



**KADER**

*Manufacturing Trust*

**KADER HOLDINGS COMPANY LIMITED**

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**INTERIM REPORT 2014**

(Stock Code : 180)

## Interim Results For the Six Months Ended 30 June 2014

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 2014, together with comparative figures for the corresponding period in 2013 are as follows:

### CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2014 – unaudited*

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2014</b>	2013
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>	5 & 6	<b>294,337</b>	356,440
Other revenue		5,288	7,022
Other net (loss)/income		(53)	7,394
Changes in inventories of finished goods and work in progress		<b>33,593</b>	(15,733)
Cost of purchase of finished goods		<b>(14,360)</b>	(3,812)
Raw materials and consumables used		<b>(83,803)</b>	(96,747)
Staff costs		<b>(160,830)</b>	(203,044)
Depreciation		<b>(19,504)</b>	(21,262)
Other operating expenses		<b>(119,319)</b>	(107,721)
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
<b>Loss from operations</b>		<b>(64,651)</b>	(77,463)
Finance costs	7(a)	(7,648)	(7,107)
Share of profits less losses of associates		<b>489</b>	(4,501)
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
<b>Loss before taxation</b>	7	<b>(71,810)</b>	(89,071)
Income tax expense	8	<b>(64)</b>	(1,236)
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
<b>Loss for the period</b>		<b>(71,874)</b>	(90,307)
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(72,620)</b>	(92,938)
Non-controlling interests		<b>746</b>	2,631
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
<b>Loss for the period</b>		<b>(71,874)</b>	(90,307)
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
<b>Loss per share</b>	10		
Basic		<b>(8.00)¢</b>	(13.57)¢
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
Diluted		<b>(8.00)¢</b>	(13.57)¢
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

The notes on pages 7 to 21 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 16(a).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014 – unaudited

	Six months ended 30 June	
	2014	2013
Note	HK\$'000	HK\$'000
<b>Loss for the period</b>	<b>(71,874)</b>	(90,307)
<b>Other comprehensive income for the period:</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	<b>8,001</b>	(17,772)
Available-for-sale securities: net movement in fair value reserve	9 <u><b>(1,756)</b></u>	<u>(1,019)</u>
<b>Total comprehensive income for the period</b>	<b><u><u>(65,629)</u></u></b>	<b><u><u>(109,098)</u></u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>(66,319)</b>	(111,852)
Non-controlling interests	<u><b>690</b></u>	<u>2,754</u>
<b>Total comprehensive income for the period</b>	<b><u><u>(65,629)</u></u></b>	<b><u><u>(109,098)</u></u></b>

The notes on pages 7 to 21 form part of this interim financial report.

## CONSOLIDATED BALANCE SHEET

As at 30 June 2014 – unaudited

		At <b>30 June 2014</b> <i>HK\$'000</i>	At 31 December 2013 <i>HK\$'000</i>
	<i>Note</i>		
<b>Non-current assets</b>			
Fixed assets	<i>11</i>		
– Investment properties		<b>1,390,178</b>	1,390,178
– Other property, plant and equipment		<b>182,128</b>	191,362
– Construction in progress		<b>2,566</b>	1,113
		<hr/> <b>1,574,872</b>	<hr/> 1,582,653
Intangible assets		<b>3,324</b>	3,744
Interests in associates		<b>21,008</b>	20,025
Other non-current financial assets		<b>7,638</b>	10,136
Deferred tax assets		<b>3,948</b>	3,948
		<hr/> <b>1,610,790</b> <hr/>	<hr/> 1,620,506 <hr/>
<b>Current assets</b>			
Inventories	<i>12</i>	<b>355,339</b>	316,246
Current tax recoverable		<b>376</b>	376
Loans to an associate		<b>17,249</b>	21,456
Trade and other receivables	<i>13</i>	<b>117,362</b>	150,213
Cash and cash equivalents	<i>14</i>	<b>69,513</b>	76,347
		<hr/> <b>559,839</b> <hr/>	<hr/> 564,638 <hr/>
<b>Current liabilities</b>			
Trade and other payables	<i>15</i>	<b>173,296</b>	244,870
Bank loans and overdrafts		<b>487,744</b>	516,126
Loans from a director		<b>70,000</b>	–
Current tax payable		<b>1,859</b>	1,627
		<hr/> <b>732,899</b> <hr/>	<hr/> 762,623 <hr/>
<b>Net current liabilities</b>		<hr/> <b>(173,060)</b> <hr/>	<hr/> (197,985) <hr/>
<b>Total assets less current liabilities carried forward</b>		<hr/> <b>1,437,730</b> <hr/>	<hr/> 1,422,521 <hr/>

