DREAM INTERNATIONAL LIMITED
德林國際有限公司

Incorporated in Hong Kong with limited liability

Stock Code : 1126

INTERIM REPORT 2019

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

During the first half of 2019, even though the global economy has become more volatile with the US-China trade war, the Group has managed to achieve continued revenue growth. This was accomplished by implementing its effective business strategies of strengthening ties with existing top-tier customers while continuing diversification of its product portfolio, as well as ongoing efforts in expanding its production capacity in Vietnam in order to capture the emerging opportunities in the market.

Combining the results of both continuing and discontinuing operations, for the six months ended 30 June 2019, contributed by a significant increase in the sales of both plastic figures and plush stuffed toys, the Group has again achieved another record high half-year revenue amounting to HK$1,609.5 million, rising by 15.1% year-on-year (six months ended 30 June 2018: HK$1,398.2 million). Gross profit rose by 4.4% to HK$297.2 million (six months ended 30 June 2018: HK$284.7 million) while gross profit margin was 18.5% (six months ended 30 June 2018: 20.4%). Together with continuously well-executed cost control strategy, profit for the period increased by 40.5% to HK$110.3 million (six months ended 30 June 2018: HK$78.5 million) while net profit margin increased to 6.9% (six months ended 30 June 2018: 5.6%) during the period under review.

As at 30 June 2019, the Group was in a healthy financial position with cash and cash equivalents and time deposits amounting to HK$426.8 million (31 December 2018: HK$432.2 million). The Board has recommended the payment of an interim dividend of HK3 cents per ordinary share (six months ended 30 June 2018: HK1 cent per ordinary share).

Business Review

Product Analysis

Plush Stuffed Toys Segment

During the period under review, well-recognised by top-tier toy companies for its product quality and strong manufacturing capacity, the plush stuffed toys segment recorded a revenue growth of 15.1% to HK$775.4 million (six months ended 30 June 2018: HK$673.7 million), accounting for 48.2% of the Group's total revenue. The Original Equipment Manufacturing business under the plush stuffed toys segment continued to record an increase in revenue, which was up by 19.4% year-on-year to HK$722.1 million (six months ended 30 June 2018: HK$604.8 million), representing 93.1% of total revenue of this segment. Driven by the cross-selling opportunities from existing customers, the baby doll business continued to demonstrate its growth. In particular, the orders from a top-tier toy company have become strong, beginning to contribute significant revenue to the Group. Meanwhile, the Group has exerted efforts in exploring opportunities to expand the promotional product business, so as to further broaden the revenue stream.

The sales of the Original Design Manufacturing business was HK$53.3 million (six months ended 30 June 2018: HK$68.9 million), contributing 6.9% of the total revenue of plush stuffed toys. The Group is progressing in its efforts to establish a new production system which, in turn, will enable its generic products to be produced at a lower cost and therefore generate a higher profit margin as well as boost its competitiveness in the market.

Plastic Figures Segment

The revenue of the plastic figures segment increased by 10.2% to HK$770.2 million (six months ended 30 June 2018: HK$698.9 million), accounting for 47.9% of the Group's total revenue and remained as a major revenue contributor and a growth driver. The growth was mainly thanks to the Addendum to Master Sourcing Agreement between the Group and the licensor of plastic figures with unique features effective this year, driving the significant increase in the sales orders.

Ride-on Toys Segment

Due to the cessation of production of ride-on toys during the first quarter of 2019, the segmental revenue for this segment decreased to HK$18.4 million (six months ended 30 June 2018: HK$25.6 million) during the review period, representing 1.1% of the Group's total revenue.

Die-casting Products Segment

Newly introduced towards the end of the last financial year, the die-casting products business has been performing well, recording a revenue of HK$45.5 million during the review period. The promising start of this new business demonstrated its successful conversion from the ride-on toys segment.

Geographic Market Analysis

For the six months ended 30 June 2019, North America continued to be the largest geographic market of the Group, accounting for 59.8% of its total revenue. Japan was second, accounting for 21.7%, followed by China at 6.5%, Europe at 5.0%, Vietnam at 4.1%, Hong Kong at 1.5% and Others at 1.4%.

Operational Analysis

As at 30 June 2019, the Group operated 19 plants in total, 15 of which were in Vietnam and 4 in China, with an average utilisation rate of approximately 85%. In view of the growing demand for plastic figures, the Group has acquired an additional land in Vietnam for a new factory to capture the business opportunities.

Prospects

Despite the uncertainty surrounding the global economy, the Group remains cautiously optimistic about its prospects. There is an increasing number of customers exploring manufacturers based outside China due to the ongoing US-China trade war. As a toy manufacturer with a strong production capacity especially in Vietnam, the Group is able to stand out from other players to secure more new customers as well as riding on the strength of its good relations with existing customers.

