KADER

*Manufacturing Trust*

# KADER HOLDINGS COMPANY LIMITED

## ANNUAL REPORT 2010

(Stock Code : 180)

# Contents

# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors:**
Kenneth Ting Woo-shou *SBS, JP (Chairman)*
Ivan Ting Tien-li *(Managing Director)*
Nancy Ting Wang Wan-sun

**Non-executive Directors:**
Moses Cheng Mo-chi *GBS, OBE, JP*
Bernie Ting Wai-cheung

**Independent Non-executive Directors:**
Liu Chee-ming
Floyd Chan Tsoi-yin
Andrew Yao Cho-fai *JP*
Desmond Chum Kwan-yue
Ronald Montalto

## COMPANY SECRETARY

Lee Kwok-wan

## AUDIT COMMITTEE

Liu Chee-ming *(Chairman)*
*(Independent Non-executive Director)*
Moses Cheng Mo-chi
*(Non-executive Director)*
Floyd Chan Tsoi-yin
*(Independent Non-executive Director)*
Andrew Yao Cho-fai
*(Independent Non-executive Director)*

## REMUNERATION COMMITTEE

Kenneth Ting Woo-shou *(Chairman)*
*(Executive Director)*
Floyd Chan Tsoi-yin
*(Independent Non-executive Director)*
Andrew Yao Cho-fai
*(Independent Non-executive Director)*

## AUTHORISED REPRESENTATIVES

Kenneth Ting Woo-shou
Ivan Ting Tien-li

## SOLICITORS

P.C. Woo & Co.

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

22 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

## REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

## PRINCIPAL BANKERS

Chong Hing Bank Limited
Citic Bank International Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
KBC Bank N.V.

## INDEPENDENT AUDITORS

KPMG
Certified Public Accountants

## PRINCIPAL REGISTRARS

HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM11
Bermuda

## HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

# Chairman's Statement

I have pleasure in presenting to our shareholders the annual report of Kader Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

On behalf of the Board of Directors of the Company, I am pleased to report that the Group's turnover for the financial year ended 31 December 2010 amounted to approximately HK$1,600.25 million, representing an increase of 4.06% over that reported last year and that profit from operations for 2010 amounted to HK$76.32 million as compared to last year's figure of HK$89.55 million. The Group's profit attributable to shareholders for the financial year ended 31 December 2010 was approximately HK$164.53 million, which included valuation gains on investment properties amounting to HK$103.21 million, as compared to last year's profit attributable to shareholders of HK$175.39 million which included valuation gains on investment properties of HK$93.51 million.

The Directors recommend the payment of a final dividend of HK1.5 cents per ordinary share (2009: HK1.5 cents per ordinary share) for the year ended 31 December 2010 payable on 14 June 2011 to those shareholders whose names appear on the Register of Members of the Company as at the close of business on 2 June 2011 subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The global economy is slowly recovering and has returned to a steady growth track in 2010. However, toy manufacturers still have to confront continued escalation of raw material costs, the appreciation of the Renminbi Yuan and stringent product safety requirements. In addition to the above, the increase in statutory minimum wages, labour shortages and high inflation in the People's Republic of China, have further impacted all labour intensive industries in the Pearl River Delta Region. 2011 will be a difficult year for the Group as the Group's profit may be adversely affected by these factors.

Despite the above challenges, our business has made a gradual growth due to dedicated contribution from our management team and staff. The Group continued to experience sales growth in the OEM toys business through its dedication to producing quality products. To broaden our revenue streams, the Group will take heed of market changes so as to capture opportunities to promote the steady development of its core businesses. In terms of market development, the Group put constant efforts to build relationships with new customers so as to enlarge customer base in the toys and model train business. The Group continued to improve its production efficiency so as to maintain its gross profit margins. With regard to cost control, the Group will continue to reduce unnecessary operational costs and implement various measures to minimise expenses. With our experienced and dedicated management team, solid business model with robust financial position, the Group is in an advantageous position to seize business opportunities and provide reasonable returns to our shareholders in the future.