**CONSOLIDATED BALANCE SHEET (Continued)***As at 30 June 2014 – unaudited*

	At <b>30 June</b> <b>2014</b> <i>Note</i> <b>HK\$'000</b>	At 31 December 2013 <i>HK\$'000</i>
<b>Total assets less current liabilities brought forward</b>	<b>1,437,730</b>	1,422,521
<b>Non-current liabilities</b>		
Bank loans	<b>22,319</b>	24,782
Loan from a director	–	20,000
Deferred rental expenses	<b>3,279</b>	3,162
Rental deposits	<b>2,221</b>	2,636
Deferred tax liabilities	<b>18,615</b>	18,615
Accrued employee benefits	<b>222</b>	337
	<b>46,656</b>	69,532
<b>NET ASSETS</b>	<b>1,391,074</b>	1,352,989
<b>CAPITAL AND RESERVES</b>	<i>16</i>	
Share capital	<b>95,059</b>	66,541
Reserves	<b>1,291,485</b>	1,282,608
<b>Total equity attributable to equity shareholders of the Company</b>	<b>1,386,544</b>	1,349,149
<b>Non-controlling interests</b>	<b>4,530</b>	3,840
<b>TOTAL EQUITY</b>	<b>1,391,074</b>	1,352,989

The notes on pages 7 to 21 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2014 – 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 2013	66,541	109,942	10,815	173,397	(38,404)	42,430	2,429	926,553	1,293,703	(258)	1,293,445
<b>Changes in equity for the six months ended 30 June 2013:</b>											
Total comprehensive income for the period	-	-	-	-	(17,895)	-	(1,019)	(92,938)	(111,852)	2,754	(109,098)
<b>Balances at 30 June 2013 and 1 July 2013</b>	<b>66,541</b>	<b>109,942</b>	<b>10,815</b>	<b>173,397</b>	<b>(56,299)</b>	<b>42,430</b>	<b>1,410</b>	<b>833,615</b>	<b>1,181,851</b>	<b>2,496</b>	<b>1,184,347</b>
<b>Changes in equity for the six months ended 31 December 2013:</b>											
Total comprehensive income for the period	-	-	-	-	2,575	20,237	618	143,868	167,298	1,344	168,642
<b>Balances at 31 December 2013 and 1 January 2014</b>	<b>66,541</b>	<b>109,942</b>	<b>10,815</b>	<b>173,397</b>	<b>(53,724)</b>	<b>62,667</b>	<b>2,028</b>	<b>977,483</b>	<b>1,349,149</b>	<b>3,840</b>	<b>1,352,989</b>
<b>Changes in equity for the six months ended 30 June 2014:</b>											
Issuance of shares <i>16(b)</i>	28,518	75,196	-	-	-	-	-	-	103,714	-	103,714
Total comprehensive income for the period	-	-	-	-	8,057	-	(1,756)	(72,620)	(66,319)	690	(65,629)
<b>Balance at 30 June 2014</b>	<b>95,059</b>	<b>185,138</b>	<b>10,815</b>	<b>173,397</b>	<b>(45,667)</b>	<b>62,667</b>	<b>272</b>	<b>904,863</b>	<b>1,386,544</b>	<b>4,530</b>	<b>1,391,074</b>

The notes on pages 7 to 21 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2014 – unaudited

