KADER

Manufacturing Trust

KADER HOLDINGS COMPANY LIMITED
開達集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 180)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

The Board of Directors of Kader Holdings Company Limited (the "Company") announces that the results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2013 together with comparative figures for the year 2012 are summarised as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2013

	Note	**2013** *HK$'000*	2012 *HK$'000*
Turnover	*3, 4*	**927,773**	1,251,061
Other revenue	*5(a)*	**18,270**	16,620
Other net income	*5(b)*	**9,895**	4,552
Changes in inventories of finished goods and work in progress		**707**	(44,353)
Cost of purchase of finished goods		**(39,202)**	(44,700)
Raw materials and consumables used		**(239,249)**	(356,967)
Staff costs	*6(b)*	**(403,007)**	(594,485)
Depreciation	*6(c)*	**(42,773)**	(42,477)
Other operating expenses		**(293,395)**	(286,694)
Loss from operations		**(60,981)**	(97,443)
Finance costs	*6(a)*	**(15,434)**	(13,337)
Share of profits less losses of associates		**3,263**	(3,373)
Impairment of loans to an associate		**–**	(3,897)
Valuation gains on investment properties		**129,058**	300,169
Profit before taxation	*6*	**55,906**	182,119
Income tax expense	*7*	**(1,073)**	(15,218)
Profit for the year		**54,833**	166,901
Attributable to:			
Equity shareholders of the Company		**50,930**	164,585
Non-controlling interests		**3,903**	2,316
Profit for the year		**54,833**	166,901
Earnings per share			
Basic	*8(a)*	**7.65¢**	24.73¢
Diluted	*8(b)*	**7.65¢**	24.73¢

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013	2012
	HK$'000	*HK$'000*
Profit for the year	**54,833**	166,901
Other comprehensive income for the year (after tax and reclassification adjustments)		
Items that will not be reclassified to profit or loss:		
Surplus on revaluation of land and buildings held for own use upon change of use to investment properties	**20,237**	6,836
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**(15,125)**	4,620
Available-for-sale securities:		
– changes in fair value during the year	**(401)**	478
– reclassification adjustments for amounts transferred to profit or loss	**–**	(1,102)
Total comprehensive income for the year	**59,544**	177,733
Attributable to:		
Equity shareholders of the Company	**55,446**	175,425
Non-controlling interests	**4,098**	2,308
Total comprehensive income for the year	**59,544**	177,733

Note: There is no tax expense or benefit in relation to the other comprehensive income in either the current or the prior year.

CONSOLIDATED BALANCE SHEET

At 31 December 2013

	Note	At 31 December 2013 HK$'000	At 31 December 2012 HK$'000
Non-current assets			
Fixed assets			
– Investment properties		**1,390,178**	1,215,635
– Other property, plant and equipment		**191,362**	221,428
– Construction in progress		**1,113**	3,997
		1,582,653	1,441,060
Intangible assets		**3,744**	4,734
Interest in associates		**20,025**	11,620
Other non-current financial assets		**10,136**	10,537
Deferred tax assets		**3,948**	7,736
		1,620,506	1,475,687
Current assets			
Inventories		**316,246**	348,662
Current tax recoverable		**376**	84
Loans to an associate		**21,456**	13,457
Trade and other receivables	*10*	**150,213**	151,220
Cash and cash equivalents		**76,347**	114,432
		564,638	627,855
Current liabilities			
Trade and other payables	*11*	**244,870**	307,667
Bank loans and overdrafts		**516,126**	434,013
Loan from a director		**–**	20,000
Current tax payable		**1,627**	3,458
		762,623	765,138
Net current liabilities		**(197,985)**	(137,283)

CONSOLIDATED BALANCE SHEET *(Continued)*
At 31 December 2013

	Note	**At 31 December 2013** *HK$'000*	At 31 December 2012 *HK$'000*
Total assets less current liabilities		**1,422,521**	1,338,404
Non-current liabilities			
Bank loans		**24,782**	16,079
Deferred rental expenses		**3,162**	2,928
Rental deposits		**2,636**	3,085
Deferred tax liabilities		**18,615**	21,671
Loan from a director		**20,000**	–
Accrued employee benefits		**337**	1,196
		69,532	44,959
NET ASSETS		**1,352,989**	1,293,445
CAPITAL AND RESERVES			
Share capital		**66,541**	66,541
Reserves		**1,282,608**	1,227,162
Total equity attributable to equity shareholders of the Company		**1,349,149**	1,293,703
Non-controlling interests		**3,840**	(258)
TOTAL EQUITY		**1,352,989**	1,293,445

Notes:

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

This announcement does not comprise the consolidated financial statements for the year ended 31 December 2013 but the information herein has been extracted from the draft consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2013 comprise the Group and the Group's interest in associates.