On behalf of the Board of Directors, I would like to take this opportunity to express my appreciation to all employees who devoted themselves to the Group during the past year. Their contributions are unfailing and most instrumental to the success of the Group. Moreover, I would like to welcome Mr. Bernie Ting Wai-cheung who joined the Group as Non-executive Director in July 2010. In addition, Dr. Dennis Ting Hok-shou has resigned the Non-executive Chairman of the Group in July 2010. I would like to thank Dr. Dennis Ting Hok-shou for his invaluable contributions over the years. I also take this opportunity to extend our gratitude to our customers, suppliers, business partners and shareholders for their steadfast support of the Group.

**Kenneth Ting Woo-shou**
*Chairman*

Hong Kong, 30 March 2011

# Management Discussion and Analysis

## RESULTS

The Board of Directors have pleasure in announcing that the Group's turnover for the financial year ended 31 December 2010 amounted to approximately HK$1,600.25 million, representing an increase of 4.06% over that reported last year and that profit from operations for 2010 amounted to HK$76.32 million as compared to last year's figure of HK$89.55 million. The Group's profit attributable to shareholders for the financial year ended 31 December 2010 was approximately HK$164.53 million, which included valuation gains on investment properties amounting to HK$103.21 million, as compared to last year's profit attributable to shareholders of HK$175.39 million which included valuation gains on investment properties of HK$93.51 million.

## BUSINESS REVIEW

In 2010, toy manufacturers recognised the uncertainties of the global economic recovery and faced continued challenges in the operating environment. During the year under review, the industry faced adverse factors such as high inflation, high labour costs, spiralling raw material costs, increasing energy costs and the appreciation of the Renminbi Yuan ("RMB"). As a result of the increase in statutory minimum wages and labour shortages, factory wages and labour costs have increased. In order to prevail in this difficult environment and exploit available opportunities, the Group has continued its stringent control policies in both production and financial management. The Group has placed emphasis on modernising and scrutinising production methods to increase efficiency and to maximise productivity, and has continued to develop high value added products and integrate technology with its toy products.

Looking back, the Group's ability to weather adverse operating conditions has been the foundation on which the Group has built its reputation as a trusted manufacturer. Looking forward, the Group will continue its mission of forging long-term relationships with customers by continuing to provide products they can trust.

### Toys

For the financial year ended 31 December 2010, the turnover for the Group's OEM/ODM toys business was approximately HK$670.52 million, representing an increase of 0.63% as compared to last year.

The growth in OEM/ODM toy sales was partly attributable to the sales team which secured more bulk order business from existing customers.

However, high inflation in Mainland China brought about increases in the price for raw material and other necessary costs such as energy and labour. To manage such changes, apart from passing on the price increases, the Group implemented its raw material procurement strategies and devoted resources to production management and internal control as well as to conserve energy in order to maximise production returns.

The Group continues to be committed to maintaining its competitiveness in terms of productivity, quality, reliability and delivery. Efforts have also been placed in enhancing safety precautions and quality control. The Group is adhering to and fully supports the Code of Business Practice of the International Council of Toy Industries ("ICTI") and has passed and satisfied the ICTI audit, namely, the ICTI CARE Process.

### Model Trains

The turnover for model trains for the year ended 31 December 2010 was approximately HK$896.32 million, an increase of 6.92% as compared to last year.

During the year under review, the Group has followed a strategy of further improving the quality of the products, developing innovative products, enriching the product line and promoting the product image and brand name. This strategy has succeeded in gaining the loyalty of customers and helped maintain our leading position in the industry. In order to broaden the customer base, the Group continued to expand its distribution network in the model trains market, including the expansion of the license "Thomas & Friends" into Mainland China in 2009. The Group was granted rights to distribute "Thomas & Friends" HO & Large Scale products and continued to expand the worldwide distribution of its growing "Thomas & Friends" line. The Group also introduced ready-to-run sets (complete set of train, track and transformer) in our O gauge Williams by Bachmann line. In addition, the Group re-launched the Hong Kong tram car to the market in 2010. This is the only model of the Group based on Hong Kong items in the past decade. The Group received a good response from the market in early 2011.