	Note	Six months ended 30 June	
		2014	2013
		HK\$'000	HK\$'000
<b>Operating activities</b>			
Cash used in operations		(117,115)	(71,434)
Tax paid		(40)	(3,814)
<b>Net cash used in operating activities</b>		<u>(117,155)</u>	<u>(75,248)</u>
<b>Investing activities</b>			
Payment for the purchase of property, plant and equipment		(10,216)	(15,853)
Net proceeds from disposal of financial assets		3,954	–
Payment for the purchase of financial assets		(1,139)	–
Increase in investment in associates		(49)	(1,048)
Other cash flows arising from investing activities		2,767	(2,921)
<b>Net cash used in investing activities</b>		<u>(4,683)</u>	<u>(19,822)</u>
<b>Financing activities</b>			
Issuance of shares		103,714	–
Proceeds from loan from a director		50,000	–
Other cash flows arising from financing activities		(33,817)	71,025
<b>Net cash generated from financing activities</b>		<u>119,897</u>	<u>71,025</u>
<b>Net decrease in cash and cash equivalents</b>		(1,941)	(24,045)
<b>Cash and cash equivalents at 1 January</b>	14	51,071	83,466
<b>Effect of foreign exchanges rates changes</b>		<u>(33)</u>	<u>(7)</u>
<b>Cash and cash equivalents at 30 June</b>	14	<u>49,097</u>	<u>59,414</u>

The notes on pages 7 to 21 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 2014 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 2013 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 2014 comprises the Group and the Group’s interests in associates.

These 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 28 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 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.

These 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 2013 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 2013 that is included in the interim financial results 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 2013 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 31 March 2014.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(Continued)*

### 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 and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- HK(IFRIC) 21, *Levies*

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

#### **Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities***

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial results as the Company does not qualify to be an investment entity.

#### **Amendments to HKAS 32, *Offsetting financial assets and financial liabilities***

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial results as they are consistent with the policies already adopted by the Group.

#### **Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets***

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit whose recoverable amount is based on fair value less costs of disposal. The adoption of the amendments does not have an impact on the Group's interim financial results as the Group does not have impaired non-financial assets.

#### **HK(IFRIC) 21, *Levies***

The interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial results as the guidance is consistent with the Group's existing accounting policies.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(Continued)*

### 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 2013.

### 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 and industrial building to generate rental income and to gain from the appreciation in the properties' value in the long term.
Investment holding:	The investment in securities.

#### (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 tangible 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

### 5. Segment reporting (Continued)

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

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.

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	
	2014	2013	2014	2013	2014	2013	2014	2013
For the six months ended 30 June	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	275,049	339,920	19,288	16,520	-	-	294,337	356,440
Inter-segment revenue	-	-	730	689	-	-	730	689
<b>Reportable segment revenue</b>	<b>275,049</b>	<b>339,920</b>	<b>20,018</b>	<b>17,209</b>	<b>-</b>	<b>-</b>	<b>295,067</b>	<b>357,129</b>
<b>Reportable segment (loss)/profit (adjusted EBITDA)</b>	<b>(52,975)</b>	<b>(77,092)</b>	<b>14,603</b>	<b>13,920</b>	<b>(11,230)</b>	<b>(6,686)</b>	<b>(49,602)</b>	<b>(69,858)</b>
Additions to non-current segment assets during the period	12,300	16,842	-	-	-	-	12,300	16,842

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

5. Segment reporting (Continued)

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

	Toys and model trains		Property investment		Investment holding		Total	
	At 30 June 2014	At 31 December 2013	At 30 June 2014	At 31 December 2013	At 30 June 2014	At 31 December 2013	At 30 June 2014	At 31 December 2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	671,280	670,699	1,392,566	1,390,235	416,179	345,294	2,480,025	2,406,228
Reportable segment liabilities	1,095,002	1,041,917	17,542	12,829	8,944	94,062	1,121,488	1,148,808

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

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
<b>Revenue</b>		
Reportable segment revenue	295,067	357,129
Elimination of inter-segment revenue	(730)	(689)
Consolidated turnover	294,337	356,440
<b>Loss</b>		
Reportable segment loss	(49,602)	(69,858)
Elimination of inter-segment losses	-	-
Reportable segment loss derived from Group's external customers	(49,602)	(69,858)
Other revenue	5,288	7,022
Other net (loss)/income	(53)	7,394
Depreciation and amortisation	(20,039)	(21,753)
Finance costs	(7,648)	(7,107)
Share of profits less losses of associates	489	(4,501)
Unallocated head office and corporate expenses	(245)	(268)
Consolidated loss before taxation	(71,810)	(89,071)

