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DREAM INTERNATIONAL LIMITED
德林國際有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1126)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

The board of directors (the "Board") of Dream International Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012, together with the comparative figures for the previous financial year.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 HK$'000	2011 HK$'000
Turnover	3&4	**1,353,340**	1,083,152
Cost of sales		**(1,007,276)**	(820,476)
Gross profit		**346,064**	262,676
Other revenue	5(a)	**20,894**	12,106
Other net loss	5(b)	**(3,324)**	(4,539)
Distribution costs		**(49,242)**	(45,846)
Administrative expenses		**(158,944)**	(143,638)
Profit on disposal of land and buildings	7	**–**	7,097
Profit from operations		**155,448**	87,856
Finance costs	8(a)	**(3,139)**	(1,179)
Share of (loss)/profit of associates		**(664)**	143
Profit before taxation	8	**151,645**	86,820
Income tax	9	**(29,692)**	(15,999)
Profit for the year		**121,953**	70,821
Attributable to:			
Equity shareholders of the Company		**129,191**	74,723
Non-controlling interests		**(7,238)**	(3,902)
Profit for the year		**121,953**	70,821
Earnings per share	10		
Basic		**19.22 ¢**	11.12 ¢
Diluted		**19.22 ¢**	11.12 ¢

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	HK$'000	*HK$'000*
Profit for the year	**121,953**	70,821
Other comprehensive income for the year (after tax adjustments):		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**13,006**	3,847
Available-for-sale securities: net movement in the fair value reserve	**(156)**	(20)
	12,850	3,827
Total comprehensive income for the year	**134,803**	74,648
Attributable to:		
Equity shareholders of the Company	**141,945**	77,965
Non-controlling interests	**(7,142)**	(3,317)
Total comprehensive income for the year	**134,803**	74,648

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Fixed assets			
– Interests in leasehold land held for own use under operating leases		**22,596**	22,884
– Other property, plant and equipment		**169,046**	158,686
		191,642	181,570
Long term receivables		**930**	2,796
Prepayments		**–**	1,990
Other intangible assets		**9,029**	12,191
Interest in associates		**27**	690
Net defined benefit retirement asset		**3,114**	2,619
Deferred tax assets		**7,825**	11,625
Goodwill		**2,753**	–
Other financial assets	*11*	**24,925**	23,048
		240,245	236,529
Current assets			
Inventories		**183,572**	231,565
Trade and other receivables	*12*	**208,496**	240,083
Current tax recoverable		**1,016**	4,125
Other financial assets	*11*	**14,674**	13,339
Time deposits		**156,735**	38,000
Cash and cash equivalents		**281,550**	177,115
		846,043	704,227
Current liabilities			
Trade and other payables	*13*	**208,006**	201,343
Bank loans		**20,810**	17,900
Current tax payable		**12,991**	9,554
		241,807	228,797
Net current assets		**604,236**	475,430
Total assets less current liabilities		**844,481**	711,959

CONSOLIDATED BALANCE SHEET *(CONTINUED)*

AT 31 DECEMBER 2012

	2012	2011
	HK$'000	*HK$'000*
Non-current liabilities		
Bank loans	**1,812**	4,924
Deferred tax liabilities	**394**	22
	2,206	4,946
NET ASSETS	**842,275**	707,013
CAPITAL AND RESERVES		
Share capital	**52,303**	52,303
Reserves	**785,322**	642,918
Total equity attributable to equity shareholders of the Company	**837,625**	695,221
Non-controlling interests	**4,650**	11,792
TOTAL EQUITY	**842,275**	707,013

NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

The consolidated results set out in this announcement do not constitute the Group's annual consolidated financial statements for the year ended 31 December 2012, but are extracted from the draft consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2012 comprise the Group and the Group's interest in associates.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that financial instruments classified as available-for-sale debt financial instruments and equity-linked financial assets are stated at their fair value.

2. Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following development is relevant to the Group's financial statements:

– Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

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

3. Turnover

The principal activities of the Group are the design, development, manufacture and sale of plush stuffed toys, ride-on toys and plastic figures. Turnover represents the sales value of goods supplied to customers and excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The Group's customer base is diversified and includes two (2011: three) customers with whom transactions have exceeded 10% of the Group's revenues. During the year ended 31 December 2012, the revenues from sales of plush stuffed toys and plastic figures to these customers amounted to approximately HK$531,667,000 and HK$348,214,000 (2011: HK$332,034,000, HK$270,434,000 and HK$114,284,000) respectively and arose in Hong Kong, North America, Japan and Europe (2011: Hong Kong, North America, Japan and Europe) geographical regions in which the plush stuffed toys and plastic figures segments are active.

4. 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 presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

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

(a) Segment results, assets and liabilities

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

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out below.

	Plush stuffed toys		**Ride-on toys**		**Plastic figures**		**Total**	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**1,278,595**	1,002,787	**56,365**	78,404	**18,380**	1,961	**1,353,340**	1,083,152
Inter-segment revenue	**5,033**	632	**–**	–	**–**	–	**5,033**	632
Reportable segment revenue	**1,283,628**	1,003,419	**56,365**	78,404	**18,380**	1,961	**1,358,373**	1,083,784
Reportable segment profit/(loss) (adjusted EBITDA)	**224,370**	141,727	**(20,054)**	(9,196)	**(14,941)**	(5,255)	**189,375**	127,276
Bank interest income	**6,107**	2,261	**17**	133	**238**	55	**6,362**	2,449
Interest expense	**(3,084)**	(1,179)	**–**	–	**(55)**	–	**(3,139)**	(1,179)
Depreciation and amortisation for the year	**(14,749)**	(17,971)	**(6,188)**	(6,327)	**(2,250)**	(358)	**(23,187)**	(24,656)
Reportable segment assets	**556,868**	572,042	**95,247**	101,992	**57,992**	20,412	**710,107**	694,446
Additions to non-current segment assets during the year	**15,126**	9,365	**877**	3,577	**26,647**	14,955	**42,650**	27,897
Reportable segment liabilities	**202,875**	166,089	**76,273**	64,183	**48,458**	4,894	**327,606**	235,166

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

	2012	2011
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**1,358,373**	1,083,784
Elimination of inter-segment revenue	**(5,033)**	(632)
Consolidated turnover	**1,353,340**	1,083,152

	2012	2011
	HK$'000	*HK$'000*
Profit		
Reportable segment profit	**189,375**	127,276
Share of (loss)/profit of associates	**(664)**	143
Interest income	**7,618**	3,439
Depreciation and amortisation	**(23,187)**	(24,656)
Finance costs	**(3,139)**	(1,179)
Impairment loss on club memberships	**(10)**	(2,787)
Unallocated head office and corporate expenses	**(18,348)**	(15,416)
Consolidated profit before taxation	**151,645**	86,820

	2012	2011
	HK$'000	*HK$'000*
Assets		
Reportable segment assets	**710,107**	694,446
Elimination of inter-segment receivables	**(119,600)**	(33,823)
	590,507	660,623
Club memberships	**9,029**	12,191
Interest in associates	**27**	690
Other financial assets	**39,599**	36,387
Deferred tax assets	**7,825**	11,625
Current tax recoverable	**1,016**	4,125
Unallocated head office and corporate assets	**438,285**	215,115
Consolidated total assets	**1,086,288**	940,756

	2012	2011
	HK$'000	*HK$'000*
Liabilities		
Reportable segment liabilities	**327,606**	235,166
Elimination of inter-segment payables	**(119,600)**	(33,823)
	208,006	201,343
Deferred tax liabilities	**394**	22
Current tax payable	**12,991**	9,554
Unallocated head office and corporate liabilities	**22,622**	22,824
Consolidated total liabilities	**244,013**	233,743

