KADER

Manufacturing Trust

KADER HOLDINGS COMPANY LIMITED

INTERIM REPORT 2011

(Stock Code : 180)

Interim Results For the Six Months Ended 30 June 2011

The Board of Directors of Kader Holdings Company Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") and the Group's interests in associates for the six months ended 30 June 2011, together with comparative figures for the corresponding period in 2010 are as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011 – unaudited

	Note	**Six months ended 30 June** **2011** ***HK$'000***	2010 *HK$'000*
Turnover	*5 & 6*	**586,398**	640,448
Other revenue		**9,753**	9,037
Other net income		**16,862**	1,241
Changes in inventories of finished goods and work in progress		**66,766**	52,730
Cost of purchase of finished goods		**(10,537)**	(13,365)
Raw materials and consumables used		**(226,099)**	(250,639)
Staff costs		**(338,758)**	(304,904)
Depreciation		**(21,383)**	(19,591)
Other operating expenses		**(141,631)**	(144,652)
Loss from operations		**(58,629)**	(29,695)
Finance costs	*7(a)*	**(4,313)**	(3,650)
Share of profits less losses of associates		**(2,252)**	(4,495)
Net (loss)/gain on disposal of investment properties	*10(b)*	**(80)**	31,220
Loss before taxation	*7*	**(65,274)**	(6,620)
Income tax (charge)/credit	*8*	**(6,263)**	481
Loss for the period		**(71,537)**	(6,139)
Attributable to:			
Equity shareholders of the Company		**(71,780)**	(5,408)
Non-controlling interests		**243**	(731)
Loss for the period		**(71,537)**	(6,139)
Loss per share	*9*		
Basic		**(10.8)¢**	(0.8)¢
Diluted		**(10.8)¢**	(0.8)¢

The notes on pages 7 to 18 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011 – unaudited

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Loss for the period	**(71,537)**	(6,139)
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**(9,197)**	(5,444)
Share of exchange reserve of associates	**–**	(16)
Available-for-sale securities: net movement in fair value reserve	**39**	(927)
Total comprehensive income for the period	**(80,695)**	(12,526)
Attributable to:		
Equity shareholders of the Company	**(81,028)**	(12,057)
Non-controlling interests	**333**	(469)
Total comprehensive income for the period	**(80,695)**	(12,526)

The notes on pages 7 to 18 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

As at 30 June 2011 – unaudited

	Note	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Non-current assets			
Fixed assets	*10*		
– Investment properties		**701,291**	707,941
– Other property, plant and equipment		**240,061**	234,861
– Construction in progress		**–**	270
		941,352	943,072
Intangible assets		**650**	667
Interests in associates		**34,386**	25,376
Other non-current financial assets		**17,868**	15,488
Deferred tax assets		**17,033**	20,071
		1,011,289	1,004,674
Current assets			
Inventories	*11*	**517,766**	438,136
Current tax recoverable		**230**	331
Trade and other receivables	*12*	**180,316**	201,162
Cash and cash equivalents	*13*	**104,752**	163,003
		803,064	802,632
Current liabilities			
Trade and other payables	*14*	**(342,228)**	(316,286)
Bank loans and overdrafts		**(356,740)**	(310,091)
Obligations under finance leases		**–**	(292)
Current tax payable		**(7,924)**	(10,293)
		(706,892)	(636,962)
Net current assets		**96,172**	165,670
Total assets less current liabilities carried forward		**1,107,461**	1,170,344

CONSOLIDATED BALANCE SHEET *(Continued)*
As at 30 June 2011 – unaudited

	Note	**At 30 June 2011** *HK$'000*	At 31 December 2010 *HK$'000*
Total assets less current liabilities brought forward		**1,107,461**	1,170,344
Non-current liabilities			
Bank loans		**(56,417)**	(30,417)
Rental deposits		**(4,378)**	(3,746)
Deferred tax liabilities		**(102,526)**	(101,205)
Accrued employee benefits		**(4,571)**	(4,731)
		(167,892)	(140,099)
NET ASSETS		**939,569**	1,030,245
CAPITAL AND RESERVES			
Share capital		**66,541**	66,541
Reserves		**873,525**	964,534
Total equity attributable to equity shareholders of the Company		**940,066**	1,031,075
Non-controlling interests		**(497)**	(830)
TOTAL EQUITY		**939,569**	1,030,245