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT** *(Continued)*

**5. Segment reporting** *(Continued)*

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

	At <b>30 June</b> <b>2014</b> <i>HK\$'000</i>	At 31 December 2013 <i>HK\$'000</i>
<b>Assets</b>		
Reportable segment assets	2,480,025	2,406,228
Elimination of inter-segment receivables	<u>(432,452)</u>	<u>(357,162)</u>
	<b>2,047,573</b>	<b>2,049,066</b>
Intangible assets	3,324	3,744
Interests in associates	21,008	20,025
Loans to an associate	17,249	21,456
Other non-current financial assets	7,638	10,136
Deferred tax assets	3,948	3,948
Current tax recoverable	376	376
Cash and cash equivalents	69,513	76,347
Unallocated head office and corporate assets	<u>—</u>	<u>46</u>
Consolidated total assets	<u><b>2,170,629</b></u>	<u><b>2,185,144</b></u>
	At <b>30 June</b> <b>2014</b> <i>HK\$'000</i>	At 31 December 2013 <i>HK\$'000</i>
<b>Liabilities</b>		
Reportable segment liabilities	1,121,488	1,148,808
Elimination of inter-segment payables	<u>(432,452)</u>	<u>(357,162)</u>
	<b>689,036</b>	<b>791,646</b>
Current tax payable	1,859	1,627
Deferred tax liabilities	18,615	18,615
Unallocated head office and corporate liabilities	<u>70,045</u>	<u>20,267</u>
Consolidated total liabilities	<u><b>779,555</b></u>	<u><b>832,155</b></u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

### 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 increased demand for its products during the holiday season. As such, the first half of the year generally reports lower revenue 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	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>(a) Finance costs</b>		
Interest on bank and other borrowings	<b>7,648</b>	7,107
	<b>=====</b>	<b>=====</b>
<b>(b) Other items</b>		
Cost of inventories ( <i>note 12</i> )	<b>233,156</b>	310,663
Amortisation of intangible assets	<b>535</b>	491
Net loss/(gain) on disposal of fixed assets ( <i>note 11(b)</i> )	<b>24</b>	(1)
Interest income	<b>(661)</b>	(622)
Gains on disposal of financial assets ( <i>note 9</i> )	<b>(2,067)</b>	-
	<b>=====</b>	<b>=====</b>

### 8. Income tax expense

	Six months ended 30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax – Hong Kong Profits Tax	<b>(12)</b>	1,100
Current tax – Outside Hong Kong	<b>76</b>	136
	<b>=====</b>	<b>=====</b>
Income tax expense	<b>64</b>	1,236

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2013: 16.5%) to the six months ended 30 June 2014. 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(Continued)*

### 9. Other comprehensive income

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(a) Available-for-sale securities</b>		
Changes in fair value recognised during the period	311	(1,019)
Reclassification adjustments for amounts transferred to profit or loss:		
– gains on disposal	<u>(2,067)</u>	<u>–</u>
Net movement in the fair value reserve during the period recognised in other comprehensive income	<u><u>(1,756)</u></u>	<u><u>(1,019)</u></u>

### 10. 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\$72,620,000 (six months ended 30 June 2013: HK\$92,938,000) and the weighted average of 908,031,000 ordinary shares (31 December 2013: 684,975,000 ordinary shares) in issue during the interim period. As described in note 16, the Company completed the rights issue in January 2014. In calculating loss per share, the weighted average number of shares outstanding during the period ended 30 June 2014 and 2013 were calculated as if the bonus elements without consideration included in the rights issue had existed from the beginning of the comparative period.

#### (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.

### 11. Fixed assets

#### (a) Acquisitions

During the six months ended 30 June 2014, the Group acquired items of fixed assets with an aggregate cost of HK\$12,300,000 (six months ended 30 June 2013: HK\$16,842,000).