Going forward, the Group will continue to employ its parallel development strategy of developing the core plastic figures and plush stuffed toys businesses while seeking product diversification. In the case of the former, it forecasts accelerating opportunities in business growth with the current product categories in the next couple years partially due to the China-US trade war, and it will continuously expand its production capacity to meet growing demand. As for the latter, in addition to the baby dolls business which has been added to its product division since 2016, the restructuring process of die-casting products from the ride-on toys segment was successful, which will consequently result in an expansion of the Group's revenue stream. The Group cautiously expects a healthy growth for die-casting products. Given the increasing volume of orders received for the second half of 2019, the Group will consider to expand its production capacity for die-casting products. It will continue to explore opportunities of cross-selling between different product segments from existing customers which are global top-tier toy companies, so as to achieve greater revenue contributions and create synergies across its business.

The Group will consider investment opportunities for acquisitions of suitable companies with growth potential to boost revenue and profit. Through all these strategies, the Group is working towards the goal of reaching an annual revenue of US$700 million by 2021.

Capitalising on its leadership in the toy manufacturing industry which is currently undergoing consolidation and its timely capacity expansion plan in Vietnam to meet the strengthening market demand, the Group is well prepared to grasp the tremendous opportunities in order to strive for long-term and steady growth and, ultimately, bring promising returns to its shareholders.

Number and Remuneration of Employees

As at 30 June 2019, the Group had 23,620 (31 December 2018: 23,242) 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 2019, the Group had net current assets of HK$787.5 million (31 December 2018: HK$771.7 million). The Group's total cash and cash equivalents as at 30 June 2019 amounted to HK$372.9 million (31 December 2018: HK$378.5 million). The total bank loans of the Group as at 30 June 2019 amounted to HK$150.0 million (31 December 2018: HK$116.9 million).

The Group's gearing ratio, calculated on the basis of total bank loans over total equity, was 7.4% at 30 June 2019 (31 December 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$17.0 million as at 30 June 2019 (31 December 2018: HK$17.7 million) were pledged as security for an unutilised bank facility of the Group of HK$11.7 million (31 December 2018: HK$11.7 million).

A property with carrying amount of HK$218.3 million as at 30 June 2019 (31 December 2018: HK$222.1 million) was pledged as security for a mortgage instalment loan of HK$74.8 million (31 December 2018: HK$77.8 million). Certain property, plant and equipment for the Group with an aggregate carrying amount of HK$69.3 million as at 30 June 2019 were pledged as security for term loans of HK$38.9 million (31 December 2018: Nil).

Significant Investment Held

There was no significant investment held by the Group during the six months ended 30 June 2019.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

There was no material acquisition or disposal of subsidiaries and associated companies by the Group during the six months ended 30 June 2019.

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 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.

ADDITIONAL INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Interim Dividend and Closure of Register of Members

The Board declared an interim dividend of HK3 cents per ordinary share for the six months ended 30 June 2019 (six months ended 30 June 2018: HK1 cent per ordinary share). The interim dividend of HK$20,306,000 (six months ended 30 June 2018: HK$6,769,000) will be paid on 27 September 2019 to shareholders registered at the close of business on the record date, 13 September 2019.

The register of members will be closed for one day on 16 September 2019, 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 13 September 2019.

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

As at 30 June 2019, the interests and short positions of each Director and chief executive in the shares, underlying shares and debentures of the Company, its subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of Part XV of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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

Long positions in ordinary shares

	Number of ordinary shares held				
	Personal interests *(Note 1)*	Family interests	Corporate interests	Total	Percentage of issued shares of the Company
The Company					
Kyoo Yoon Choi	384,739,000	–	72,150,000 *(Note 2)*	456,889,000	67.50%
Young M. Lee	2,500,000	–	–	2,500,000	0.37%
Hyun Ho Kim	150,000	–	–	150,000	0.02%
Sung Sick Kim	3,240,000	–	–	3,240,000	0.48%

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 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 Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

At no time during the six months ended 30 June 2019 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 2019, 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	384,739,000	56.84%
	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)*	40,750,000	6.02%
Pandanus Partners L.P.	Interest in a controlled corporation *(Note 3)*	40,750,000	6.02%
Pandanus Associates Inc.	Interest in a controlled corporation *(Note 3)*	40,750,000	6.02%
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 40,750,000 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 40,750,000 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 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.

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

During the six months ended 30 June 2019, 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 2019, the Board considered that the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for the deviation from the code provision A.2.1.

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

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard. The Company has made specific enquires of all the Directors, and all Directors have confirmed that they had complied with the required standard as set out in the Model Code at all applicable times during the six months ended 30 June 2019.