(c) Geographical information

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

	Revenue from external customers		**Specified non-current assets**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**7,245**	7,023	**–**	–
North America	**512,341**	394,729	**201**	206
Japan	**639,122**	465,005	**3,963**	3,874
Europe	**144,459**	200,771	**–**	–
South America	**10,609**	–	**–**	–
The PRC	**28,773**	8,896	**50,143**	64,398
Vietnam	**2,528**	1,854	**141,402**	117,241
Republic of Korea	**3,663**	1,095	**7,742**	10,722
Other countries	**4,600**	3,779	**–**	–
	1,346,095	1,076,129	**203,451**	196,441
	1,353,340	1,083,152	**203,451**	196,441

5. Other revenue and net loss

(a) *Other revenue*

	2012	2011
	HK$'000	*HK$'000*
Bank interest income	**6,362**	2,449
Interest income from other financial assets	**1,256**	990
Compensation income	**6,976**	–
Commission income from a related company and a fellow subsidiary	**3,660**	3,115
Sundry income	**2,640**	5,552
	20,894	12,106

(b) *Other net loss*

	2012	2011
	HK$'000	*HK$'000*
Net gain/(loss) on disposal of property, plant and equipment	**406**	(455)
Gain/(loss) on disposal of club memberships	**446**	(1,469)
Net realised and unrealised (loss)/gain on other financial assets	**(662)**	61
Impairment loss on club memberships	**(10)**	(2,787)
Net foreign exchange loss	**(3,327)**	(1,897)
Gain on disposal of assets held for sale	**–**	37
Others	**(177)**	1,971
	(3,324)	(4,539)

6. Losses from fire

On 29 September 2012, there was a fire at the production plant of a subsidiary of the Company in Suzhou, the PRC. Some of the Group's inventories and fixed assets were destroyed whilst most of its production lines were unaffected.

The losses incurred as a result of the fire are summarised as follows:

	2012
	HK$'000
Loss on fixed assets:	
– Cost	**10,691**
– Accumulated depreciation	**(4,065)**
	6,626
Loss on inventories	**7,987**
Total losses	**14,613**
Less:	
Scrap material sales	**(155)**
Compensation receivable	**(12,858)**
Net losses from fire (recorded in "administrative expenses")	**1,600**

7. Profit on disposal of land and buildings

On 15 April 2011, a subsidiary of the Company in Suzhou, the PRC disposed of a warehouse together with the associated land use right (the "Land and Warehouse") in Suzhou, at a cash consideration of RMB10,933,000 (equivalent to HK$13,229,000) plus a right to occupy the Land and Warehouse from 1 May 2011 to 31 December 2012, with a fair value estimated to be RMB828,000 (equivalent to HK$1,002,000). The net book value of the Land and Warehouse at the disposal date was RMB4,911,000 (equivalent to HK$5,942,000). The transaction is considered as a sales and operating leaseback arrangement and the Group recorded a profit on disposal of RMB5,865,000 (equivalent to HK$7,097,000) net of professional fee and related taxes of RMB985,000 (equivalent to HK$1,192,000) for the year ended 31 December 2011.

8. Profit before taxation

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

		2012	2011
		HK$'000	*HK$'000*
(a)	Finance costs		
	Interest expense on bank borrowings wholly repayable within five years	**3,139**	1,179
(b)	Staff costs#		
	Expenses recognised in respect of defined benefit retirement plan	**1,401**	2,036
	Contributions to defined contribution retirement plan	**12,970**	428
	Total retirement costs	**14,371**	2,464
	Equity settled share-based payment expenses	**459**	10
	Salaries, wages and other benefits	**335,194**	282,297
		350,024	284,771
(c)	Other items		
	Amortisation of land lease premium	**524**	461
	Depreciation#	**22,663**	24,195
	Impairment loss recognised on trade receivables	**2,966**	1,602
	Reversal of impairment loss on trade receivables	**(417)**	(1,664)
	Impairment loss recognised on other receivables	**1,006**	3,519
	Reversal of impairment loss on other receivables	**(707)**	–
	Auditors' remuneration	**4,869**	4,311
	Operating lease charges: minimum lease payments in respect of property rentals#	**24,235**	23,108
	Cost of inventories#	**1,007,276**	820,476