#### (b) Disposals

Items of fixed assets with cost and net book value of HK\$830,000 and HK\$206,000 respectively were disposed of during the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$242,000 and HK\$Nil), resulting in a loss on disposal of HK\$24,000 (six months ended 30 June 2013: gain on disposal of HK\$1,000).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

### 11. Fixed assets (Continued)

#### (c) Valuation

All investment properties of the Group were revalued as at 31 December 2013 on an open market value basis, by either making reference to the comparable sales evidence in the relevant locality, 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 2014 are carried at fair value.

### 12. 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	
	2014	2013
	HK\$'000	HK\$'000
Carrying amount of inventories sold	232,396	314,512
Write-down of inventories	2,982	1,357
Reversal of write-down of inventories	(2,222)	(5,206)
	<u>233,156</u>	<u>310,663</u>

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



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

### 13. 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 <b>30 June</b> <b>2014</b> <i>HK\$'000</i>	At 31 December 2013 <i>HK\$'000</i>
Current	<b>63,498</b>	86,006
Less than 1 month overdue	<b>10,716</b>	20,341
1 to 3 months overdue	<b>640</b>	2,794
More than 3 months but less than 12 months overdue	<b>3,915</b>	10,360
More than 12 months overdue	<b>1,787</b>	2,880
	<hr/>	<hr/>
Total trade debtors, net of allowance for doubtful debts	<b>80,556</b>	122,381
Other debtors and prepayments	<b>36,806</b>	27,832
	<hr/>	<hr/>
	<b>117,362</b>	150,213
	<hr/> <hr/>	<hr/> <hr/>

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

### 14. Cash and cash equivalents

	At <b>30 June</b> <b>2014</b> <i>HK\$'000</i>	At 31 December 2013 <i>HK\$'000</i>
Cash and cash equivalents in the balance sheet	<b>69,513</b>	76,347
Bank overdrafts	<b>(20,416)</b>	(25,276)
	<hr/>	<hr/>
Cash and cash equivalents in the condensed consolidated cash flow statement	<b>49,097</b>	51,071
	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT** (Continued)

**15. 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 <b>30 June</b> <b>2014</b> <i>HK\$'000</i>	At 31 December 2013 <i>HK\$'000</i>
Due within 1 month or on demand	40,835	29,074
Due after 1 month but within 3 months	3,824	814
Due after 3 months but within 6 months	75	249
Due after 6 months	<u>3,725</u>	<u>3,463</u>
Total trade creditors	48,459	33,600
Other creditors and accrued charges	<u>124,837</u>	<u>211,270</u>
	<u><b>173,296</b></u>	<u><b>244,870</b></u>

**16. Capital, reserves and dividends**

**(a) Dividends**

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

	<b>Six months ended 30 June</b> <b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK Nil cents per ordinary share (six months ended 30 June 2013: HK Nil cents per ordinary share)	<u>-</u>	<u>-</u>

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT** *(Continued)*

**16. Capital, reserves and dividends** *(Continued)*

**(b) Share capital**

	2014		2013	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
<b>Authorised:</b>				
Ordinary shares of HK\$0.10 each	<b>1,000,000</b>	<b>100,000</b>	1,000,000	100,000
<b>Ordinary shares, issued and fully paid</b>				
At 1 January	<b>665,412</b>	<b>66,541</b>	665,412	66,541
Issue of shares	<b>285,176</b>	<b>28,518</b>	–	–
	<b>950,588</b>	<b>95,059</b>	665,412	66,541

On 29 January 2014, the Company issued 285,176,397 shares on the basis of three rights shares for every seven existing shares at HK\$0.38 per rights share. The net proceeds raised under the rights issue were HK\$103.70 million, after deduction of issuing expenses amounted to approximately HK\$4.70 million.