The notes on pages 7 to 18 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011 – unaudited

		Attributable to equity shareholders of the Company										
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Land and buildings revaluation reserve HK$'000	Fair value reserve HK$'000	Revenue reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2010		66,541	109,942	10,815	173,397	(15,582)	35,594	3,542	499,269	883,518	3,830	887,348
Changes in equity for the six months ended 30 June 2010:												
Dividends approved in respect of previous year	15	–	–	–	–	–	–	–	(9,981)	(9,981)	–	(9,981)
Total comprehensive income for the period		–	–	–	–	(5,722)	–	(927)	(5,408)	(12,057)	(469)	(12,526)
Balance at 30 June 2010 and 1 July 2010		**66,541**	**109,942**	**10,815**	**173,397**	**(21,304)**	**35,594**	**2,615**	**483,880**	**861,480**	**3,361**	**864,841**
Changes in equity for the six months ended 31 December 2010:												
Investment in a subsidiary		–	–	–	–	–	–	–	–	–	406	406
Total comprehensive income for the period		–	–	–	–	(2,953)	–	2,612	169,936	169,595	(4,597)	164,998
Balance at 31 December 2010 and 1 January 2011		**66,541**	**109,942**	**10,815**	**173,397**	**(24,257)**	**35,594**	**5,227**	**653,816**	**1,031,075**	**(830)**	**1,030,245**
Changes in equity for the six months ended 30 June 2011:												
Dividend approved in respect of the previous year	15	–	–	–	–	–	–	–	(9,981)	(9,981)	–	(9,981)
Total comprehensive income for the period		–	–	–	–	(9,287)	–	39	(71,780)	(81,028)	333	(80,695)
Balance at 30 June 2011		**66,541**	**109,942**	**10,815**	**173,397**	**(33,544)**	**35,594**	**5,266**	**572,055**	**940,066**	**(497)**	**939,569**

The notes on pages 7 to 18 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2011 – unaudited

		Six months ended 30 June	
	Note	**2011**	2010
		HK$'000	*HK$'000*
Cash used in operations		**(74,300)**	(19,889)
Tax paid		**(4,117)**	(9,976)
Net cash used in operating activities		**(78,417)**	(29,865)
Net proceeds from disposal of investment properties	*10(b)*	**6,570**	76,620
Other investing activities		**(40,624)**	(15,950)
Net cash (used in)/generated from investing activities		**(34,054)**	60,670
Net cash generated from financing activities		**59,099**	14,162
Net (decrease)/increase in cash and cash equivalents		**(53,372)**	44,967
Cash and cash equivalents at 1 January	*13*	**146,675**	89,768
Effect of foreign exchange rate changes		**592**	(1,054)
Cash and cash equivalents at 30 June	*13*	**93,895**	133,681

The notes on pages 7 to 18 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. Reporting entity

Kader Holdings Company Limited is a company domiciled in Bermuda. The interim financial report of the Company as at and for the six months ended 30 June 2011 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates.

The financial report of the Group as at and for the year ended 31 December 2010 are available upon request from the Company's principal office at 11/F, 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong or at http://www.kaderholdings.com.

2. Basis of preparation

The interim financial report for the six months ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates.

This 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").

The interim financial report was approved by the Board of Directors and authorised for issue on 30 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of the 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 the Group since the 2010 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 financial information relating to the financial year ended 31 December 2010 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2010 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2011.

3. Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*

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

HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The remaining developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of this interim financial report.

4. Estimates

The preparation of interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2010.

5. Segment reporting

The Group manages its businesses by divisions, which are organised by business lines. 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 the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

Toys and model trains:	The manufacture and sale of plastic, electronic and stuffed toys and model trains. These products are manufactured in the Group's manufacturing facilities located primarily in Mainland China.
Property investment:	The leasing of office premises, industrial building and residential units to generate rental income and to gain from the appreciation in the properties' value in the long term.
Investment holding:	The investment in securities.