\# Cost of inventories includes HK$305,993,000 (2011: HK$247,852,000) relating to staff costs, depreciation and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 8(b) for each of these types of expenses.

9. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	2012	2011
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**3,405**	2,796
Under-provision in respect of prior years	**–**	136
	3,405	2,932
Current tax – Outside Hong Kong		
Provision for the year	**24,015**	10,677
Over-provision in respect of prior years	**(2,020)**	–
	21,995	10,677
Deferred tax		
Origination and reversal of temporary differences	**4,292**	4,168
Effect of change in tax rate on recognition of tax losses	**–**	(1,778)
	4,292	2,390
	29,692	15,999

The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

The Corporate Income Tax ("CIT") rate applicable to subsidiaries registered in the PRC is 25% (2011: 25%). Certain PRC subsidiaries are entitled to income tax holidays granted by the PRC tax authorities whereby they are exempted from CIT for two years starting from the first profit making year and thereafter subject to CIT at 50% of the prevailing tax rate for the following three years.

The Company operated a processing factory in Shenzhen, the PRC, which was assessed to use the deemed profit method to determine the amount of income tax provision. Under the deemed profit method, the processing factory was subject to income tax at 25% in 2012 on its deemed profit which was determined as 10% of its operating expenses according to the tax authority in Shenzhen. In May 2012, the Company set up a subsidiary to transform its processing factory into a wholly-owned foreign enterprise ("WOFE"). The CIT rate applicable to the WOFE is 25%.

10. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings of HK19.22 cents per share (2011: HK11.12 cents per share) is based on the profit attributable to ordinary equity shareholders of the Company of HK$129,191,000 (2011: HK$74,723,000) and the weighted average of 672,165,000 ordinary shares (2011: 672,165,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share for both 2012 and 2011 as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

11. Other financial assets

	2012	2011
	HK$'000	*HK$'000*
Non-current		
Equity-linked securities *(notes (i) and (vi))*	**3,469**	3,132
Available-for-sale debt securities – unlisted *(note (ii))*	**6,856**	6,516
Available-for-sale equity securities – unlisted *(note (iii))*	**14,600**	13,400
	24,925	23,048
Current		
Equity-linked securities *(notes (iv) and (vi))*	**14,674**	10,165
Held-to-maturity debt securities – unlisted *(note (v))*	**–**	3,174
	14,674	13,339
	39,599	36,387

Note:

(i) Equity-linked securities represent structured funds placed with an investment bank in Korea with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200, with a maturity date of 8 February 2014.

(ii) Available-for-sale debt securities – unlisted represents an investment in bonds issued by an investment bank in Korea with a maturity date of 30 March 2039. Management has no intention to hold the investment to maturity.

(iii) Available-for-sale equity securities – unlisted represents an investment in a Korean private company and is carried at cost.

(iv) Equity-linked securities represent four structured funds placed with an investment bank in Korea, amounting to HK$3,682,000, HK$3,672,000, HK$3,676,000 and HK$3,644,000, with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200 and maturity date of 5 March 2013, 5 March 2013, 3 September 2013 and 3 September 2013, respectively.

Equity-linked securities as at 31 December 2011 represented two structured funds placed with investment banks in Korea, amounting to HK$3,366,000 and HK$6,799,000, with guaranteed principal and variable interest linked to the Korea Composite Stock Price Index 200 and maturity date of 25 May 2012 and 10 August 2012, respectively.