The Group's model trains continued to receive encouraging responses from customers, while the Bachmann's E-Z Command® series continued to be the key contributor to sales growth. This is a Digital Command Control ("DCC") system incorporating the latest digital technology to bring a DCC system to control speed, lighting and direction of multiple locomotives, that is easy to use and affordable for both the novice and experienced hobbyists. With the latest offerings of DCC Sound On Board locomotives, model railroads are able to come to life.

The Group is proud to announce that during the year, our subsidiary, Bachmann Europe Plc., was awarded "Manufacturer of the Year 2010" in the overall category and also for the OO scale and N scale model trains category by Model Rail Magazine, RM Web and MREMAG. In addition, our OO scale model trains, "7F 2-8-0 steam", "Cravens Class 105 DMU", "Mk1 TPO coach" and "JJA 'Autoballaster' hopper", were awarded "Model of the Year 2010" under different categories. Moreover, our Graham Farish N scale model train "DP1 Deltic prototype" was awarded "Model of the Year 2010". In addition, our Liliput brand HO scale electrical locomotive "E44.5" was awarded the first place of "Electric Loco of the Year 2010" by Train Magazine in Germany. Last but not least, our loco "Reihe 4041" was awarded "Model of the Year 2010" by Verband Österreichischer Modell Eisenbahn Clubs ("VOEMEC") in Austria.

### Property Investment

For the financial year ended 31 December 2010, the Group's rental income amounted to HK$32.53 million, representing a 1.60% decrease over the previous year. In addition, the Group recorded a valuation gain of HK$103.21 million on its investment properties for the year, as compared to last year's valuation gain of HK$93.51 million.

The Group's major rental property, Kader Building, reported rental income of approximately HK$31.02 million in 2010, down 2.76% from 2009's HK$31.90 million. During the year under review, the Group managed to maintain the occupancy rate of Kader Building above 94% and increased rental rates upon lease renewals.

# Management Discussion and Analysis *(Continued)*

FINANCIAL REVIEW

**Liquidity and Financial Resources**

As at 31 December 2010, the Group's net asset value per share was HK$1.55 (2009: HK$1.33); the current ratio was 1.26 (2009: 1.06); total bank borrowings were approximately HK$340.51 million (2009: HK$281.67 million) while the Group secured total banking facilities of approximately HK$601.83 million (2009: HK$498.44 million). The Group's financial gearing, based on the total interest bearing borrowings compared to the total equity, was 33.08% (2009: 31.81%). There is no significant seasonality in borrowing requirements except that during the peak production period in the second half of the year the Group's facilities for trade finance will be substantially utilised. The majority of borrowings are on floating interest rate terms.

**Capital Structure**

During the 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.

**Charges on Group Assets**

As at 31 December 2010, certain investment properties, leasehold land and buildings, inventories and other assets of the Group with a net book value of HK$1,025.11 million (2009: HK$887.34 million) were mortgaged to various banks to secure the bank loans and overdrafts granted to the Group.

**Material Acquisitions and Disposals**

There were no material acquisitions during the year ended 31 December 2010. Material disposals are discussed as follows:

On 21 April 2010, certain subsidiaries of the Company entered into sale and purchase agreements with two independent third parties to dispose of sixteen units in a commercial building at Lujiazui Road, Shanghai, The People's Republic of China, for a total consideration of HK$77.61 million. These agreements were completed on 13 and 14 May 2010 and a net gain on disposal of investment properties of HK$31.22 million was recorded.

**Exchange Rate Exposure**

Major assets, liabilities and transactions of the Group are denominated in HKD, USD, GBP, RMB and Euros. During the year under review, the majority of the Group's sales revenues were denominated in HKD, USD and GBP while the majority of its raw materials and equipment purchases were settled in HKD. 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.