Audit Committee

The audit committee of the Company (the "Audit Committee") has reviewed with management of the Company with respect to the accounting principles and practices adopted by the Group and discussed risk management and internal control systems and financial reporting matters, including a review of the unaudited interim results for the six months ended 30 June 2019. The Audit Committee considered that the unaudited interim results for the six months ended 30 June 2019 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 2019 have not been audited, but have been reviewed by KPMG.

By order of the Board
Kyoo Yoon Choi
Chairman

Hong Kong, 26 August 2019

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 13 to 54, which comprises the consolidated statement of financial position of Dream International Limited (the "Company") as of 30 June 2019 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

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

(Incorporated in Hong Kong with limited liability)

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

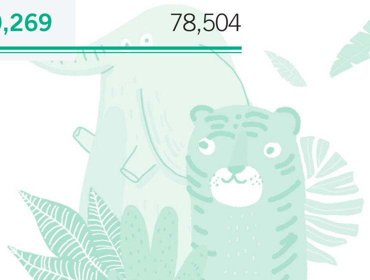
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2019	2018
			(Notes)
	Notes	**$'000**	$'000
			(Restated)
Continuing operations			
Revenue	*3, 4*	**1,591,075**	1,372,591
Cost of sales		**(1,277,344)**	(1,076,182)
Gross profit		**313,731**	296,409
Other revenue		**9,152**	9,034
Other net gain/(loss)		**1,192**	(1,819)
Distribution costs		**(38,909)**	(35,951)
Administrative expenses		**(135,409)**	(137,847)
Profit from operations		**149,757**	129,826
Finance costs	*5(a)*	**(2,599)**	(1,137)
Profit before taxation	*5*	**147,158**	128,689
Income tax	*6*	**(18,707)**	(29,922)
Profit for the period from continuing operations		**128,451**	98,767
Discontinued operations			
Loss for the period from discontinued operations	*19*	**(18,182)**	(20,263)
Profit for the period		**110,269**	78,504



CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

for the six months ended 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2019	2018
			(Notes)
	Notes	**$'000**	$'000
			(Restated)
Attributable to:			
Equity shareholders of the Company		**112,439**	83,650
Non-controlling interests		**(2,170)**	(5,146)
Profit for the period		**110,269**	78,504
Profit/(loss) attributable to equity shareholders of the Company arises from:			
– Continuing operations		**125,945**	98,703
– Discontinued operations		**(13,506)**	(15,053)
		112,439	83,650
Earnings/(loss) per share attributable to equity shareholders of the Company for the period	*7*		
Basic and diluted			
– From continuing operations		**$0.186**	$0.146
– From discontinued operations		**$(0.020)**	$(0.022)
Earnings per share for the period		**$0.166**	$0.124

Notes:

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

(ii) The results of ride-on toys segment have been classified as discontinued operations of the Group for the period ended 30 June 2019. In this regard, the Group has restated the comparative information for the period ended 30 June 2018.

The notes on pages 23 to 54 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2019	2018
		(Notes)
	$'000	$'000
		(Restated)
Profit for the period	**110,269**	78,504
Other comprehensive income for the period (after tax and reclassification adjustments):		
Item that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit retirement obligation	**–**	(154)
Unlisted equity security at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	**(829)**	1,975
	(829)	1,821
Items that may be or are reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**(5,416)**	889
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)	**87**	249
	(4,937)	1,138
Other comprehensive income for the period	**(5,766)**	2,959
Total comprehensive income for the period	**104,503**	81,463

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

for the six months ended 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2019	2018
		(Notes)
	$'000	$'000
		(Restated)
Attributable to:		
Equity shareholders of the Company	**106,991**	86,435
Non-controlling interests	**(2,488)**	(4,972)
Total comprehensive income for the period	**104,503**	81,463
Total comprehensive income attributable to equity shareholders of the Company		
– Continuing operations	**120,497**	101,488
– Discontinued operations	**(13,506)**	(15,053)
	106,991	86,435

Notes:

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

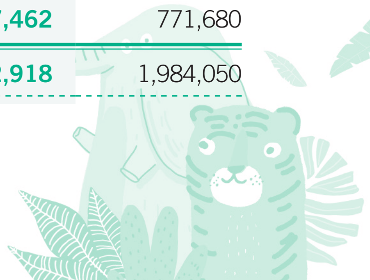
(ii) The results of ride-on toys segment have been classified as discontinued operations of the Group for the period ended 30 June 2019. In this regard, the Group has restated the comparative information for the period ended 30 June 2018.