5. Segment reporting *(Continued)*

(a) Segment results, assets and liabilities

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

Segment assets include all fixed assets and current assets with the exception of intangible assets, interests in associates, other non-current financial assets, deferred tax assets, current tax recoverable, cash and cash equivalents and other corporate assets. Segment liabilities include all liabilities with the exception of current tax payable, deferred tax liabilities and other corporate liabilities.

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.

The measure used for reporting segment (loss)/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 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.

5. Segment reporting *(Continued)*

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

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

	Toys and model trains		Property investment		Investment holding		Total	
For the six months ended 30 June	**2011** *HK$'000*	2010 *HK$'000*	**2011** *HK$'000*	2010 *HK$'000*	**2011** *HK$'000*	2010 *HK$'000*	**2011** *HK$'000*	2010 *HK$'000*
Revenue from external customers	**570,469**	624,669	**15,929**	15,779	**–**	–	**586,398**	640,448
Inter-segment revenue	**–**	–	**262**	262	**–**	–	**262**	262
Reportable segment revenue	**570,469**	624,669	**16,191**	16,041	**–**	–	**586,660**	640,710
Reportable segment (loss)/profit (adjusted EBITDA)	**(72,243)**	(27,801)	**11,446**	10,472	**(4,524)**	(4,847)	**(65,321)**	(22,176)
Additions to non-current segment assets during the period	**27,877**	16,856	**–**	–	**–**	–	**27,877**	16,856

	At 30 June 2011 *HK$'000*	At 31 December 2010 *HK$'000*	**At 30 June 2011** *HK$'000*	At 31 December 2010 *HK$'000*	**At 30 June 2011** *HK$'000*	At 31 December 2010 *HK$'000*	**At 30 June 2011** *HK$'000*	At 31 December 2010 *HK$'000*
Reportable segment assets	**1,093,634**	367,836	**703,017**	811,073	**394,986**	814,235	**2,191,637**	1,993,144
Reportable segment liabilities	**727,712**	152,112	**12,641**	18,390	**287,476**	700,286	**1,027,829**	870,788

5. Segment reporting *(Continued)*

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

Revenue	Six months ended 30 June 2011 HK$'000	2010 HK$'000
Reportable segment revenue	**586,660**	640,710
Elimination of inter-segment revenue	**(262)**	(262)
Consolidated turnover	**586,398**	640,448
Loss		
Reportable segment loss	**(65,321)**	(22,176)
Elimination of inter-segment losses	**1,890**	2,039
Reportable segment loss derived from Group's external customers	**(63,431)**	(20,137)
Other revenue	**9,753**	9,037
Other net income	**16,862**	1,241
Depreciation and amortisation	**(21,400)**	(19,591)
Finance costs	**(4,313)**	(3,650)
Share of profits less losses of associates	**(2,252)**	(4,495)
Net (loss)/gain on disposal of investment properties	**(80)**	31,220
Unallocated head office and corporate expenses	**(413)**	(245)
Consolidated loss before taxation	**(65,274)**	(6,620)

Assets	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Reportable segment assets	**2,191,637**	1,993,144
Elimination of inter-segment receivables	**(575,136)**	(433,834)
	1,616,501	1,559,310
Intangible assets	**650**	667
Interests in associates	**34,386**	25,376
Other non-current financial assets	**17,868**	15,488
Deferred tax assets	**17,033**	20,071
Current tax recoverable	**230**	331
Cash and cash equivalents	**104,752**	163,003
Unallocated head office and corporate assets	**22,933**	23,060
Consolidated total assets	**1,814,353**	1,807,306

5. Segment reporting *(Continued)*

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

Liabilities	At 30 June 2011 HK$'000	At 31 December 2010 HK$'000
Reportable segment liabilities	**1,027,829**	870,788
Elimination of inter-segment payables	**(575,136)**	(433,834)
	452,693	436,954
Current tax payable	**7,924**	10,293
Deferred tax liabilities	**102,526**	101,205
Unallocated head office and corporate liabilities	**311,641**	228,609
Consolidated total liabilities	**874,784**	777,061

6. Seasonality of operations

The Group's toys and model trains division, a separate business segment (see note 5), on average experiences higher sales 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, the first half of the year reports lower revenues and segment results for this segment than the second half.