**Contingent Liabilities**

As at 31 December 2010, the Group did not have any significant contingent liabilities except as follows:

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

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

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

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

## Management Discussion and Analysis *(Continued)*

The trial on the issue of damages was held in April 2010. A ruling granting damages was issued on 4 March 2011. The Order calls for 24% annual simple interest on the unpaid rent portion of the principal amount and 10% annual simple interest on the remainder of the principal amount. The plaintiff is to submit its version of the interest calculations to which the Company may object.

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

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group employed approximately 17,973 (2009: 19,763) full time management, administrative and production staff in 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 plant while the number of management and administrative staff remains stable. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In the area of staff training, the Group encourages staff to participate in courses on technical skills improvement and personal development.

### PROSPECTS

Along with the gradual stabilisation of the global economy and the positive growth prospects in the toys industry, the Group is optimistic about its performance in 2011. The Group will focus on the continuous development of our OEM/ODM toys and model trains business. However, factors such as high inflation, the volatility of raw material prices, the ever-increasing energy costs, high product safety standards, the appreciation of the RMB, labour shortages and the increase in statutory minimum wages leading to increasing labour costs are expected to affect the Group's profitability. Looking into 2011, the business conditions of the Group continue to remain challenging. The Group will continue its effort to strengthen its core business, streamline operational procedures without sacrificing controls, improve operational and production efficiency and develop automated processes. In order to broaden revenue sources, efforts will continue to be made in looking for acquisition opportunities, expanding new product lines and widening the customer base.

Given our dominant market position, financial strength, effective strategies and high caliber management team, the Group is confident of achieving performance improvements and higher profit margins. Furthermore, the Group is confident in its efforts to improve efficiency and provide stable business returns.

By order of the Board
**Ivan Ting Tien-li**
*Managing Director*

Hong Kong, 30 March 2011

# Corporate Governance Report



The Company is committed to maintaining a high standard of corporate governance to enhance corporate performance and accountability. The Board of Directors (the “Board”) regularly reviews and adopts corporate governance guidelines and developments. The Board believes that good corporate governance will in the long term serve to enhance shareholders’ value.

## CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2010, the Group has complied with the Code on Corporate Governance Practices (“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 E.1.2 as described below:

Under CG Code E.1.2, the Chairman of the Board is required to attend the Company’s annual general meeting. Due to another commitment which required the Former Chairman’s attendance, the Former Chairman was not present at the annual general meeting of the Company held on 3 June 2010.

## DIRECTORS’ SECURITIES TRANSACTIONS

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 price sensitive information. Based on specific enquiries made, all directors have confirmed that they have complied with the Model Code throughout the year.

## BOARD OF DIRECTORS

The Board currently comprises three Executive Directors (including the Chairman and Managing Director of the Company), two Non-executive Directors and five Independent Non-executive Directors (“INEDs”). The biographical details of all directors of the Company, including the relationship amongst them, are set out on pages 19 to 23 of this annual report.

Mr. Kenneth Ting Woo-shou was appointed as Chairman of the Board on 2 July 2010 and is responsible for providing leadership and management of the Board, ensuring that good corporate governance practices and procedures are established and that the Board acts in the best interests of the Company. The role of Chairman is separated from that of Managing Director, Mr. Ivan Ting Tien-li (the son of Mr. Kenneth Ting Woo-shou). The Managing Director is responsible for the day-to-day management and operations of the Group. The division of responsibility between Chairman and Managing Director has been established and is set out clearly in writing.

# Corporate Governance Report *(Continued)*

Non-executive Directors and INEDs are selected with the necessary skills and experience to provide a strong independent element on the Board and to exercise independent judgement. All Non-executive Directors are engaged on a term of service of two years renewable for another two years upon expiry. The Board believes the Non-executive Directors are well qualified and competent in advising the Group on business strategies, finance and management issues. The INEDs are explicitly identified in all corporate communications, and one of them has significant accounting and financial expertise as provided under Rule 3.10 of the Listing Rules. The Board has received from each INED a written annual confirmation of independence. All the INEDs meet the independence criteria set out in Rule 3.13 of the Listing Rules.