The notes on pages 23 to 54 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

	Notes	At 30 June 2019 $'000	At 31 December 2018 *(Note)* $'000
Non-current assets			
Investment properties		**3,743**	3,900
Other property, plant and equipment	*2(i), 9*	**1,208,112**	1,165,227
Long term receivables and prepayments		**26,345**	23,090
Other intangible assets		**6,891**	7,046
Goodwill		**2,753**	2,753
Interest in an associate		**7,360**	–
Deferred tax assets		**5,882**	4,511
Other financial assets	*8*	**4,370**	5,843
		1,265,456	1,212,370
Current assets			
Inventories	*10*	**552,930**	459,210
Trade and other receivables	*11*	**598,750**	633,121
Current tax recoverable		**3,726**	206
Time deposits	*12*	**53,879**	53,705
Cash and cash equivalents	*12*	**372,941**	378,503
		1,582,226	1,524,745
Current liabilities			
Trade and other payables and contract liabilities	*13*	**596,943**	592,124
Bank loans	*14*	**150,048**	116,895
Lease liabilities	*2(i)(d)*	**14,041**	–
Current tax payable		**33,732**	44,046
		794,764	753,065
Net current assets		**787,462**	771,680
Total assets less current liabilities		**2,052,918**	1,984,050



CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

at 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

	Notes	At 30 June 2019 $'000	At 31 December 2018 (Note) $'000
Non-current liabilities			
Lease liabilities	2(i)(d)	19,178	–
Deferred tax liabilities		7,963	8,627
		27,141	8,627
NET ASSETS		2,025,777	1,975,423
CAPITAL AND RESERVES	15		
Share capital		236,474	236,474
Reserves		1,814,967	1,762,125
Total equity attributable to equity shareholders of the Company		2,051,441	1,998,599
Non-controlling interests		(25,664)	(23,176)
TOTAL EQUITY		2,025,777	1,975,423

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

The notes on pages 23 to 54 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019 – 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 2018		236,474	20,202	(6,246)	49,428	(291)	(7,372)	1,408,904	1,701,099	(11,316)	1,689,783
Changes in equity for the six months ended 30 June 2018:											
Profit for the period		–	–	–	–	–	–	83,650	83,650	(5,146)	78,504
Other comprehensive income		–	–	–	715	249	1,975	(154)	2,785	174	2,959
Total comprehensive income		–	–	–	715	249	1,975	83,496	86,435	(4,972)	81,463
Appropriation to general reserve fund		–	1,715	–	–	–	–	(1,715)	–	–	–
Final dividend approved in respect of the previous year	*15(b)*	–	–	–	–	–	–	(20,306)	(20,306)	–	(20,306)
Balance at 30 June 2018 and 1 July 2018		236,474	21,917	(6,246)	50,143	(42)	(5,397)	1,470,379	1,767,228	(16,288)	1,750,940
Changes in equity for the six months ended 31 December 2018:											
Profit for the period		–	–	–	–	–	–	248,848	248,848	(6,827)	242,021
Other comprehensive income		–	–	–	(7,796)	6	(2,149)	(769)	(10,708)	(61)	(10,769)
Total comprehensive income		–	–	–	(7,796)	6	(2,149)	248,079	238,140	(6,888)	231,252
Dividends declared in respect of the current year	*15(a)*	–	–	–	–	–	–	(6,769)	(6,769)	–	(6,769)
Balance at 31 December 2018 *(Note)*		236,474	21,917	(6,246)	42,347	(36)	(7,546)	1,711,689	1,998,599	(23,176)	1,975,423

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

for the six months ended 30 June 2019 – 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

The notes on pages 23 to 54 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2019	2018 *(Note)*
	Notes	**$'000**	$'000
Operating activities			
Cash generated from operations		**117,288**	110,466
Tax paid		**(34,703)**	(38,056)
Net cash generated from operating activities		**82,585**	72,410
Investing activities			
Payment for purchase of leasehold land and other property, plant and equipment		**(55,658)**	(314,965)
Proceeds from the disposal of property, plant and equipment		**1,757**	–
Prepayment for purchase of leasehold land and other property, plant and equipment		**(4,660)**	(5,549)
Payment for investing in an associate		**(7,360)**	–
(Increase)/decrease in time deposits with maturity over three months when placed		**(174)**	3,428
Proceeds received upon disposal of other financial assets		**–**	14,570
Other cash flows arising from investing activities		**8,468**	7,167
Net cash used in investing activities		**(57,627)**	(295,349)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

for the six months ended 30 June 2019 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Notes	**2019** **$'000**	2018 *(Note)* $'000
Financing activities			
Capital element of lease rentals paid		**(5,495)**	–
Interest element of lease rentals paid		**(990)**	–
Dividends paid		**(54,149)**	(20,306)
Proceeds from new bank loans		**139,287**	136,085
Repayment of bank loans		**(105,998)**	–
Other cash flows arising from financing activities		**(1,610)**	(1,137)
Net cash (used in)/generated from financing activities		**(28,955)**	114,642
Net decrease in cash and cash equivalents		**(3,997)**	(108,297)
Cash and cash equivalents at 1 January	*12*	**378,503**	316,739
Effect of foreign exchange rate changes		**(1,565)**	620
Cash and cash equivalents at 30 June	*12*	**372,941**	209,062

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

The notes on pages 23 to 54 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 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policies that are expected to be reflected in the 2019 annual financial statements. Details of those 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 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the board of directors is included on pages 11 to 12.