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

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that investment properties and financial instruments classified as available-for-sale are stated at their fair values.

The Group recorded a loss from operations of HK$60,981,000 during the year ended 31 December 2013 and net current liabilities of HK$197,985,000 as at that date. These financial statements have been prepared on a going concern basis notwithstanding the Group's loss from operations and the net current liabilities because the directors are of the opinion that, based on a cash flow forecast of the Group for the year ending 31 December 2014, the Group would have adequate funds to meet its liabilities as and when they fall due for at least twelve months from the balance sheet date. The financial statements do not include any adjustments relating to the carrying amount and classification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2013 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs 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 HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- Amendments to HKFRS 7, *Financial Instruments: Disclosures – Offsetting financial assets and financial liabilities*

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

Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

HKFRS 10, *Consolidated financial statements*

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12, *Disclosure of interests in other entities*

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards.

HKFRS 13, ***Fair value measurement***

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments.

Amendments to HKFRS 7, ***Financial Instruments: Disclosures – Offsetting financial assets and financial liabilities***

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

3. TURNOVER

The principal activities of the Group are the manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment and investment holding.

Turnover represents the sales value of goods supplied to customers and rental income during the year. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2013	2012
	HK$'000	*HK$'000*
Sales of goods	**893,308**	1,220,120
Gross rentals from investment properties	**34,465**	30,941
	927,773	1,251,061

The Group's customer base is diversified and includes one (2012: one) customer with whom transactions have exceeded 10% of the Group's revenue. In 2013, revenue from sales of toys and model trains to this customer (2012: one), including sales to entities which are known to the Group to be under common control of these customers, amounted to approximately HK$290,069,000 (2012: HK$461,933,000) and arose in the North America (2012: North America) geographical region in which the toys and model trains division is active.

4. 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 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 purposes 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.

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below:

	Toys and model trains		Property investment		Investment holding		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**893,308**	1,220,120	**34,465**	30,941	**–**	–	**927,773**	1,251,061
Inter-segment revenue	**–**	–	**1,258**	1,705	**–**	–	**1,258**	1,705
Reportable segment revenue	**893,308**	1,220,120	**35,723**	32,646	**–**	–	**929,031**	1,252,766
Reportable segment (loss)/profit (adjusted EBITDA)	**(55,567)**	(90,903)	**31,346**	27,860	**(20,578)**	(11,602)	**(44,799)**	(74,645)
Interest income	**95**	297	**–**	–	**1,168**	1,135	**1,263**	1,432
Interest expenses	**(15,434)**	(13,337)	**–**	–	**–**	–	**(15,434)**	(13,337)
Depreciation and amortisation for the year	**(43,722)**	(43,461)	**–**	–	**(53)**	(34)	**(43,775)**	(43,495)
Impairment of fixed assets	**(725)**	(791)	**–**	–	**–**	–	**(725)**	(791)
Reportable segment assets	**670,699**	725,681	**1,390,235**	1,216,164	**345,294**	367,311	**2,406,228**	2,309,156
Additions to non-current segment assets during the year	**34,677**	43,387	**–**	–	**–**	–	**34,677**	43,387
Reportable segment liabilities	**1,041,917**	1,043,262	**12,829**	5,837	**94,062**	84,128	**1,148,808**	1,133,227