**(c) Share premium**

The application of the share premium account is governed by section 40 of the Companies Act 1981 of Bermuda. The addition in share premium represents the difference between the total amount of the par value of shares issue and the amount of the net proceeds received from share issuances in 2014 (see note 16(b)).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

### 17. Fair value measurement of financial instruments

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

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the balance sheet date 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

**Fair value measurements  
as at 30 June 2014 using  
quoted prices in active  
market for identical assets  
(Level 1)  
HK\$'000**

#### Recurring fair value measurement

Financial assets:

Listed available-for sale securities:

– equity	5,162
– debt	2,476

Fair value measurements  
as at 31 December 2013  
using quoted prices in active  
market for identical assets  
(Level 1)  
HK\$'000

#### Recurring fair value measurement

Financial assets:

Listed available-for sale securities:

– equity	7,669
– debt	2,467

During the six months ended 30 June 2014, there were no transfers between Level 1 and Level 2, nor transfers into or out of Level 3 (2013: Nil).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(Continued)*

### 17. Fair value measurement of financial instruments *(Continued)*

#### (b) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2014 and 31 December 2013.

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

	At 30 June 2014 <i>HK\$'000</i>	At 31 December 2013 <i>HK\$'000</i>
Contracted for	<u>3,895</u>	<u>3,424</u>

### 19. Contingent liabilities

At 30 June 2014, there were contingent liabilities in respect of the following:

#### (a) Financial guarantees issued

The Company has issued guarantees to banks to secure banking facilities of its subsidiaries amounting to HK\$712,949,000 at 30 June 2014 (31 December 2013: HK\$719,556,000).

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 subsidiaries of HK\$510,063,000 (31 December 2013: HK\$540,908,000).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

### 19. Contingent liabilities (Continued)

- (b) The Inland Revenue Department of Hong Kong (“IRD”) has been conducting a review of the operations of certain subsidiaries of the Company in relation to the years since 2004, focusing on certain sales and purchases transactions and intra-group service arrangement amongst these subsidiaries. Certain subsidiaries of the Company have received additional or estimated assessments from the IRD in respect of the years of assessment 2004/05, 2005/06, 2006/07 and 2007/08. The taxes demanded under the additional or estimated assessments amounted to HK\$16,008,000 in aggregate. The relevant subsidiaries have submitted objections against these additional or estimated assessments from the IRD.

During 2013 and 2014, the relevant subsidiaries have submitted certain required information to the IRD and provided justifications for the tax treatment adopted. The Group is in the process of discussing the justifications of the tax treatment adopted with the IRD and collating additional information on further request of the IRD. Owing to the uncertainty inherited in the IRD enquiries of this nature, the conclusion to be made by the IRD may result in an impact to the Group’s Hong Kong Profits Tax provision in the period in which conclusion is made.

### 20. Litigation

During the first quarter of 2003, a Mexican company commenced a lawsuit in the State of Arizona, the United States, against the Company on the grounds that the Company was a guarantor for a lease agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. as tenant. The Arizona trial court issued an order that called 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. The judgement was entered in June 2011 (the “Judgement”). The Company filed an appeal against the Judgement and the Arizona Court of Appeals upheld the decision of the trial court. A petition for review was then filed with the Arizona Supreme Court but was denied by the Arizona Supreme Court.

The plaintiff has sought to enforce the Judgement in the courts of Hong Kong, England and Wales, and Bermuda. The Company and the plaintiff subsequently entered into negotiations for the full and final settlement and disposal of all proceedings relating to the enforcement of the Judgement. Agreement was reached in May 2014 and the Company made the payment of HK\$91,356,000 to the plaintiff to settle the case completely. Provision for litigation of HK\$86,245,000 was made as at 31 December 2013. Therefore, a loss of litigation of HK\$5,111,000 was recognised and included in “Other operating expenses” in the consolidated income statement for period ended 30 June 2014.

### 21. Material related party transactions

- (a) As at 30 June 2014, the Group advanced funds totalling HK\$35,907,000 (31 December 2013: HK\$35,462,000) to certain associates in which some of the directors of the Company have beneficial interests.
- (b) As at 30 June 2014, the Group had loans from a director amounting to HK\$70,000,000 (31 December 2013: HK\$20,000,000). The loans are interest-bearing at 2.5% to 3% per annum, unsecured and have no fixed terms of repayment except for a balance of HK\$50,000,000 (31 December 2013: HK\$Nil), which is repayable on 12 September 2014.
- (c) During the period, the Group sold OEM products and raw materials to an associate amounting to HK\$2,720,000 (six months ended 30 June 2013: HK\$2,252,000).