The financial information relating to the financial year ended 31 December 2018 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 2018 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 2019 financial statements

(i) 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 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.

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.

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 adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

2 Accounting policies adopted in 2019 financial statements *(Continued)*

(i) Changes in accounting policies (Continued)

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

(a) Changes in the accounting policies

(i) 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.

(ii) Lessee accounting

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. As far as the Group is concerned, these newly capitalised leases are primarily in relation to properties as disclosed in note 17(b).

2 Accounting policies adopted in 2019 financial statements *(Continued)*

(i) Changes in accounting policies (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting (Continued)

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.

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.

2 Accounting policies adopted in 2019 financial statements *(Continued)*

(i) Changes in accounting policies (Continued)

(a) Changes in the accounting policies (Continued)

(iii) 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 stated at cost less accumulated depreciation and impairment losses.

(iv) Lessor accounting

In addition to leasing out the investment property referred to in paragraph (a)(iii) 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.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

2 Accounting policies adopted in 2019 financial statements *(Continued)*

(i) Changes in accounting policies (Continued)

(c) Transitional impact

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 Accounting policies adopted in 2019 financial statements *(Continued)*

(i) Changes in accounting policies (Continued)

(c) Transitional impact (Continued)

The following table reconciles the operating lease commitments as at 31 December 2018 as disclosed in note 17(b) to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 $'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 subsequent 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 at 1 January 2019 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 the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

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.

2 Accounting policies adopted in 2019 financial statements *(Continued)*

(i) Changes in accounting policies (Continued)

(c) 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 $'000	Capitalisation of operating lease contracts $'000	Carrying amount at 1 January 2019 $'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 Accounting policies adopted in 2019 financial statements *(Continued)*

(i) Changes in accounting policies (Continued)

(c) Transitional impact (Continued)

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At 30 June 2019 $'000	At 1 January 2019 $'000
Included in "Other property, plant and equipment":		
Interests in leasehold land held for own use, carried at depreciated cost	105,927	107,250
Other properties leased for own use, carried at depreciated cost	33,454	30,683
Plant, machinery and equipment, carried at depreciated cost	786	–
	140,167	137,933

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments $'000	Total minimum lease payments $'000	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	14,041	15,049	8,453	9,216
After 1 year but within 2 years	7,212	7,786	6,789	7,382
After 2 years but within 5 years	5,754	7,169	6,861	8,327
After 5 years	6,212	34,735	6,398	35,421
	19,178	49,690	20,048	51,130
	33,219	64,739	28,501	60,346
Less: total future interest expenses		(31,520)		(31,845)
Present value of lease liabilities		33,219		28,501

2 Accounting policies adopted in 2019 financial statements *(Continued)*

(i) Changes in accounting policies (Continued)

(e) 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 operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the period.

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. 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.

(ii) Interest in an associate

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. 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 profit or loss and other comprehensive income.

2 Accounting policies adopted in 2019 financial statements *(Continued)*

(ii) Interest in an associate (Continued)

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 model to such other long-term interests where applicable).

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.

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 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 period's presentation.

As discussed in note 19, 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 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:

	Continuing operations		Discontinued operations	
	Six months ended 30 June			
	2019 $'000	2018 $'000 (Restated)	2019 $'000	2018 $'000 (Restated)
Revenue from sales of goods within the scope of HKFRS 15				
Disaggregated by major product lines				
– Plush stuffed toys	775,420	673,736	–	–
– Plastic figures	770,175	698,855	–	–
– Die-casting products	45,480	–	–	–
– Ride-on toys	–	–	18,377	25,575
	1,591,075	1,372,591	18,377	25,575

	Continuing operations		Discontinued operations	
	Six months ended 30 June			
	2019 $'000	2018 $'000 (Restated)	2019 $'000	2018 $'000 (Restated)
Disaggregated by geographical location of customers				
– Hong Kong (place of domicile)	23,840	23,419	–	–
– North America	943,838	877,499	18,377	25,575
– Japan	349,718	327,797	–	–
– The PRC	104,642	38,286	–	–
– Europe	80,616	49,403	–	–
– Vietnam	65,278	26,556	–	–
– Korea	18,932	28,276	–	–
– Other countries	4,211	1,355	–	–
	1,591,075	1,372,591	18,377	25,575