All directors are subject to re-election by shareholders at the annual general meeting following their appointment and at least every three years on a rotational basis. Where vacancies exist on the Board, candidates are proposed and put forward to the Board for consideration and approval. In accordance with the Company's Bye-laws, all newly appointed directors shall hold office until the next following annual general meeting of the Company after their appointment and shall then be eligible for re-election. Upon their appointment, the new directors receive a package of orientation materials and attend extensive presentations given by senior executives to review the Group's businesses. Training and information are provided to directors regularly to help and ensure that the directors are aware of the latest changes in the commercial and regulatory environment in which the Group carries out its businesses.

During the year, the Company has arranged for the renewal of an insurance policy on directors' and officers' liability to ensure our directors and senior management are protected from any liability arising from the performance of their duties.

The Board is responsible for setting the strategic direction and policies of the Group and supervising management. The functions normally reserved for the Board are the monitoring and approval of material transactions; steering the Group on strategic direction; setting up a Board committee for issues the Board deem appropriate; reviewing and approving the interim and final results; overseeing the effectiveness of the internal control system; evaluating major corporate, strategic and operational issues that have a significant impact on the Group; and evaluating major investment opportunities which management has not already identified and/or, if the investment is so material, requires the Board to make a decision.

The Board meets regularly, and at least four times a year. During scheduled meetings, senior management of the Group provides information to the directors on a timely basis on the activities and development in the businesses of the Group and when required, additional Board meetings are held. In addition, directors have full access to information on the Group and independent professional advice whenever deemed necessary by the directors. The Company Secretary is responsible for communications with Board members.

The attendance records of individual members of the Board and other Board Committees during the financial year are set out below:

| | Number of meetings attended/held | | |
|---|---|---|---|
| | **Board Meeting** | **Audit Committee Meeting** | **Remuneration Committee Meeting** |
| **Number of meetings held** | **4** | **2** | **1** |
| ***Executive Directors*** | | | |
| Mr. Kenneth Ting Woo-shou<br>*(Chairman & Remuneration Committee Chairman)*<br>*(Appointed as Chairman on 2 July 2010)* | 4/4 | – | 1/1 |
| Mr. Ivan Ting Tien-li<br>*(Managing Director)*<br>*(Appointed as Managing Director on 2 July 2010)* | 4/4 | – | – |
| Mrs. Nancy Ting Wang Wan-sun | 2/4 | – | – |
| ***Non-executive Directors*** | | | |
| Dr. Dennis Ting Hok-shou<br>*(Former Chairman)*<br>*(Resigned on 2 July 2010)* | 1/1 | – | – |
| Dr. Moses Cheng Mo-chi | 3/4 | 1/2 | – |
| Mr. Bernie Ting Wai-cheung<br>*(Appointed on 2 July 2010)* | 3/3 | – | – |
| ***Independent Non-executive Directors*** | | | |
| Mr. Liu Chee-ming<br>*(Audit Committee Chairman)* | 4/4 | 2/2 | – |
| Mr. Floyd Chan Tsoi-yin | 4/4 | 2/2 | 1/1 |
| Mr. Andrew Yao Cho-fai | 4/4 | 2/2 | 1/1 |
| Mr. Desmond Chum Kwan-yue | 4/4 | – | – |
| Mr. Ronald Montalto | 3/4 | – | – |

## BOARD COMMITTEES

The Board established a Committee of Executive Directors in July 2006 with delegated authority for dealing with the various miscellaneous banking matters of the Company. This committee comprises all the Executive Directors of the Company.

The Company also established the Remuneration Committee and the Audit Committee to deal with specific matters in the interest of all shareholders in an objective manner. Members of these two Board Committees comprise, except for the Chairman of the Remuneration Committee, entirely of either a Non-executive Director or INEDs.