## **INTERIM DIVIDEND**

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: HK\$Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **RESULTS**

During the period under review, the Group recorded a consolidated turnover of approximately HK\$294.34 million, which decreased by approximately 17.42% as compared to approximately HK\$356.44 million reported for the corresponding period last year. The loss attributable to equity shareholders amounted to approximately HK\$72.62 million, representing a decrease of approximately HK\$20.32 million over the corresponding period last year.

### **BUSINESS REVIEW**

#### **Toys and Model Trains**

During the first half year of 2014, the turnover for the Group's OEM/ODM toys business was approximately HK\$92.88 million, which decreased by approximately 19.16% as compared to the corresponding period last year. During the period under review, the weakness of Europe and the United States, the labour shortage and the increase in statutory minimum wages in the People's Republic of China had adversely affected the Group's toys performance.

Regarding the model trains business, the turnover in the first half year of 2014 was approximately HK\$182.17 million, which decreased by approximately 19.04% as compared to the corresponding period last year. The Group's subsidiary, Bachmann Europe Plc., enjoyed success once again in 2013 by winning many UK awards from the RM Web – Model Rail – MRE Mag competition and has received the overall "Manufacturer of the Year" for the 6th year running.

#### **Property Investment**

During the period under review, the rental income of the Group amounted to approximately HK\$19.29 million, representing an increase of approximately 16.77% as compared to the corresponding period last year and the occupancy rate of its investment properties was approximately 97% (30 June 2013: approximately 94%).

## FINANCIAL REVIEW

### Liquidity and Financial Resources

As at 30 June 2014, the Group's net asset value per share was approximately HK\$1.46 (31 December 2013: approximately HK\$2.03). The Group had net current liabilities of approximately HK\$173.06 million (31 December 2013: approximately HK\$197.99 million). Total bank borrowings were approximately HK\$510.06 million (31 December 2013: approximately HK\$540.91 million) while the Group secured total banking facilities of approximately HK\$652.15 million (31 December 2013: approximately HK\$650.24 million). Included in total bank borrowings were revolving loans of approximately HK\$356.00 million (31 December 2013: approximately HK\$351.00 million) which are intended to be rolled over upon maturity. The Group's financial gearing, based on the total borrowings compared to the total equity, was approximately 36.67% (31 December 2013: approximately 39.98%). The majority of borrowings are on floating interest rate terms. The Group will negotiate with banks to increase the banking facilities for working capital needs, if necessary.

### Capital Structure

- (a) On 12 December 2013, the Company proposed to raise approximately HK\$108.40 million before expenses by way of the rights issue. The rights issue involved the issue of 285,176,397 rights shares at the subscription price of HK\$0.38 per rights share on the basis of three rights shares for every seven existing shares.

The net proceeds from the rights issue were approximately HK\$103.70 million and would be applied by the Group for certain purposes including (1) repayment of bank borrowings; (2) upgrade of the facilities; (3) investment in future opportunities; and (4) general working capital purposes. The rights issue was completed on 29 January 2014. Details of these were set out in the announcement and the prospectus issued by the Company on 12 December 2013 and 7 January 2014 respectively.

Details of the movements in the Company's share capital during the period are set out in note 16(b) to the financial statements.

- (b) The Group's sources 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 2014, investment properties, certain leasehold land and buildings, inventories and other assets of the Group with a net book value of approximately HK\$1,593.53 million (31 December 2013: approximately HK\$1,577.50 million) were mortgaged to various banks to secure the banking facilities granted to the Group.

### **Material Acquisitions and Disposals**

There were no material acquisitions and disposals during the six months ended 30 June 2014.

### **Exchange Rate Exposure**

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

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2014, the Group employed 4,024 (31 December 2013: 5,590) full time management, administrative and production staff in the Hong Kong Special Administrative Region, Mainland China, the United States and Europe. The Group has seasonal fluctuations in the number of workers employed in its production plants 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**

Given the continued uncertainty in the economic outlook, the Group will be full of challenge for the toys and model trains business in the second half of the year. Looking forward, the Group will dedicate effort to consolidate its core business and its production and pave the foundation of the future business development.