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

	2013 *HK$'000*	2012 *HK$'000*
Revenue		
Reportable segment revenue	**929,031**	1,252,766
Elimination of inter-segment revenue	**(1,258)**	(1,705)
Consolidated turnover	**927,773**	1,251,061
Profit		
Reportable segment loss	**(44,799)**	(74,645)
Elimination of inter-segment losses	**–**	–
Reportable segment loss derived from Group's external customers	**(44,799)**	(74,645)
Other revenue	**18,270**	16,620
Other net income	**9,895**	4,552
Depreciation and amortisation	**(43,775)**	(43,495)
Finance costs	**(15,434)**	(13,337)
Share of profits less losses of associates	**3,263**	(3,373)
Impairment of loans to an associate	**–**	(3,897)
Valuation gains on investment properties	**129,058**	300,169
Unallocated corporate expenses	**(572)**	(475)
Consolidated profit before taxation	**55,906**	182,119
Assets		
Reportable segment assets	**2,406,228**	2,309,156
Elimination of inter-segment receivables	**(357,162)**	(368,350)
	2,049,066	1,940,806
Intangible assets	**3,744**	4,734
Interest in associates	**20,025**	11,620
Loans to an associate	**21,456**	13,457
Other non-current financial assets	**10,136**	10,537
Deferred tax assets	**3,948**	7,736
Current tax recoverable	**376**	84
Cash and cash equivalents	**76,347**	114,432
Unallocated head office and corporate assets	**46**	136
Consolidated total assets	**2,185,144**	2,103,542
Liabilities		
Reportable segment liabilities	**1,148,808**	1,133,227
Elimination of inter-segment payables	**(357,162)**	(368,350)
	791,646	764,877
Current tax payable	**1,627**	3,458
Deferred tax liabilities	**18,615**	21,671
Unallocated head office and corporate liabilities	**20,267**	20,091
Consolidated total liabilities	**832,155**	810,097

(c) Geographic information

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

	Revenue from external customers		**Specified Non-current assets**	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**82,987**	102,354	**1,394,829**	1,249,813
Mainland China	**23,475**	16,577	**147,922**	149,445
North America	**499,161**	696,583	**47,060**	38,776
Europe	**231,869**	281,476	**16,205**	18,813
Others	**90,281**	154,071	**406**	567
	844,786	1,148,707	**211,593**	207,601
	927,773	1,251,061	**1,606,422**	1,457,414

5. OTHER REVENUE AND NET INCOME

	2013	2012
	HK$'000	*HK$'000*
(a) Other revenue		
Interest income from loans to an associate	**1,029**	992
Interest income from available-for-sale debt securities	**138**	139
Other interest income	**96**	301
	1,263	1,432
Air conditioning, management and maintenance service charges from tenants	**6,428**	6,596
Film making and photo taking income on products	**232**	883
Testing income	**185**	288
Sales of scrap	**428**	319
Material charges	**1,225**	892
Others	**8,509**	6,210
	18,270	16,620

	2013	2012
	HK$'000	*HK$'000*
(b) Other net income		
Net (loss)/gain on disposal of fixed assets	**(407)**	102
Net exchange gain	**10,302**	2,348
Available-for-sale securities: reclassified from equity on disposal	**–**	1,102
Proceeds from settlement of claim	**–**	1,000
	9,895	4,552

6. PROFIT BEFORE TAXATION

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

	2013	2012
	HK$'000	*HK$'000*
(a) Finance costs		
Interest on bank overdrafts	**539**	914
Interest on bank borrowings repayable within five years	**14,244**	11,902
Interest on loan from a director	**651**	521
	15,434	13,337
(b) Staff costs		
Salaries, wages and other benefits	**370,547**	554,588
Employer's contributions to defined contribution retirement plans, net of forfeited contributions of HK$150,000 *(2012: HK$118,000)*	**32,460**	39,897
	403,007	594,485

	2013 *HK$'000*	2012 *HK$'000*
(c) Other items		
Amortisation of intangible assets	**1,002**	1,018
Depreciation		
– owned assets	**42,773**	42,477
Impairment losses		
– fixed assets	**725**	791
– loans to an associate	**–**	3,897
– trade receivables	**3,464**	931
	4,189	5,619
Operating lease charges		
– rental of land and buildings	**39,697**	44,357
– other rentals	**106**	202
	39,803	44,559
Auditors' remuneration		
– audit services	**4,717**	4,768
– tax services	**387**	335
	5,104	5,103
Cost of inventories	**723,461**	1,053,224
Rental receivable from investment properties less direct outgoings of HK$3,299,000 *(2012: HK$3,170,000)*	**(31,166)**	(27,771)

Cost of inventories includes HK$303,707,000 *(2012: HK$469,572,000)* relating to staff costs, depreciation charges, impairment loss in respect of fixed assets and operating lease charges, which amount is also included in the respective total amounts disclosed separately above and in the income statement for each of these types of expenses.

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2013	2012
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**73**	252
Under-provision/(over-provision) in respect of prior years	**35**	(12)
	108	240
Current tax – Outside Hong Kong		
Provision for the year	**178**	4,912
Under-provision in respect of prior years	**55**	47
	233	4,959
Deferred tax		
Origination and reversal of temporary differences	**732**	10,014
Effect on deferred tax balances at 1 January resulting from a decrease in tax rate	**–**	5
	732	10,019
	1,073	15,218

The provision for Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year.