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		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)*
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000 (Restated)	$'000	$'000 (Restated)	$'000	$'000
For the six months ended 30 June												
Revenue from external customers	775,420	673,736	770,175	698,855	45,480	–	1,591,075	1,372,591	18,377	25,575	1,609,452	1,398,166
Inter-segment revenue	9,930	15,760	4,907	4,719	15,670	–	30,507	20,479	–	7,477	30,507	27,956
Reportable segment revenue	785,350	689,496	775,082	703,574	61,150	–	1,621,582	1,393,070	18,377	33,052	1,639,959	1,426,122
Reportable segment profit/ (loss) (adjusted EBITDA)	112,223	92,189	94,048	92,052	15,196	–	221,467	184,241	(18,117)	(14,061)	203,350	170,180
Impairment on other property, plant and equipment	–	(1,394)	–	–	–	–	–	(1,394)	–	(2,882)	–	(4,276)
As at 30 June/31 December												
Reportable segment assets	1,442,156	1,185,256	812,167	933,498	191,414	134,206	2,445,737	2,252,960	–	57,084	2,445,737	2,310,044
Reportable segment liabilities	332,681	238,397	280,763	329,153	280,774	91,305	894,218	658,855	–	178,122	894,218	836,977

Note:

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

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

3 Revenue and segment reporting *(Continued)*

(c) Reconciliations of reportable segment profit or loss

	Continuing operations		Discontinued operations	
	Six months ended 30 June			
	2019	2018 *(Note)*	**2019**	2018 *(Note)*
	$'000	$'000 (Restated)	**$'000**	$'000 (Restated)
Reportable segment profit/(loss)	**221,467**	184,241	**(18,117)**	(14,061)
Interest income	**4,539**	4,571	**–**	2
Depreciation and amortisation	**(61,411)**	(41,364)	**(30)**	(3,291)
Finance costs	**(2,599)**	(1,137)	**–**	–
Impairment loss on other plant and equipment	**–**	(1,394)	**–**	(2,882)
Unallocated head office and corporate expenses	**(14,838)**	(16,228)	**(35)**	(31)
Consolidated profit/(loss) before taxation	**147,158**	128,689	**(18,182)**	(20,263)

Note:

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

4 Seasonality of operations

The Group's plush stuffed toys, plastic figures, die-casting products 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 2019, the plush stuffed toys, plastic figures, die-casting products and ride-on toys segments reported reportable segment revenue of $1,824,427,000, $1,829,644,000, $93,515,000 and $58,005,000 respectively (twelve months ended 30 June 2018: $1,566,011,000, $1,546,728,000, $nil and $77,413,000 respectively), and reportable segment profit of $252,196,000, $278,412,000, $22,695,000 and loss of $5,292,000 respectively (twelve months ended 30 June 2018: profit of $254,436,000, $324,514,000, $nil and loss of $15,763,000 respectively).

During the six months ended 30 June 2019, ride-on toys segment has been classified as discontinued operations. See note 19.

5 Profit before taxation

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

(a) Finance costs

	Continuing operations		Discontinued operations	
	Six months ended 30 June			
	2019	2018 *(Note)*	**2019**	2018 *(Note)*
	$'000	$'000 (Restated)	**$'000**	$'000 (Restated)
Interest expense on bank borrowings	**1,609**	1,137	**–**	–
Interest on lease liabilities	**990**	–	**–**	–
	2,599	1,137	**–**	–

5 Profit before taxation *(Continued)*

(b) Other items

	Continuing operations		Discontinued operations	
	Six months ended 30 June			
	2019	2018 *(Note)*	**2019**	2018 *(Note)*
	$'000	$'000 (Restated)	**$'000**	$'000 (Restated)
Amortisation	**1,245**	1,028	**30**	133
Depreciation charge				
– owned property, plant and equipment	**53,797**	40,336	**–**	3,158
– right-of use assets	**6,369**	–	**–**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	13,749	**–**	–
Total minimum lease payments for short-term leases	**6,260**	–	**–**	–
Inventories write-down *(note 10)*	**7,424**	3,563	**–**	–
Reversal of write-down of inventories *(note 10)*	**(307)**	(1,552)	**(3,672)**	–
Bank interest income	**(4,479)**	(4,229)	**–**	(2)
Interest income from other financial assets	**(60)**	(342)	**–**	–
Net loss on disposal of other financial assets	**–**	241	**–**	–
Net (gain)/loss on disposal of other property, plant and equipment	**(316)**	442	**(82)**	–
Impairment loss on other property, plant and equipment	**–**	1,394	**–**	2,882

5 Profit before taxation *(Continued)*

(b) Other items (Continued)

Note:

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

6 Income tax

	Continuing operations		Discontinued operations	
	Six months ended 30 June			
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
		(Restated)		(Restated)
Current tax – Hong Kong Profits Tax	**12,554**	10,789	**–**	–
Current tax – Outside Hong Kong	**8,289**	21,494	**–**	–
Deferred taxation	**(2,136)**	(2,361)	**–**	–
	18,707	29,922	**–**	–

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 2018: 16.5%) to the six months ended 30 June 2019 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 2018.