## DISCLOSURE OF INTERESTS

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

As at 30 June 2014, the 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

Name of directors	Number of ordinary shares of HK\$0.10 each				% of total issued share capital
	Personal interests	Family interests	Corporate interests	Total interests	
Kenneth Ting Woo-shou	205,826,944	2,075,183 <sup>(i)</sup>	348,822,568 <sup>(ii)</sup>	556,724,695	58.57%
Nancy Ting Wang Wan-sun	2,075,183	-	-	2,075,183	0.22%
Ivan Ting Tien-li	20,480,432	-	-	20,480,432	2.15%
Moses Cheng Mo-chi	15,714	-	-	15,714	0.00%
Liu Chee-ming	-	100,000 <sup>(iii)</sup>	1,641,721	1,741,721	0.18%
Bernie Ting Wai-cheung	-	-	-	-	-
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 299,529,997 shares of the Company held by the Company's substantial shareholder, H.C. Ting's Holdings Limited, in which Mr. Kenneth Ting Woo-shou has a controlling interest through Border Shipping Limited; and 49,292,571 shares of the Company held by Glory Town Limited, in which Mr. Kenneth Ting Woo-shou has a controlling interest through Tyrol Investments Limited.
- (iii) The spouse of Mr. Liu Chee-ming is the beneficial shareholder.

(2) **Interests in Associated Corporations**

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

*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 2014, 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 2014, 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 2014, other persons (other than directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which were recorded in the register kept by the Company under section 336 of the SFO were as follows:

Other Persons	Number of ordinary shares of HK\$0.10 each				% of total issued share capital
	Personal interests	Family interests	Corporate interests	Total interests	
Ting Hok-shou	13,800,238	571,429 <sup>(i)</sup>	338,628,278 <sup>(ii)</sup>	352,999,945	37.13%
Emily Tsang Wing-hin	571,429	13,800,238 <sup>(iii)</sup>	338,628,278 <sup>(ii)</sup>	352,999,945	37.13%

### Notes:

- (i) The spouse of Mr. Ting Hok-shou, Mrs. Emily Tsang Wing-hin, is the beneficial shareholder.
- (ii) Included in the "Corporate Interests" above were 299,529,997 shares of the Company held by the Company's substantial shareholder, H.C. Ting's Holdings Limited, in which Mr. Ting Hok-shou has a controlling interest through Border Shipping Limited; 3,913,997 shares of the Company held by Golden Tree Investment Company Limited, in which Mr. Ting Hok-shou and Mrs. Emily Tsang Wing-hin together have controlling interest; and 35,184,284 shares of the Company held by Kimpont Limited, in which Mr. Ting Hok-shou and Mrs. Emily Tsang Wing-hin together have controlling interest through Golden Tree Investment Company Limited and Yale Investment Corporation.
- (iii) The spouse of Mrs. Emily Tsang Win-hin is the beneficial shareholder.

Save as disclosed above, as at 30 June 2014, the Company was not notified by any persons (other than directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which were recorded in the register kept by the Company under section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2014. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period under review.

## CORPORATE GOVERNANCE

The Board of Directors regularly reviews and adopts corporate governance guidelines and developments. Throughout the period under review, the Group has complied with all code provisions in the Corporate Governance Code (“CG Code”) as set out in Appendix 14 to the Listing Rules, except for the deviation from CG Code A.2.1 as described below:

Under CG Code A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Kenneth Ting Woo-shou has the combined role of Chairman and Managing Director. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as non-executive directors and independent non-executive directors (“INEDs”) form the majority of the Board, with eight out of ten of the directors of the Company being non-executive directors and INEDs. The Board believes the appointment of Mr. Kenneth Ting Woo-shou to the posts of Chairman and Managing Director is beneficial to the Group as he has considerable industry experience.

## 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 six months ended 30 June 2014.

## 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 inside 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, 28 August 2014

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