# Corporate Governance Report *(Continued)*

**Remuneration Committee**

The Remuneration Committee was established in 2005 with written Terms of Reference posted on the Company's website. Currently, the Remuneration Committee is chaired by Mr. Kenneth Ting Woo-shou. Other members of the Committee are Mr. Floyd Chan Tsoi-yin and Mr. Andrew Yao Cho-fai. The role and function of the Committee is to make recommendations to the Board on the Company's policy and structure for the remuneration of all directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee met once in 2010 to review and approve directors' remuneration. The directors' fees paid to the Non-executive Directors and INEDs are subject to annual review and approval by the Remuneration Committee. Before proposing remuneration packages, the Remuneration Committee is responsible for reviewing all relevant remuneration data and market conditions in addition to considering the performance and responsibility of individual directors as well as the profitability of the Group. The primary objective is to retain and motivate directors by linking their compensation with performance and measuring it against corporate goals. However, no directors can approve his or her own remuneration.

The emoluments of each of the director of the Company for 2010 is set out in note 8 to the financial statements.

**Audit Committee**

The Audit Committee was established in 1999. The respective written Terms of Reference are posted on the Company's website.

The Audit Committee comprises three INEDs and one Non-executive Director. All committee members have appropriate industry and/or financial experience to perform their role in the business of the Audit Committee. Currently, the Committee is chaired by Mr. Liu Chee-ming and the other members of the Committee are Dr. Moses Cheng Mo-chi, Mr. Floyd Chan Tsoi-yin and Mr. Andrew Yao Cho-fai.

The Audit Committee held two meetings during the year. During the year under review, the Audit Committee has met with management to review the interim and annual financial statements and to consider key accounting policies, and discussed with management the Group's internal controls and auditing and financial reporting matters.

Under its Terms of Reference, the duties of the Audit Committee, amongst other things, shall be to oversee the relationship with the external auditors, to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, to consider any questions of resignation or dismissal of that auditor, and to review with senior management and external auditors the accounting principles and practices adopted, listing rules and statutory compliance, internal control, related party transactions, risk management and financial reporting matters, including interim and annual financial statements and to provide recommendations to the Board.

In discharging their responsibilities in their review of the Group's financial results, and their other duties, the audit committee members would monitor the integrity of management in preparing the financial statements, and review significant financial reporting judgements contained in the financial statements. In this regard, in reviewing the financial statements in the annual report and the interim report, before submission to the Board, the Audit Committee focuses on:

1. Changes in accounting policies and practices;

2. Major judgemental areas;

3. Significant adjustments resulting from audit;

4. The going concern assumptions and any qualifications;

5. Compliance with accounting standards;

6. Compliance with the Listing Rules and other legal requirements in relation to financial reporting; and

7. Any significant or unusual items that are, or may need to be, reflected in such reports and accounts and give due consideration to any matters that have been raised by senior management.

The Audit Committee also discusses issues and reservations arising from the audit work performed, and any matters the auditors may wish to discuss (in the absence of management where necessary).

In discharging their responsibilities on internal control procedures, the Audit Committee performed an annual review of the internal control system on Compliance, Operational Control, Financial Control, and Risk Management which included:

1. Reviewing the financial controls, internal control and risk management systems;

2. Discussing with management the system of internal control and ensuring that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function;

3. Considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

4. Reviewing the draft representation letter prior to approval by the Board;

5. Reviewing the external auditor's management letter and management's response, material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

6. Ensuring that the Board provided a timely response to the issues raised in the external auditor's management letter; and

7. Reporting to the Board on these matters as deemed appropriate.

## AUDITORS' REMUNERATION

Each year, the auditors are appointed at the Annual General Meeting ("AGM") and at the AGM held on 3 June 2010, directors were authorised to fix the auditors' remuneration for auditing services rendered.

The fees for audit and audit related services provided by the Group's auditors, KPMG, for the year ended 31 December 2010 is:

| Service rendered | **Fees paid/payable** *HK$'000* |
|---|---|
| Audit services | 2,814 |
| Non-audit services | 113 |
| | 2,927 |

In addition, certain subsidiaries were audited by other auditors for the year ended 31 December 2010 and the related fees amounted to HK$998,000.