The Corporate Income Tax ("CIT") rate applicable to subsidiaries registered in the People's Republic of China ("PRC") is 25% (2012: 25%).

Taxation for other subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

During the year ended 31 December 2013, the British Government announced a reduction in the corporation tax rate applicable to the Group's operations in the United Kingdom (the "UK") from 24.5% to 23% (2012: 26% to 24.5%). The reduction has been taken into account in the preparation of the Group's financial statements. Accordingly, the deferred tax balances related to the Group's operations in the UK as at 31 December 2013 were calculated using a tax rate of 23% (2012: 24.5%).

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2013	2012
	HK$'000	*HK$'000*
Profit before taxation	**55,906**	182,119
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**5,140**	26,349
Tax effect of non-deductible expenses	**8,538**	11,506
Tax effect of non-taxable income	**(25,524)**	(55,568)
Tax effect of previously unrecognised tax losses utilised	**(1,935)**	(979)
Tax effect of unused tax losses not recognised	**14,764**	33,870
Effect on deferred tax balances at 1 January resulting from a decrease in tax rate	**–**	5
Under-provision in prior years	**90**	35
Actual tax expense	**1,073**	15,218

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$50,930,000 *(2012: HK$164,585,000)* and the weighted average of 665,412,000 ordinary shares *(2012: 665,412,000 ordinary shares)* in issue during the year.

(b) Diluted earnings per share

The Company did not have dilutive potential ordinary shares outstanding during both 2013 and 2012. Accordingly, the diluted earnings per share is the same as the basic earnings per share for both 2013 and 2012.

9. DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31 December 2013 *(2012: HK$Nil)*.

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	2013	2012
	HK$'000	*HK$'000*
Neither past due nor impaired	**86,006**	108,292
Less than 1 month past due	**20,341**	6,038
1 to 3 months past due	**2,794**	7,688
More than 3 months but less than 12 months past due	**10,360**	4,536
More than 12 months past due	**2,880**	60
	122,381	126,614

11. TRADE AND OTHER PAYABLES

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

	2013	2012
	HK$'000	*HK$'000*
Due within 1 month or on demand	**29,074**	48,683
Due over 1 month but within 3 months	**814**	1,465
Due over 3 months but within 6 months	**249**	638
Due over 6 months	**3,463**	577
	33,600	51,363

12. CONTINGENT LIABILITIES

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 arrangements 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 the additional or estimated assessments from the IRD.

During 2013, 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 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.

13. 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 subsequently sought to enforce the Judgement in the courts of Hong Kong, England and Wales, and Bermuda. The Company had been advised by its legal adviser that it has good grounds to resist the enforcement of the Judgement in Hong Kong, England and Wales, and Bermuda. The management and the Board believe that the Company's opposition to the plaintiff's claims, as well as the Company's defenses and appeal rights, continue to be meritorious.

14. EVENTS AFTER THE BALANCE SHEET DATE

On 29 January 2014, the Company issued 285,176,397 rights 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.

BUSINESS REVIEW

The global economy continued its long cyclical recovery from recession during 2013. However, the weakness of Europe and the United States ("US") affected the overall performance of the toy industry. During the year, the operating environment for manufacturing industry remained tough. The labour shortage and the increase in statutory minimum wages in the People's Republic of China ("PRC") in 2013 had adversely affected the Group's performance. In order to prevail in this difficult environment and exploit available opportunities, the Group has consolidated its production plants in Mainland China to reduce the operating costs and has continued to expand new product lines and explore sales opportunities in the global market.

Toys

For the financial year ended 31 December 2013, the turnover for the Group's OEM/ODM toys business was approximately HK$338.37 million, representing a decrease of approximately 35.79% as compared to last year.

The slow recovery of the global economy from Europe's sovereign debt crisis and the US fiscal cliff adversely affected the sentiment of the ultimate customers and compressed the business of the toys industry. The Group continues to be committed to maintain its competitiveness in terms of productivity, quality and reliability. Efforts have also placed in enhancing safety precautions and quality control.

Nevertheless, the Group will continue to manufacture high quality products with competitive prices and adhere to and fully support the Code of Business Practice of the International Council of Toy Industries ("ICTI").