(v) Held-to-maturity debt securities – unlisted as at 31 December 2011 represented an investment in commercial paper with a maturity date of 12 January 2012 and was interest-bearing at 6.50% per annum and carried at amortised cost.

(vi) The equity-linked securities are hybrid instruments that include non-derivative host contracts and embedded derivatives. Upon inception, the financial instruments are designated as fair value through profit or loss with changes in fair value recognised in the income statement.

(vii) None of the above other financial assets are past due or impaired.

12. Trade and other receivables

As of the balance sheet date, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 1 month	**93,996**	134,008
1 to 2 months	**18,194**	29,201
2 to 3 months	**13,279**	16,889
3 to 4 months	**2,087**	963
Over 4 months	**6,942**	511
	134,498	181,572

Trade debtors and bills receivable are due within 30 to 60 days from the date of billing.

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

13. Trade and other payables

Included in trade and other payables are trade creditors with the following aging analysis as of the balance sheet date:

	2012	2011
	HK$'000	*HK$'000*
Due within 1 month or on demand	**44,970**	40,013
Due after 1 month but within 3 months	**11,841**	24,889
Due after 3 months but within 6 months	**10**	245
Due after 6 months but within 1 year	**799**	101
	57,620	65,248

14. Dividends

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

	2012	2011
	HK$'000	*HK$'000*
Final dividend proposed after the balance sheet date of HK8 cents per ordinary share (2011: HK Nil cents per ordinary share)	**53,773**	–

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	2012	2011
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK Nil cents per ordinary share (2011: HK4 cents per ordinary share)	**–**	26,887

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

In 2012, the global economy continued to trudge its way forward on a slow path to recovery. Though there were signs of improvement in the US economy, unfavourable market conditions due to the European sovereign debt crisis still affected the overall performance of the toy industry. Nevertheless, Japan, a major market of Dream International Limited (the "Company") and its subsidiaries (collectively the "Group"), has exhibited stronger signs of recovery since the 3/11 earthquake-tsunami that struck the country in 2011, which became a driver of the Group's financial results to return to a satisfactory level during the year under review.

For the year ended 31 December 2012, the Group's turnover grew by 24.9% to HK$1,353.3 million (2011: HK$1,083.2 million). Gross profit reached HK$346.1 million, a remarkable rise of 31.7% from HK$262.7 million in the previous year. The increases were primarily attributable to the recovery of the Japanese economy, accompanied by better consumer sentiment in general when compared with the last financial year. Gross margins improved further to 25.6% (2011: 24.3%), due to the Group's strategic direction towards higher margin products and the shift of the core focus towards the Original Equipment Manufacturing ("OEM") business, facilitating a more effective utilisation of resources. The Group also reaped the benefits of tighter cost control measures, which enhanced operational efficiency and decreased its distribution and administrative expenses despite the turnover growth. As a result, operating profit soared by 76.9% to HK$155.4 million (2011: HK$87.9 million), while net profit attributable to equity shareholders jumped by 72.9% to HK$129.2 million (2011: HK$74.7 million) with net margin reaching 9.5% (2011: 6.9%).

The Group maintained a healthy financial position with cash and bank deposits of HK$438.3 million (31 December 2011: HK$215.1 million) as at 31 December 2012.

Business Review

Product Analysis

Plush stuffed toys segment

During the year under view, the plush stuffed toys business recorded a turnover of HK$1,278.6 million, accounting for 94.5% of the Group's total turnover. The OEM business remained the core contributor of the Group's total turnover, accounting for 86.7% of sales for the plush stuffed toy segment. The higher sales were mainly credited to growing orders from Japanese customers. During the year, the Group maintained close collaboration with well-known customers including globally renowned cartoon character owners and licensors. Following the launch of new products featuring iconic characters from Japan and Korea at the New York Toy Fair 2012 which generated a positive market response, the Group has already completed its first shipments of the new products of one of those characters in January 2013. It plans to participate in the toy fair in 2013 again to focus on the promotion of those popular characters.