7. Loss before taxation

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

	Six months ended 30 June 2011 HK$'000	Six months ended 30 June 2010 HK$'000
(a) Finance costs		
Finance charges on obligations under finance leases	**–**	18
Interest on other borrowings	**4,313**	3,632
	4,313	3,650
(b) Other items		
Cost of inventories *(note 11)*	**517,885**	559,095
Amortisation of intangible assets	**17**	17
Net loss on disposal of fixed assets *(note 10(b))*	**682**	–
Interest income	**(158)**	(267)
Dividend income from listed securities	**(12)**	(11)

8. Income tax charge/(credit)

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax	**1,257**	3,082
Current tax – Outside Hong Kong	**647**	5,285
Deferred taxation	**4,359**	(8,848)
Income tax charge/(credit)	**6,263**	(481)

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2010: 16.5%) to the estimated assessable profits for the six months ended 30 June 2011. 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.

9. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$71,780,000 (six months ended 30 June 2010: HK$5,408,000) and the weighted average number of ordinary shares of 665,412,000 (2010: 665,412,000).

(b) Diluted loss per share

The Company did not have any dilutive potential ordinary shares outstanding during both the current and prior periods. Accordingly, diluted loss per share is the same as the basic loss per share for both the current and prior periods.

10. Fixed assets

(a) Acquisitions

During the six months ended 30 June 2011, the Group acquired items of fixed assets with a cost of HK$27,877,000 (six months ended 30 June 2010: HK$16,856,000).

(b) Disposals

On 28 March 2011, a subsidiary of the Company entered into a sale and purchase agreement with an independent third party to dispose of a property located at Discovery Bay, Hong Kong for cash consideration of HK$6,650,000. A net loss on disposal of HK$80,000 was recorded in the consolidated income statement for the six months ended 30 June 2011.

10. Fixed assets *(Continued)*

(b) Disposals *(Continued)*

During the six months ended 30 June 2010, certain subsidiaries of the Company entered into sale and purchase agreements with two independent third parties to dispose of sixteen units in a commercial building located at Lujiazui Road, Shanghai, The People's Republic of China, for a total consideration of HK$77,614,000. These agreements were completed on 13 and 14 May 2010 and a net gain of HK$31,220,000 was recognised in the consolidation income statement for the period ended 30 June 2010.

Items of fixed assets with cost and net book value of HK$3,466,000 and HK$1,493,000 respectively were disposed of during the six months ended 30 June 2011 (six months ended 30 June 2010: HK$8,000 and HK$8,000), resulting in a loss on disposal of HK$682,000 (six months ended 30 June 2010: HK$Nil).

(c) Valuation

All investment properties of the Group were revalued as at 31 December 2010 on an open market value basis, by either making reference to the comparable sales evidence in the relevant reality, or otherwise, by capitalising the current rent derived from the existing tenancies with the provision for any reversionary income potential.

The directors have reviewed the valuation of the investment properties since the previous annual reporting date taking into account the volatility of the property market and available market data on comparable properties, and consider that the investment properties as at 30 June 2011 are carried at fair value.

11. Inventories

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

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**521,026**	559,853
Write down of inventories	**7,443**	–
Reversal of write-down of inventories	**(10,584)**	(758)
	517,885	559,095

The reversal of write-down of inventories made in prior years arose due to the increase in the estimated net realisable value of certain toy products as a result of a change in consumer preferences.

12. Trade and other receivables

Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis:

	At 30 June 2011 *HK$'000*	At 31 December 2010 *HK$'000*
Current	**120,941**	133,442
Less than 1 month overdue	**19,206**	26,018
1 to 3 months overdue	**8,904**	16,458
More than 3 months but less than 12 months overdue	**1,847**	2,793
Total trade debtors, net of allowance for doubtful debts	**150,898**	178,711
Other debtors and prepayments	**29,418**	22,451
	180,316	201,162

Credit evaluations are performed on all customers requiring credit over a certain amount. Trade debtors are due within 7 to 60 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

