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 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

		Six months ended 30 June	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Turnover	*4 & 5*	**294,337**	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		**33,593**	(15,733)
Cost of purchase of finished goods		**(14,360)**	(3,812)
Raw materials and consumables used		**(83,803)**	(96,747)
Staff costs		**(160,830)**	(203,044)
Depreciation		**(19,504)**	(21,262)
Other operating expenses		**(119,319)**	(107,721)
Loss from operations		**(64,651)**	(77,463)
Finance costs	*6(a)*	**(7,648)**	(7,107)
Share of profits less losses of associates		**489**	(4,501)
Loss before taxation	*6*	**(71,810)**	(89,071)
Income tax expense	*7*	**(64)**	(1,236)
Loss for the period		**(71,874)**	(90,307)
Attributable to:			
Equity shareholders of the Company		**(72,620)**	(92,938)
Non-controlling interests		**746**	2,631
Loss for the period		**(71,874)**	(90,307)
Loss per share	*9*		
Basic		**(8.00)¢**	(13.57)¢
Diluted		**(8.00)¢**	(13.57)¢

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*
Loss for the period		**(71,874)**	(90,307)
Other comprehensive income for the period:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**8,001**	(17,772)
Available-for-sale securities: net movement in fair value reserve	*8*	**(1,756)**	(1,019)
Total comprehensive income for the period		**(65,629)**	(109,098)
Attributable to:			
Equity shareholders of the Company		**(66,319)**	(111,852)
Non-controlling interests		**690**	2,754
Total comprehensive income for the period		**(65,629)**	(109,098)

CONSOLIDATED BALANCE SHEET

As at 30 June 2014 – unaudited

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

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

	Note	At 30 June 2014 HK$'000	At 31 December 2013 HK$'000
Total assets less current liabilities brought forward		**1,437,730**	1,422,521
Non-current liabilities			
Bank loans		**22,319**	24,782
Loan from a director		**–**	20,000
Deferred rental expenses		**3,279**	3,162
Rental deposits		**2,221**	2,636
Deferred tax liabilities		**18,615**	18,615
Accrued employee benefits		**222**	337
		46,656	69,532
NET ASSETS		**1,391,074**	1,352,989
CAPITAL AND RESERVES	*14*		
Share capital		**95,059**	66,541
Reserves		**1,291,485**	1,282,608
Total equity attributable to equity shareholders of the Company		**1,386,544**	1,349,149
Non-controlling interests		**4,530**	3,840
TOTAL EQUITY		**1,391,074**	1,352,989

NOTES

1. INDEPENDENT REVIEW

The interim financial results for the six months ended 30 June 2014 are unaudited, but have been reviewed by the Audit Committee.

2. BASIS OF PREPARATION

The interim financial results for the six months ended 30 June 2014 comprise the Group and the Group's interests in associates.

These interim financial results have 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 results were approved by the Board of Directors and authorised for issue on 28 August 2014.

The interim financial results have 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 results 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 results contain 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.

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.

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 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.

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.

4. SEGMENT REPORTING *(Continued)*

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

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

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

	Toys and model trains		Property investment		Investment holding		Total	
	At 30 June 2014 ***HK$'000***	At 31 December 2013 *HK$'000*	**At 30 June 2014** ***HK$'000***	At 31 December 2013 *HK$'000*	**At 30 June 2014** ***HK$'000***	At 31 December 2013 *HK$'000*	**At 30 June 2014** ***HK$'000***	At 31 December 2013 *HK$'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

4. SEGMENT REPORTING *(Continued)*

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

	Six months ended 30 June 2014 *HK$'000*	Six months ended 30 June 2013 *HK$'000*
Revenue		
Reportable segment revenue	**295,067**	357,129
Elimination of inter-segment revenue	**(730)**	(689)
Consolidated turnover	**294,337**	356,440
Loss		
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)

	At 30 June 2014 *HK$'000*	At 31 December 2013 *HK$'000*
Assets		
Reportable segment assets	**2,480,025**	2,406,228
Elimination of inter-segment receivables	**(432,452)**	(357,162)
	2,047,573	2,049,066
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	**–**	46
Consolidated total assets	**2,170,629**	2,185,144

4. SEGMENT REPORTING *(Continued)*

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

	At 30 June 2014 *HK$'000*	At 31 December 2013 *HK$'000*
Liabilities		
Reportable segment liabilities	**1,121,488**	1,148,808
Elimination of inter-segment payables	**(432,452)**	(357,162)
	689,036	791,646
Current tax payable	**1,859**	1,627
Deferred tax liabilities	**18,615**	18,615
Unallocated head office and corporate liabilities	**70,045**	20,267
Consolidated total liabilities	**779,555**	832,155

5. SEASONALITY OF OPERATIONS

The Group's toys and model trains division, a separate business segment (see note 4), 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.

6. LOSS BEFORE TAXATION

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

	Six months ended 30 June 2014 *HK$'000*	2013 *HK$'000*
(a) Finance costs		
Interest on bank and other borrowings	**7,648**	7,107
(b) Other items		
Cost of inventories *(note 11)*	**233,156**	310,663
Amortisation of intangible assets	**535**	491
Net loss/(gain) on disposal of fixed assets *(note 10(b))*	**24**	(1)
Interest income	**(661)**	(622)
Gains on disposal of financial assets *(note 8)*	**(2,067)**	–

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax	**(12)**	1,100
Current tax – Outside Hong Kong	**76**	136
Income tax expense	**64**	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.

8. OTHER COMPREHENSIVE INCOME

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

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$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 14, 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.

10. 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).

(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.

11. INVENTORIES

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

	Six months ended 30 June	
	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)
	233,156	310,663

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.

12. TRADE AND OTHER RECEIVABLES

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

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

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.

13. TRADE AND OTHER PAYABLES

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

	At 30 June 2014 *HK$'000*	At 31 December 2013 *HK$'000*
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	**3,725**	3,463
Total trade creditors	**48,459**	33,600
Other creditors and accrued charges	**124,837**	211,270
	173,296	244,870

14. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
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)	**–**	–

(b) Share capital

	2014		2013	
	Number of shares		Number of shares	
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000**	**100,000**	1,000,000	100,000
Ordinary shares, issued and fully paid				
At 1 January	**665,412**	**66,541**	665,412	66,541
Issue of shares	**285,176**	**28,518**	–	–
	950,588	**95,059**	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 14(b)).

15. 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 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.

16. 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.

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 14(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.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 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.

By order of the Board
Kenneth Ting Woo-shou
Chairman

Hong Kong, 28 August 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.