Model Trains

The turnover for model trains for the year ended 31 December 2013 was approximately HK$554.94 million, representing a decrease of approximately 19.94% as compared to last year.

During the year under review, the Group has continued to improve the quality of the products, develop innovative products, enrich the product line and promote the product image and brand name. This strategy has succeeded in receiving encouraging responses from customers and gaining their loyalty, which in turn has helped maintain our leading position in the industry. In June 2013, the Group opened its online Web Store, with satisfactory sales in the fourth quarter. This provides another channel to promote its range of products.

The Group is proud to announce that during the year, our subsidiary, Bachmann Europe Plc., enjoyed success once again in 2013 by winning many UK awards from the RM Web – Model Rail – MRE Mag competition. Bachmann Europe Plc. has received the overall "Manufacturer of the Year" for the 6th year running.

Property Investment

For the financial year ended 31 December 2013, the Group's rental income amounted to approximately HK$34.46 million, representing an increase of approximately 11.38% over the previous year. In addition, the Group recorded valuation gains of approximately HK$129.06 million on its investment properties for the year, as compared to last year's valuation gains of approximately HK$300.17 million.

During the year under review, the occupancy rate of its investment properties is above 95%.

FINANCIAL REVIEW

Results

The Board announces that the Group's turnover for the financial year ended 31 December 2013 amounted to approximately HK$927.77 million, representing a decrease of approximately 25.84% over that reported last year and the loss from operations for 2013 amounted to approximately HK$60.98 million as compared to last year's figure of approximately HK$97.44 million. The Group's profit attributable to shareholders for the financial year ended 31 December 2013 was approximately HK$50.93 million, which included valuation gains on investment properties amounting to approximately HK$129.06 million, as compared to last year's profit attributable to shareholders of approximately HK$164.59 million which included valuation gains on investment properties of approximately HK$300.17 million.

Liquidity and Financial Resources

As at 31 December 2013, the Group's net asset value per share was approximately HK$2.03 (2012: approximately HK$1.94). The Group had net current liabilities of approximately HK$197.99 million (2012: approximately HK$137.28 million). Total bank borrowings were approximately HK$540.91 million (2012: approximately HK$450.09 million) while the Group secured total banking facilities of approximately HK$650.24 million (2012: approximately HK$558.70 million). Included in total bank borrowings were revolving loans of approximately HK$351.00 million (2012: approximately HK$221.00 million) which are intended to be rolled over upon maturity. The Group's financial gearing, based on the total bank borrowings compared to the total equity, was approximately 39.98% (2012: approximately 34.80%). 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) During the year under review, there were no changes in the Company's share capital. The Group's sources of financing during the year was mainly bank borrowings, which were denominated in Hong Kong dollars ("HKD"), United States dollars ("USD") and Sterling Pounds ("GBP") at prevailing interest rates.

(b) 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.

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated in HKD, USD, GBP, Renminbi Yuan and Euros. During the year 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 31 December 2013, the Group employed 5,590 (2012: 7,840) full time management, administrative and production staff in Hong Kong Special Administrative Region (the "HKSAR"), 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

Despite some positive signs for the global economy during 2013, the economic outlook for the year ahead is uncertain. Given this continued uncertainty, the Group will maintain prudent management of our OEM/ODM toys and model train business and will strive for developing recurrent income stream so as to provide long-term sustainable growth for the benefit of the Group and its shareholders as a whole. For the coming year, the Group is cautiously optimistic about the business outlook. Looking forward, the Group will dedicate effort to consolidate its core business and its production and pave the foundation of the future business development. Given our dominant market position, implementation of strategic restructuring plans and high caliber management team, the Group is confident of achieving performance improvements and a profit margin and maximizing returns for its shareholders.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: HK$Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 29 May 2014 to Wednesday, 4 June 2014, both days inclusive, during which period no transfers of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 28 May 2014.

PURCHASE, SALE OR REDEMPTION OF SHARES

There has been no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year ended 31 December 2013.

CORPORATE GOVERNANCE

The Board sets its corporate governance procedure and duties pursuant to the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and it accordingly reviews and monitors the training and continuous development in profession of directors and senior management and its policies and practices in compliance with relevant laws and regulatory requirements. Throughout the year ended 31 December 2013, the Group has complied with all code provisions set out in the CG Code, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 throughout the year.

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 annual results for the year ended 31 December 2013.

By order of the Board
Kenneth Ting Woo-shou
Chairman

Hong Kong, 31 March 2014

As at the date of this announcement, 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.