13. Cash and cash equivalents

	At 30 June 2011 *HK$'000*	At 31 December 2010 *HK$'000*
Cash and cash equivalents in the balance sheet	**104,752**	163,003
Bank overdrafts	**(10,857)**	(16,328)
Cash and cash equivalents in the condensed consolidated cash flow statement	**93,895**	146,675

14. Trade and other payables

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

	At 30 June 2011	At 31 December 2010
	HK$'000	*HK$'000*
Due within 1 month or on demand	**78,146**	66,955
Due after 1 month but within 3 months	**9,058**	8,668
Due after 3 months but within 6 months	**1,161**	1,126
Due after 6 months	**3,655**	1,106
Total trade creditors	**92,020**	77,855
Other creditors and accrued charges	**250,208**	238,431
	342,228	316,286

15. Dividends

Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK1.5 cents per ordinary share (six months ended 30 June 2010: HK1.5 cents per ordinary share)	**9,981**	9,981

16. Capital commitments outstanding not provided for in the interim financial report

	At 30 June 2011	At 31 December 2010
	HK$'000	*HK$'000*
Contracted for	**180**	2,617

17. Contingent liabilities

At 30 June 2011, there were contingent liabilities in respect of the following:

(a) The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK$566,500,000 at 30 June 2011 (at 31 December 2010: HK$569,824,000).

The guarantees were issued by the Company at nil consideration. The transactions were not at arm's length, and it is not possible to measure reliably the fair value of these transactions in accordance with HKAS 39 had they been at arm's length. Accordingly the guarantees have not been accounted for as financial liabilities and measured at fair value.

As at the balance sheet date, the directors do not consider to be probable that a claim will be made against the Company under any of the guarantees issued. The maximum liability of the Company at the balance sheet date under the guarantees issued is the amount of banking facilities drawn down by the relevant subsidiaries of HK$409,076,000 (at 31 December 2010: HK$339,712,000).

(b) Litigation

During the first quarter of 2003, a Mexican company commenced a lawsuit in the State of Arizona against the Company on the grounds that the Company is a guarantor for a Lease Agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. ("Sinomex") as tenant (the "Litigation"). The plaintiffs initially alleged claims against Sinomex, formerly related to the Company, and the Company of US$5,235,000 for unpaid rent, value added tax, repair costs and interest owed by Sinomex under such Lease Agreement, plus accruing interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees. The plaintiffs amended their damage claim in the fourth quarter of 2007 and sought US$7,426,000 in damages, plus accruing interest, court costs and attorneys fees.

In 2004, the Company filed a motion to dismiss the complaint in the Litigation based upon the applicable laws of Arizona and those of the location of the property, Hermosillo, Mexico. In the motion, the Company primarily argued that the Arizona court did not have sufficient subject matter and personal jurisdiction over the Company under the guarantee for the case to continue in that court, and as such, the case against the Company should be dismissed. In January 2005, the Arizona court denied that initial motion submitted by the Company.

Since then the Company engaged in discovery, responded to a motion for partial summary judgment filed by the plaintiffs, and filed a motion for summary judgement of its own. In August 2007, the court granted the plaintiffs' motion for partial summary judgement and denied the Company's motion for summary judgement, holding the Company liable under the guarantee, but not establishing the amount of the damages under that guarantee. In ruling on the summary judgement motions submitted by both parties, the trial court relied primarily on the law of the State of Arizona, despite the Company's claim that Mexican law should be used to decide such motions.

17. Contingent liabilities *(Continued)*

At 30 June 2011, there were contingent liabilities in respect of the following: *(Continued)*

(b) Litigation *(Continued)*

In September 2007, the Company filed a motion for a new trial and/or for reconsideration, asking the court to apply the law of Mexico (rather than the law of Arizona) and claiming that under Mexican law the Company should prevail and that the court should therefore vacate its granting of summary judgement in favour of the plaintiffs. Thereafter, the court granted rebriefing and then conducted a hearing on 14 January 2008 to address the Company's motion for new trial and/or for reconsideration. On 14 March 2008, the court denied the Company's motion for a new trial and/or for reconsideration. In its ruling on that motion the court did apply Mexican law. However, it appeared to the Company that the trial court made an error as to the undisputed facts, leading the Company to file a second motion for new trial and/or motion for reconsideration to ask the court to correct its ruling and find in favour of the Company. That second motion for new trial and/or reconsideration was argued in April 2009. On 6 October 2009, the court denied the Company's second motion for new trial and/or motion for reconsideration, and set the case for a trial on the issue of damages.