Turnover from the Original Design Manufacturing ("ODM") business accounted for 13.3% of the plush stuffed toys' sales. The growth in the sales from this business was mainly attributable to the gradual recovery of the US economy and concomitant consumer confidence. The Group's newly established brand "Dream, Made to Love, Made to Hug" achieved an outstanding performance spurred by its success at the New York Toy Fair during the first half of 2012, which provided a solid foundation for the Group to launch new product designs to tap the high-end market. The new product launch is to be supported by promotional campaigns aimed at enhancing its brand awareness in the market. Furthermore, the volume of orders received from renowned US retailers for its "CALTOY" brand remained stable during the year under view.

Ride-on toys segment

For the year ended 31 December 2012, sales generated from the ride-on toys segment were HK$56.4 million, making up 4.2% of the Group's total turnover. The Group's strategy was to shift its operations to better focus on the high-end market, especially in China, to capture the stronger market demand there and enhance profitability. The high-margin tricycle product line for a domestic customer remained China's best selling tricycle and the Group has plans to launch an upgraded version in the first half of 2013. Based on the preliminary positive feedback of current customers, this new tricycle series is expected to generate satisfactory sales. Moreover, the Group has managed to maintain a stable sales performance for its "Great", "Far Great" and "Tom and Jerry" brands in China and intends to launch a number of signature ride-on toys in 2013.

Plastic figures segment

The Group has achieved satisfactory progress in establishing the plastic figures segment which has started to generate revenue during the year under review. The Group has secured leading global customers for this segment riding on its partnership forged with world-class toy brands over the years. This product category is principally sold in Japan and North America, and several shipments have been made during the year and many more orders for this segment are expected in 2013.

Market Analysis

For the year ended 31 December 2012, Japan remained the Group's largest geographic market, accounting for 47.2% of the Group's total turnover. Business in North America picked up slightly, contributing 37.9% of the Group's total turnover, followed by the European market at 10.7%.

Operational Analysis

As at 31 December 2012, the Group operated nine plants in total, four of which were in China and five in Vietnam, running on an average utilisation rate of 78.0%. In order to enhance production efficiency and implement tighter cost controls, the Group set up an additional plant in Hanoi, Vietnam during the year under review. Construction of the first phase of this plant was completed in the first half of 2012 and full operation commenced in July for the production of plastic figures. In December 2012, the Group also purchased a manufacturing plant in the Mekong Delta, Vietnam in order to increase the production capacity for plush stuffed toys products.

Prospects

While the global economy continues to be affected by the unsolved European sovereign debt crisis and American political uncertainty related to cuts in the US Federal budget, the market has nonetheless displayed signs of recovery as reflected by the increase in customers' order volumes. The difficult operational environment within the toy industry caused by rising production costs, appreciation of the Renminbi, etc, continues to act as a catalyst on the industry consolidation process. The challenging situation is now presenting a golden opportunity for Dream International, one of the world's largest plush toy manufacturers, to expand its business under conditions of growing market demand but reduced competition.

To facilitate business growth and enlarge market share, the Group embarked on initiatives leading to the creation of new growth drivers. Apart from the recently set up plastic figures segment, which is expected to be a key growth enabler in coming years, the Group has further enriched its product mix to cover baby plastic products in 2012 starting with toilet seats and currently preparing for the production of plastic chairs. Geographically, on top of the traditional toy markets such as Japan and North America, the Group has also expanded to another emerging market, Russia, leveraging its experience in the China market. The first shipment of baby toilet seats with various designs was made to Russia in the fourth quarter of 2012 and repeat orders are expected in the coming year.