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

Current tax outside Hong Kong for the six months ended 30 June 2018 included withholding tax of $4,479,000 paid on dividend income from a subsidiary.

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 $112,439,000 (six months ended 30 June 2018: $83,650,000) and the weighted average number of ordinary shares of 676,865,000 shares (six months ended 30 June 2018: 676,865,000 shares) in issue during the interim period.

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Profit/(loss) attributable to equity shareholders of the Company arises from:		
– Continuing operations	**125,945**	98,703
– Discontinued operations	**(13,506)**	(15,053)
	112,439	83,650

(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 2019 and 2018.

8 Other financial assets

	At 30 June 2019	At 31 December 2018
	$'000	$'000
Debt securities measured at FVOCI (recyclable) *(note (i))*	**1,597**	1,538
Unlisted equity security measured at FVOCI (non-recyclable) *(note (ii))*	**2,773**	4,305
	4,370	5,843

8 Other financial assets *(Continued)*

Notes:

(i) Debt securities represents an investment in bond amounting to $1,597,000 (2018: $1,538,000) 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 (2018: Nil).

9 Other property, plant and equipment

(a) Right-of-use assets

As discussed in note 2(i), 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. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 2(i).

During the six months ended 30 June 2019, the Group entered into a number of lease agreements and therefore recognised the additions to right-of-use assets of $9,883,000.

(b) Acquisitions and disposal of owned assets

During the six months ended 30 June 2019, the Group acquired items of other property, plant and equipment with a cost of $67,076,000 (six months ended 30 June 2018: $307,791,000). Items of other property, plant and equipment with a net book value of $1,359,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: $3,036,000), resulting in a net gain on disposal of $398,000 (six months ended 30 June 2018: net loss on disposal of $442,000).

10 Inventories

During the six months ended 30 June 2019, there is a write-down of inventories of $7,424,000 (six months ended 30 June 2018: $3,563,000). The write-down arose upon a decrease in the estimated net realisable value of these inventories.

During the six months ended 30 June 2019, there is a reversal of write-down of inventories of $3,979,000 (six months ended 30 June 2018: $1,552,000). The reversal arose upon utilisation, disposal or an increase in the estimated net realisable value of these inventories.

11 Trade and other receivables

As at 30 June 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:

	At 30 June 2019 $'000	At 31 December 2018 $'000
Within 1 month	309,411	277,047
1 to 2 months	129,255	156,745
2 to 3 months	19,622	31,091
3 to 4 months	767	18,914
Over 4 months	3,845	2,300
Trade debtors and bills receivable, net of loss allowance	462,900	486,097
Other receivables and prepayments	119,435	128,932
Amounts due from related companies	16,415	18,092
	598,750	633,121

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

12 Cash and cash equivalents and time deposits

	At 30 June 2019 $'000	At 31 December 2018 $'000
Bank deposits within three months to maturity when placed	**80,121**	65,747
Cash at bank and on hand	**292,820**	312,756
Cash and cash equivalents in the consolidated statement of financial position and condensed consolidated cash flow statement	**372,941**	378,503
Time deposits with more than three months to maturity when placed	**53,879**	53,705
	426,820	432,208

13 Trade and other payables and contract liabilities

As at 30 June 2019, 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 2019 $'000	At 31 December 2018 $'000
Due within 1 month or on demand	**300,727**	250,005
Due after 1 month but within 3 months	**105,064**	137,310
Due after 3 months but within 6 months	**2,382**	138
Trade payables	**408,173**	387,453
Contract liabilities – sales deposit	**45,156**	8,440
Salary and welfare payables	**122,650**	143,241
Value-added tax payable	**2,908**	4,778
Payable for acquisition of other property, plant and equipment	**–**	1,285
Other payables and accruals	**15,385**	18,285
Receipt in advance	**2,671**	28,642
	596,943	592,124

14 Bank loans

At 30 June 2019, bank loans include a mortgage instalment loan of HK$74,776,000 (31 December 2018: HK$77,785,000), which is secured by a property. It is interest-bearing at a rate of 1.0% per annum over HIBOR or lender's prime rate minus 2.25%, whichever is lower and it is repayable in 10 years. The above mentioned bank loan contains clauses which give the lender the right at its discretion to demand immediate repayment at anytime irrespective of whether the Company has met the scheduled repayment obligations. The balance is therefore classified as current liabilities in the statement of financial position as at 30 June 2019.

15 Capital, reserves and dividends

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

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Interim dividend declared and paid after the interim period of 3 cents per ordinary share (six months ended 30 June 2018: 1 cent per ordinary share)	**20,306**	6,769

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

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

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 8 cents per ordinary share (six months ended 30 June 2018: 3 cents per ordinary share)	**54,149**	20,306

15 Capital, reserves and dividends *(Continued)*

(c) 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, the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, 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.