The trial on the issue of damages was held in April 2010. A ruling granting damages was issued on 4 March 2011. The Order calls for 24% annual simple interest on the unpaid rent portion of the principal amount and 10% annual simple interest on the remainder of the principal amount.

Having considered the Litigation with the Company's various legal counsels, the management and the Board believe that the Company's opposition to the plaintiffs' complaint, as well as the Company's defenses and appeal rights, continue to be meritorious. As such, the Company continues to vigorously defend the Litigation including an appeal from the Order, filed on 24 June 2011. In accordance with paragraph 92 of HKAS 37, *Provisions, contingent liabilities and contingent assets*, it would be against the interests of the Company to make further disclosure of the information required by HKAS 37.

18. Material related party transactions

(a) One of the directors of the Company had also been a director and shareholder of a supplier which sold packaging and printing materials to the Group. The director ceased to be the director and shareholder of the supplier on 21 October 2010. Total purchases from the supplier during the six months ended 30 June 2010 amounted to HK$1,754,000.

(b) During the period, the Group advanced funds totalling HK$25,735,000 (31 December 2010: HK$23,339,000) to certain associates in which certain directors of the Company have beneficial interests.

(c) During the period, the Group advanced loans totalling HK$9,750,000 (31 December 2010: HK$1,950,000) to an associate.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: HK$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

During the period under review, the Group recorded a consolidated turnover of HK$586.40 million, which decreased by 8.44% as compared to HK$640.45 million reported for the corresponding period last year. The loss attributable to equity shareholders amounted to HK$71.78 million, representing an increase over the corresponding period last year.

BUSINESS REVIEW

Toys and Model Trains

During the first half year of 2011, the turnover for the Group's OEM/ODM toys business was HK$209.49 million, which decreased by 29.59% as compared to the corresponding period last year. During the period under review, toy manufacturers have been facing the appreciation of Renminbi Yuan ("RMB"), the increase in energy costs, continued rise in raw material prices and high labour costs due to the increase in statutory minimum wages in the People's Republic of China. All these unfavourable conditions hamper profit margin and the Group's performance was adversely affected.

Regarding the model trains business, the turnover in the first half year of 2011 was approximately HK$360.98 million, which increased by 10.35% as compared to the corresponding period last year. The Group is proud to announce that the Group's subsidiary, Bachmann Europe Plc., was awarded "Manufacturer of the Year 2010" in the overall category and also for the OO scale and N scale model trains category by Model Rail Magazine, RM Web and MREMAG. In addition, our OO scale model trains, "7F 2-8-0 steam", "Cravens Class 105 DMU", "Mk1 TPO coach" and "JJA 'Autoballaster' hopper", were awarded "Model of the Year 2010" under different categories. Moreover, our Graham Farish N scale model train "DP1 Deltic prototype" was awarded "Model of the Year 2010". In addition, our Liliput brand HO scale electrical locomotive "E44.5" was awarded the first place of "Electric Loco of the Year 2010" by Train Magazine in Germany. Last but not least, our loco "Reihe 4041" was awarded "Model of the Year 2010" by Verband Őesterreichischer Modell Eisenbahn Clubs ("VOEMEC") in Austria. The Group continued to gain the loyalty of customers and has maintained our leading position in the industry.

Property Investment

During the period under review, the rental income of the Group amounted to HK$15.93 million, representing a 0.95% increment as compared to the corresponding period last year.