Save as disclosed above, the auditors have not so far provided any significant non-auditing services. Should any non-auditing services be considered to be conducted by our auditors, the Audit Committee would consider these proposals based on the policy developed by them in this regard, and would then make recommendations to the Board.

## NOMINATION OF DIRECTORS

Since the composition of Board of Directors of the Company is not complicated, during the Board Meeting held on 12 April 2005, the Board resolved that "the setting up of a Nomination Committee be postponed and considered by the Board in due course". Currently, there are no plans to establish a Nomination Committee.

Where vacancies exist at the Board or an additional director is deemed necessary, the Managing Director is invited to make recommendations to the Board based on criteria endorsed by the Board. The criteria include relevant professional knowledge, proven financial and commercial experience, and personal ethics, of which the Board should consider the appropriateness. Candidates so proposed are then put forward to the Board for consideration and approval.

With the recommendation made by the Managing Director, Mr. Bernie Ting Wai-cheung was appointed as Non-executive Director of the Company, effective on 2 July 2010, while Dr. Dennis Ting Hok-shou resigned as Chairman and Non-executive Director of the Company on 2 July 2010. Moreover, Mr. Kenneth Ting Woo-shou resigned as Managing Director of the Company and was appointed as Chairman of the Company on 2 July 2010. Simultaneously, Mr. Ivan Ting Tien-li was appointed as Managing Director of the Company on 2 July 2010.

## RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors acknowledge their responsibility to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group. The directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and all applicable disclosure provisions of the Listing Rules. The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

The responsibility of the auditors with respect to the financial statements is set out in the Independent Auditor's Report on pages 27 and 28 of this annual report.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and for the assessment and management of risk. The directors, through the Audit Committee, have conducted an annual review of the effectiveness of the Group's system of financial and non-financial controls.

In meeting its responsibility the Board seeks to increase risk awareness across the Group's business operations and has put in place policies and procedures, including the parameters of delegated authority, which provide a framework for the identification and management of risk.

The Company has not appointed an internal auditor. Meanwhile, clear policies and procedures are well defined in written internal control manuals on compliance, operational control, financial control and risk management. The written internal control manuals have been tabled before and acknowledged by the Board. The policies and processes adopted for the implementation of risk management are monitored and reviewed regularly by appropriate senior management so as to ensure that the above-mentioned categories of risks are effectively managed.

# Corporate Governance Report *(Continued)*

The executive management team of each core business division is accountable for the conduct and performance of each business in the division within the agreed strategies. Business plans and budgets are prepared annually by management of each business unit and subject to review and approval by the Executive Directors. The Executive Director and senior management are responsible for monitoring activities including the review and approval of business strategies, budgets, and plans, and the setting of key business performance targets. When setting budgets and forecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks. These are reported to the Board at its regular meetings. The Board has, in compliance with the guidelines of the CG Code, commenced a comprehensive review on the effectiveness of the system of internal control, and the Operational and Internal Control Manuals of the Company, and is in the course of engaging professionals from a consulting firm to assist the Audit Committee in undertaking such review. The Board is not aware of any deficiencies or major issues of concern in the internal control system of the Company.

Periodical management and operational meetings were held with the executive management teams and senior management of business operations to review business performance against budgets and forecasts.

Currently, appropriate insurance coverage has been arranged to minimise the financial impact of relevant risks that may be encountered.

## INVESTOR RELATIONS

The Group endeavours to continue maintaining a high level of transparency in communicating with shareholders and investors. The Group is committed to maintain two-way communications with shareholders and investors and to update shareholders and investors on relevant information in its business in a timely manner subject to the relevant regulatory requirements.

To promote investor relations and communications, meetings are held when the interim and annual financial results are announced. Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. This provides opportunities for shareholders and investors to raise their queries and share their views with our directors and/or senior management. All shareholders have statutory rights to call for special general meetings and put forward agenda items for consideration by shareholders. At any general meeting a resolution put to the vote of the meeting must be taken by poll.