On the other hand, the Group has also further explored opportunities within its existing business segments. Based on its sound track record and rich experience in manufacturing ride-on toys, the Group secured another Japanese client in late 2012. The Group not only produces tricycles under a popular character sold by that customer in Japan, but also plans to launch similar products that the same customer will sell in China later this year. In addition, the Group is to collaborate with a famous German brand to produce bicycles and tricycles targeting a launch first in Japan with China and other markets to follow during 2013. Regarding the plush stuffed toys business, given the initial success of its newly launched brand "Dream Made to Love, Made to Hug", the Group plans on attracting new customers and exploring new distribution channels to accelerate growth.

To better support its growth strategies, the Group is planning to further expand its existing facilities, including construction of a clean room in the existing plastic figures factory. The additional facilities will not only boost production capacity for the plastic figures segment but also help lower production costs by shifting some orders from its production base in China to Vietnam taking advantage of a less expensive and more stable workforce.

Looking ahead, the Group will continue to emphasise profitability and efficiency as its prime objectives. With the continuous success achieved through the expansion of its product lines and product mix, the Group is confident that it can continue to thrive by achieving sustainable growth and maximising returns for its shareholders.

Number and Remuneration of Employees

At 31 December 2012, the Group had 8,578 (2011: 8,496) employees in Hong Kong, Mainland China, the Republic of Korea, the US, Japan and Vietnam. The Group values its human resources and recognises the importance of attracting and retaining quality staff for its continuing success. Staff bonuses and share options are awarded based on individual performance.

Liquidity and Financial Resources and Gearing

The Group continued to maintain a reasonable liquidity position. As at 31 December 2012, the Group had net current assets of HK$604.2 million (2011: HK$475.4 million). The Group's total cash and cash equivalents as at 31 December 2012 amounted to HK$281.6 million (2011: HK$177.1 million). The total bank loans of the Group as at 31 December 2012 amounted to HK$22.6 million (2011: HK$22.8 million).

The Group's gearing ratio, calculated on the basis of total bank loans over the total equity, decreased slightly from 3.2% at 31 December 2011 to 2.7% at 31 December 2012.

Pledge on Group Assets

Bank loans are secured on the Group's buildings, plant and machinery and land use rights with a net carrying value as at 31 December 2012 of HK$26.5 million (2011: HK$33.5 million).

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

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

CORPORATE GOVERNANCE

During the year ended 31 December 2012, the Company has complied with Corporate Governance Code (applicable after 1 April 2012) and the former Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, save for the deviation from the code provision A.2.1.

Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separated and should not 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 the 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 independence element in the composition and will play an active role to ensure a balance of power and authority.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules regarding the Model Code. Based on specific enquiries of the Company's directors, the directors have complied with the required standard set out in the Model Code.

FINAL DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK8 cents per share in respect of the year ended 31 December 2012 (2011: HK Nil cents per share). The proposed final dividend which totals HK$53,773,000 (2011: HK$Nil), if approved at the forthcoming annual general meeting, will be paid on 14 May 2013 to the shareholders on the register of members as at 6 May 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 26 April 2013 to 30 April 2013, both days inclusive. During this period, no transfer of shares will be registered. Shareholders whose names appear on the register of members of the Company on 25 April 2013 are entitled to attend the forthcoming annual general meeting scheduled on 30 April 2013. In order to qualify for the right to vote for and/or attend the forthcoming annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 25 April 2013.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the forthcoming annual general meeting. For determining the entitlement to the proposed final dividend, the register of members will be closed for one day on 7 May 2013, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 6 May 2013.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting policies, principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the annual results for year ended 31 December 2012.

By order of the Board
Kyoo Yoon Choi
Chairman

Hong Kong, 26 March 2013

At the date of this announcement, the directors of the Company are:

Executive Directors
Mr. Kyoo Yoon Choi *(Chairman)*
Mr. Young M. Lee
Mr. James Chuan Yung Wang
Mr. Hyun Ho Kim

Independent Non-Executive Directors
Professor Cheong Heon Yi
Professor Byong Hun Ahn
Mr. Tae Woong Kang