The Group's major rental property, Kader Building, continued to generate recurring revenue for the Group. For the first six months of the year, the rental income of Kader Building amounted to HK$15.30 million, representing a 1.29% decrease over the corresponding period last year. As at 30 June 2011, the occupancy rate of Kader Building was approximately 94% (30 June 2010: 91%).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 June 2011, the Group's net asset value per share amounted to HK$1.41 (31 December 2010: HK$1.55); the current ratio was 1.14 (31 December 2010: 1.26); total bank borrowings were approximately HK$413.16 million (31 December 2010: HK$340.51 million) while the Group secured total banking facilities of approximately HK$545.56 million (31 December 2010: HK$601.83 million) of which the amount unutilised as at 30 June 2011 was approximately HK$132.40 million (31 December 2010: HK$261.32 million); the Group's financial gearing, based on the total interest bearing borrowings compared to the total equity, was 43.97% (31 December 2010: 33.08%). There is no significant seasonality in borrowing requirements except that during the peak production period in the second half-year, the Group's facilities for trade finance will be substantially utilised. The majority of borrowings are on floating interest rate terms.

Capital Structure

During the period under review, there were no changes in the Company's share capital. The Group's source of financing was mainly bank borrowings, which were denominated in Hong Kong dollars ("HKD"), United States dollars ("USD") and Sterling Pounds ("GBP") at prevailing interest rates.

Charges on Group Assets

As at 30 June 2011, certain investment properties, leasehold land and buildings, inventories and other assets of the Group with a net book value of HK$1,024.14 million (31 December 2010: HK$1,025.11 million) were mortgaged to various banks to secure the bank loans and overdrafts granted to the Group.

Material Acquisitions and Disposals

There were no material individual acquisitions during the six months ended 30 June 2011.

On 28 March 2011, a subsidiary of the Company entered into a sale and purchase agreement with an independent third party to dispose of a property located at Discovery Bay, Hong Kong for cash consideration of HK$6.65 million. A net loss on disposal of HK$80,000 was recorded in the consolidated income statement for the six months ended 30 June 2011.

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated in HKD, USD, GBP, RMB and Euros. During the period under review, the majority of the Group's sales revenues were denominated in HKD, USD and GBP while the majority of its raw materials and equipment purchases were settled in HKD and RMB. As such, the Group faces a certain degree of exchange rate risk mainly arising from GBP denominated sales transactions and RMB denominated purchases transactions for which the exchange rate volatility is relatively high.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2011, the Group employed approximately 16,035 (30 June 2010: 19,315; 31 December 2010: 17,973) full time management, administrative and production staff in Hong Kong Special Administrative Region, Mainland China, the United States of America ("USA") and Europe. The Group has seasonal fluctuations in the number of workers employed in its production plant while the number of management and administrative staff remains stable. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In the area of staff training, the Group encourages staff to participate in courses on technical skills improvement and personal development.

PROSPECTS

It is expected that the external economy as a whole would continue to be affected by the factors of the sluggish performance of the European and the USA market, the lingering European sovereign debt crisis and the catastrophic earthquake in Japan. Also, in view of the shortage of labour in China, the pressure of RMB currency appreciation, volatility of raw material prices and the increase in statutory minimum wages leading to increasing labour cost, the Group will be full of challenge for the toys and model trains business in the second half of the year. In the second half of the year, the Group will consolidate its major customers and focus on products for major customers. The Group will continue its effort to strengthen its core business, streamline operational procedures without sacrificing controls, improve operational and production efficiency and develop automated processes. Looking into 2012, the Group will continue its effort to maintain our leadership position in the industry and deliver attractive returns to shareholders.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in the Shares and Underlying Shares of the Company and the Associated Corporations

At 30 June 2011, interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as 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") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

(1) Interests in the Company

	Number of ordinary shares of HK$0.10 each				
Name of directors	Personal interests	Family interests	Corporate interests	Total interests	% of total issued share capital
Kenneth Ting Woo-shou	133,279,385	1,452,629 *(i)*	244,175,800 *(ii)*	378,907,814	56.94%
Ivan Ting Tien-li	14,336,303	–	–	14,336,303	2.15%
Nancy Ting Wang Wan-sun	1,452,629	133,279,385 *(iii)*	–	134,732,014	20.25%
Moses Cheng Mo-chi	11,000	–	–	11,000	0.00%
Bernie Ting Wai-cheung	–	–	–	–	–
Liu Chee-ming	–	–	1,000,000	1,000,000	0.15%
Floyd Chan Tsoi-yin	–	–	–	–	–
Andrew Yao Cho-fai	–	–	–	–	–
Desmond Chum Kwan-yue	–	–	–	–	–
Ronald Montalto	–	–	–	–	–

Notes:

(i) The spouse of Mr. Kenneth Ting Woo-shou is the beneficial shareholder.