Considering the impact of the application of HKFRS 16, during 2019, the Group reassessed the range at which it maintains its 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.

15 Capital, reserves and dividends *(Continued)*

(c) Capital management (Continued)

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:

	Note	**30 June 2019**	**1 January 2019** *(Note)*	**31 December 2018** *(Note)*
		$'000	$'000	$'000
Current liabilities:				
Trade and other payables and contract liabilities		596,943	592,124	592,124
Bank loans		150,048	116,895	116,895
Lease liabilities		14,041	8,453	–
Non-current liabilities:				
Lease liabilities		19,178	20,048	–
Total debt		780,210	737,520	709,019
Add: Proposed dividends	*15(a), (b)*	20,306	54,149	54,149
Less: Cash and cash equivalents	*12*	(372,941)	(378,503)	(378,503)
Time deposits with more than three months to maturity when placed	*12*	(53,879)	(53,705)	(53,705)
Net debt		373,696	359,461	330,960
Total equity		2,025,777	1,975,423	1,975,423
Net debt-to-capital ratio		18.4%	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(i).

16 Fair value measurement of financial instruments

(a) Financial assets measured at fair value

(i) Fair value hierarchy

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

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

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

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

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

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

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

(i) Fair value hierarchy (Continued)

	Fair value at 30 June 2019 $'000	Fair value measurements as at 30 June 2019 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Financial assets:				
Debt securities	1,597	–	1,597	–
Unlisted equity security	2,773	–	–	2,773
	4,370	–	1,597	2,773

	Fair value at 31 December 2018 $'000	Fair value measurements as at 31 December 2018 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Financial assets:				
Debt securities	1,538	–	1,538	–
Unlisted equity security	4,305	–	–	4,305
	5,843	–	1,538	4,305

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

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

(i) Fair value hierarchy (Continued)

During the six months ended 30 June 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.

(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% 31 December 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 30 June 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 $201,000 (2018: $313,000).

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

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

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

	2019 $'000	2018 $'000
Unlisted equity security:		
At 1 January	4,305	4,974
Unrealised (loss)/gain recognised in other comprehensive income during the period	(1,406)	1,975
Exchange difference	(126)	136
At 30 June	2,773	7,085

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 2019 and 31 December 2018.

17 Commitments

(a) Capital commitments outstanding at 30 June 2019 not provided for in the interim financial report

	At 30 June 2019 $'000	At 31 December 2018 $'000
Contracted for	12,701	39,071
Authorised but not contracted for	32,869	54,885
	45,570	93,956

The capital commitments outstanding as at 30 June 2019 and 31 December 2018 represent additional investments in buildings, plant and machineries and land use rights 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:

	At 31 December 2018 $'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(i)). 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 2(i).

18 Material related party transactions

During the six months ended 30 June 2019, the Group entered into the following transactions with its related parties:

			Six months ended 30 June	
			2019	2018
			$'000	$'000
(a)	***Key management personnel remuneration***			
	Salaries and other short-term benefits		**13,488**	14,066
(b)	***Sales of goods to***			
	Related companies	*(Note)*	**1,063**	1,106
(c)	***Purchase of materials from***			
	A related company	*(Note)*	**9**	3
(d)	***Processing fee received from***			
	A related company	*(Note)*	**12,924**	7,904
(e)	***Rental paid to***			
	A related company	*(Note)*	**1,061**	1,674

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

19 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 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 30 June 2019, no assets or liabilities of the ride-on toys segment were held by the Group.

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

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Revenue	**18,377**	25,575
Cost of sales	**(34,907)**	(37,274)
Gross loss	**(16,530)**	(11,699)
Other revenue	**247**	567
Other net income/(loss)	**186**	(3,510)
Distribution costs	**(323)**	(1,701)
Administrative expenses	**(1,762)**	(3,920)
Loss from operations	**(18,182)**	(20,263)
Loss before taxation	**(18,182)**	(20,263)
Income tax	**–**	–
Loss for the period from discontinued operations	**(18,182)**	(20,263)
Attributable to:		
Equity shareholders of the Company	**(13,506)**	(15,053)
Non-controlling interests	**(4,676)**	(5,210)
	(18,182)	(20,263)
Cash flow		
Operating cash outflows	**(8,423)**	(8,207)
Investing cash inflows/(outflows)	**82**	(2,826)
Net cash outflows	**(8,341)**	(11,033)

20 Comparative figures

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(i).

Certain comparative figures have been adjusted to conform to the disclosure requirement in respect of the discontinued operation set out in note 19 to the financial statements. Accordingly, the comparative figures in the consolidated statement of profit or loss have been restated.