
Trade payables	**414,502**	411,510
Contract liabilities – sales deposit	**9,121**	24,055
Salary and welfare payables	**113,277**	154,935
Value-added tax payable	**1,046**	3,150
Other payables and accrual	**16,292**	15,137
Receipt in advance	**24,853**	27,848
Amount due to an associate	**2,530**	–
	581,621	636,635

14 Bank loans

As at 30 June 2020, mortgage instalment loan of $67,025,000 (31 December 2019: $70,714,000) was secured by mortgage over a property of the Group with an aggregate carrying amount of $210,719,000 (31 December 2019: $214,515,000). It is interest-bearing at a rate of 0.88% over HIBOR or lender's prime rate minus 2.3%, whichever is lower and repayable by March 2028. 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 30 June 2020 and 31 December 2019.

As at 30 June 2020, bank loan of $39,565,000 (31 December 2019: $40,718,000) was secured by factory buildings, certain leasehold land and other property, plant and equipment of the Group with an aggregate amount of $92,537,000 (31 December 2019: $81,558,000). It is interest-bearing at a rate of 2.9% to 3.3% (31 December 2019: 2.9% to 3.1%) specified at each withdrawal and repayable within one year.

14 Bank loans *(Continued)*

As at 30 June 2020, bank loans of $54,727,000 (31 December 2019: $6,506,000) were secured by bank deposits of the Group with an aggregate amount of $22,044,000 (31 December 2019: $6,728,000). They are interest-bearing at a rate of 3.0% to 3.3% (31 December 2019: 3.2% to 3.3%) specified at each withdrawal and repayable within one year.

As at 30 June 2020, bank loans of $39,594,000 (31 December 2019: $Nil) were secured by bank deposits of the Group with an aggregate amount of $38,842,000. They are interest-bearing at a rate of 1.5% to 3.0% over LIBOR specified at each withdrawal and repayable within one year.

As at 30 June 2020, bank loans of $6,105,000 (31 December 2019: $Nil) were secured by certain leasehold land and other property, plant and equipment of the Group with an aggregate amount of $62,561,000 (31 December 2019: $17,448,000). They are interest-bearing at a rate of 2.6% to 3.0% over LIBOR specified at each withdrawal and repayable within one year.

15 Capital, reserves and dividends

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

	Six months ended 30 June	
	2020	2019
	$'000	$'000
Interim dividend declared and paid after the interim period of 2 cents per ordinary share (six months ended 30 June 2019: 3 cents per ordinary share)	**13,537**	20,306

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

15 Capital, reserves and dividends *(Continued)*

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

	Six months ended 30 June	
	2020	2019
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 10 cents per ordinary share (six months ended 30 June 2019: 8 cents per ordinary share)	**67,687**	54,149

16 Fair value measurement of financial instruments

(a) Financial assets measured at fair value

(i) Fair value hierarchy

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

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

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

16 Fair value measurement of financial instruments *(Continued)*

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

(i) Fair value hierarchy (Continued)

	Fair value at 30 June 2020 $'000	Fair value measurements as at 30 June 2020 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Financial assets:				
Debt securities	1,615	–	1,615	–
Unlisted equity security	2,506	–	–	2,506
	4,121	–	1,615	2,506

	Fair value at 31 December 2019 $'000	Fair value measurements as at 31 December 2019 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Financial assets:				
Debt securities	1,609	–	1,609	–
Unlisted equity security	2,974	–	–	2,974
	4,583	–	1,609	2,974

During the six months ended 30 June 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2019: 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.

16 Fair value measurement of financial instruments *(Continued)*

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

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

The fair value of debt securities in Level 2 is determined using quoted prices from financial institutions.

(iii) Information about Level 3 fair value measurements

	Valuation technique	Significant unobservable input	Percentage
Unlisted equity security	Market comparable companies	Discount for lack of marketability	30% (2019: 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 30 June 2020, 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 $178,000 (2019: $212,000).

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

	2020 $'000	2019 $'000
Unlisted equity security:		
At 1 January	**2,974**	4,305
Unrealised loss recognised in other comprehensive income during the period	**(347)**	(1,406)
Exchange difference	**(121)**	(126)
At 30 June	**2,506**	2,773

16 Fair value measurement of financial instruments *(Continued)*

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

(iii) Information about Level 3 fair value measurements (Continued)

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.

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2020 and 31 December 2019.

17 Commitments

Capital commitments outstanding at 30 June 2020 not provided for in the interim financial report

	At 30 June 2020 $'000	At 31 December 2019 $'000
Contracted for	65,252	316,975
Authorised but not contracted for	49,676	46,263
	114,928	363,238

The capital commitments outstanding as at 30 June 2020 represent additional investments in land and buildings and plant and equipment in Vietnam.

The capital commitments outstanding as at 31 December 2019 represent additional investments in land and buildings, plant and equipment and tarpaulin business in Vietnam.

18 Material related party transactions

Except for the balances and transactions disclosed elsewhere in these financial statements, the company entered into material related party transactions set out below.