(ii) Included in the "Corporate Interests" above were 209,671,000 shares of the Company held by its substantial shareholder, H.C. Ting's Holdings Limited, in which Mr. Kenneth Ting Woo-shou has a controlling interest; and 34,504,800 shares of the Company held by its substantial shareholder, Glory Town Limited, in which Mr. Kenneth Ting Woo-shou has a controlling interest.

(iii) The spouse of Mrs. Nancy Ting Wang Wan-sun is the beneficial shareholder.

(2) Interests in Associated Corporations

Name of associated corporations	Beneficial interests	Class of shares	Number of shares held: Personal interests	Family interests	Corporate interests	% of interests in associated corporation
Allman Holdings Limited	Kenneth Ting Woo-shou	Ordinary shares of US$1.00 each	–	–	920 *(i)*	63.89%
Pacific Squaw Creek, Inc.	Kenneth Ting Woo-shou	Ordinary shares of US$1.00 each	–	–	1,000 *(ii)*	100.00%
Squaw Creek Associates, LLC	Kenneth Ting Woo-shou	Not applicable *(iii)*	–	–	–	62.00% *(iv)*
Squaw Creek Associates, LLC	Kenneth Ting Woo-shou	Not applicable *(iii)*	–	–	–	8.00% *(v)*

Notes:

(i) These interests are held by Tyrol Investments Limited which is wholly owned by Mr. Kenneth Ting Woo-shou.

(ii) These interests are held by Allman Holdings Limited ("Allman"). Mr. Kenneth Ting Woo-shou's beneficial interests in Allman are disclosed in note (i) above.

(iii) Squaw Creek Associates, LLC ("SCA") does not have issued share capital, the percentage of interest in SCA represents the interest in capital account balance.

(iv) These interests are held by Pacific Squaw Creek, Inc. ("PSC"). Mr. Kenneth Ting Woo-shou's beneficial interests in PSC are disclosed in note (ii) above.

(v) These interests are held by Ting Corporation which is wholly owned by Mr. Kenneth Ting Woo-shou.

All the interests stated above represent long positions. As at 30 June 2011, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Save as disclosed above, as at 30 June 2011, none of the directors and chief executives of the Company nor their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 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 period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' and Other Person's Interests

As at 30 June 2011, save for certain directors' interests in the share capital of the Company as disclosed above, no other person was recorded in the register kept by the Company under section 336 of the SFO, as having an interest of 5% or more of the issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2011. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period under review.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors regularly reviews and adopts corporate governance guidelines and developments. Throughout the period under review, the Group has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the key accounting policies, and discussed auditing, internal controls and financial reporting matters, including a review of the interim results for the period ended 30 June 2011.

REMUNERATION COMMITTEE

The Remuneration Committee, comprising of two independent non-executive directors of the Company and one executive director of the Company, is responsible for reviewing and making recommendations to the Board on the Company's policy and structure for all remunerations of directors and senior management.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its model code for securities transactions by the Company's directors and relevant employees who are or may be in possession of unpublished price sensitive information. Based on specific enquiries made, all directors have confirmed that they have complied with the Model Code.

By order of the Board
Kenneth Ting Woo-shou
Chairman

Hong Kong, 30 August 2011

As at the date hereof, the executive directors of the Company are Mr. Kenneth Ting Woo-shou, SBS, JP (Chairman), Mr. Ivan Ting Tien-li (Managing Director) and Mrs. Nancy Ting Wang Wan-sun; the non-executive directors of the Company are Dr. Moses Cheng Mo-chi, GBS, OBE, JP and Mr. Bernie Ting Wai-cheung; and the independent non-executive directors of the Company are Mr. Liu Chee-ming, Mr. Floyd Chan Tsoi-yin, Mr. Andrew Yao Cho-fai, JP, Mr. Desmond Chum Kwan Yue and Mr. Ronald Montalto.