(a) Transactions with related parties

During the six months ended 30 June 2020, the Group entered into the following transactions with its related parties:

			Six months ended 30 June	
			2020	2019
			$'000	$'000
(a)	***Key management personnel remuneration***			
	Salaries and other short-term benefits		**15,589**	13,488
(b)	***Sales of goods to***			
	Related companies	*(Note (i))*	**–**	1,063
(c)	***Purchase of materials from***			
	A related company	*(Note (i))*	**–**	9
	An associate	*(Note (ii))*	**2,762**	–
(d)	***Processing fee received from***			
	A related company	*(Note (i))*	**4,550**	12,924
(e)	***Rental paid to***			
	A related company	*(Note (i))*	**–**	1,061

Notes:

(i) These are transactions with C & H Co., Ltd ("C & H") and its subsidiaries ("C & H Group"). A director of the Company has significant influence over C & H Group.

(ii) These are transactions with HH Dream Printing Company Limited, an associate of the Group.

18 Material related party transactions *(Continued)*

(b) Other transactions with related parties

(i) On 31 March 2020, the Company completed the acquisitions of 100% equity interests in C & H Vina and C & H Tarps Co., Ltd. ("C & H Tarps") from C & H. The acquisition considerations of C & H Vina and C & H Tarps were satisfied by cash of US$11,000,000 (equivalent to $85,793,000) and US$5,000,000 (equivalent to $38,998,000) respectively. The considerations were determined with reference to valuations performed by independent professional valuers. These transactions also constituted a disclosable transaction and a connected transaction as defined in Chapter 14 and Chapter 14A of the Listing Rules, respectively. Further details are set out in note 19.

19 Acquisition of subsidiaries

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 with consideration of US$11,000,000 (equivalent to $85,793,000). On the same date, the Company entered into an agreement with C & H to acquire 100% of the interests in C & H Tarps with consideration of US$5,000,000 (equivalent to $38,998,000).

The acquisitions of C & H Vina and C & H Tarps (the "Acquisition") were approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 23 March 2020 and were completed on 31 March 2020 (the "Acquisition Date"). By the Acquisition Date, the acquisition considerations have been settled. Upon completion of the Acquisition, C & H Vina and C & H Tarps became wholly-owned subsidiaries of the Group.

The principal activity of C & H Vina and C & H Tarps is manufacture and sales of tarpaulin. The directors of the Company are of opinion that the Acquisition was made as part of the Group's strategy to accelerate the growth of the Group's revenue and profit.

19 Acquisition of subsidiaries *(Continued)*

The following table summarises the consideration paid for the Acquisition, the fair values of assets acquired and liabilities assumed at the Acquisition Date.

	$'000
Other property, plant and equipment	48,476
Long-term receivables and prepayments	429
Interest in an associate	6,355
Inventories	53,464
Trade and other receivables	85,439
Time deposits with maturity over three months when placed	35,181
Cash and cash equivalents	20,099
Trade and other payables and contract liabilities	(20,968)
Bank loans	(81,596)
Deferred tax liabilities	(5,682)
Fair value of identifiable assets acquired and liabilities assumed at the Acquisition Date	141,197
Total consideration	(124,791)
Gain on bargain purchase recognised in the consolidated statement of profit or loss	16,406
Consideration paid, satisfied by cash	124,791
Cash and cash equivalents acquired	(20,099)
Net cash outflow	104,692

As at the Acquisition Date, the fair values of the receivables were their gross contractual amounts. None of them was expected to be uncollectible. The gain on bargain purchase is attributable to the increase in fair value of the net assets acquired, from the date of valuations that the considerations were based on, to the Acquisition Date.

The Group incurred transaction costs of $823,000 in connection with the Acquisition. The transaction costs have been included in administrative expenses in the consolidated statement of profit or loss.

19 Acquisition of subsidiaries *(Continued)*

An analysis of the cash flows in respect of the Acquisition is as follows:

	$'000
Net cash consideration and cash outflow included in cash used in investing activities	104,692
Less: transaction costs for the Acquisition included in cash flows from operating activities	(823)
	103,869

Revenue and net profit attributable to the Group during the period from 31 March 2020, the Acquisition Date, to 30 June 2020 contributed by the Acquisition were $100,385,000 and $9,668,000 respectively. Had the Acquisition taken place and completed at the beginning of the year, revenue and net profit attributable for the Group would have been $1,711,828,000 and $93,706,000, respectively.

20 Discontinued operations

During the six months ended 30 June 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 was considered as a separate major line of business, the corresponding operations had been classified as discontinued operations as a result of the cessation of operations of this segment.

As at 30 June 2019, no assets or liabilities of the ride-on toys segment were held by the Group.

20 Discontinued operations *(Continued)*

The result of the discontinued operations for the six months ended 30 June 2019 was set out below:

	Six months ended 30 June 2019 $'000
Revenue	18,377
Cost of sales	(34,907)
Gross loss	(16,530)
Other revenue	247
Other net income	186
Distribution costs	(323)
Administrative expenses	(1,762)
Loss from operations	(18,182)
Loss before taxation	(18,182)
Income tax	–
Loss for the period from discontinued operations	(18,182)
Attributable to:	
Equity shareholders of the Company	(13,506)
Non-controlling interests	(4,676)
	(18,182)
Cash flow	
Operating cash outflows	(8,423)
Investing cash inflows	82
Net cash outflows	(8,341)