The Group maintains a corporate website at www.kaderholdings.com which enables shareholders and investors to track the Group's latest developments. This acts as an effective medium for information disclosure, and provides comprehensive and updated information on the Group's operations, announcements, circulars, notices, as well as interim and annual reports.

As at 31 December 2010, the Company had 665,411,594 shares in issue, with a par value of HK$0.10 each. Share interests of directors and the chief executives of the Company are disclosed in the Report of the Directors set out on pages 23 to 25 of the annual report.

# Report of the Directors



The Directors of the Company have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

The Company is incorporated in Bermuda under the Bermuda Companies Act 1981 with limited liability. The principal activity of the Company is investment holding.

The principal activities of its subsidiaries are the manufacture and trading of plastic, electronic and stuffed toys and model trains, property investment, and investment holding.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries (the "Group") during the financial year are set out in note 12 to the financial statements.

## SUBSIDIARIES

Particulars of the Company's major subsidiaries at 31 December 2010 are set out on pages 112 to 115 of the annual report.

## FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2010 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 29 to 115.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 117 to 118 of the annual report.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 28(d) to the financial statements. There was no change in the authorised and issued share capital during the year.

## TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$164,528,000 (2009: HK$175,391,000) have been transferred to reserves. Other movements in reserves during the year are set out in the consolidated statement of changes in equity.

## DIVIDEND

The Directors recommend the payment of a final dividend of HK1.5 cents per ordinary share (2009: HK1.5 cents per ordinary share) for the year ended 31 December 2010 payable on 14 June 2011 to those shareholders whose names appear on the Register of Members of the Company as at the close of business on 2 June 2011 subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

# Report of the Directors *(Continued)*

## DONATIONS

Donations made by the Group during the year for charitable and other purposes amounted to HK$602,000 (2009: HK$239,000).

## FIXED ASSETS

During the year, the Group disposed of certain investment properties for approximately HK$76.60 million. Details of these disposals and other movements in fixed assets during the year are set out in note 13 to the financial statements.

## BANK LOANS

Particulars of bank loans of the Group as at 31 December 2010 are set out in note 25 to the financial statements.

## RETIREMENT SCHEMES

Details of the retirement schemes of the Group are set out in note 32 to the financial statements.

## PROPERTIES

Particulars of the major properties of the Group are shown on page 116 of the annual report.

## MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales attributable to the Group's largest suppliers and customers are as follows:

| | **2010** | 2009 |
|---|---|---|
| | **%** | % |
| Purchases | | |
| – the largest supplier | **7** | 5 |
| – five largest suppliers combined | **25** | 17 |
| Sales | | |
| – the largest customer | **37** | 38 |
| – five largest customers combined | **53** | 55 |

None of the directors, their associates or shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest at any time during the year in the above customers or suppliers.

## DIRECTORS

The Board of Directors during the financial year and up to the date of this report were:

**Executive Directors:**
Kenneth Ting Woo-shou *(Chairman) (Appointed as Chairman on 2 July 2010)*
Ivan Ting Tien-li *(Managing Director) (Appointed as Managing Director on 2 July 2010)*
Nancy Ting Wang Wan-sun

**Non-executive Directors:**
Dennis Ting Hok-shou *(Former Chairman) (Resigned on 2 July 2010)*
Moses Cheng Mo-chi
Bernie Ting Wai-cheung *(Appointed on 2 July 2010)*

**Independent Non-executive Directors:**
Liu Chee-ming
Floyd Chan Tsoi-yin
Andrew Yao Cho-fai
Desmond Chum Kwan-yue
Ronald Montalto

The Company has received from each of its Independent Non-executive Directors ("INEDs") an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers its INEDs to be independent.

Mr. Kenneth Ting Woo-shou, Mrs. Nancy Ting Wang Wan-sun, Mr. Desmond Chum Kwan-yue and Mr. Ronald Montalto shall retire by rotation in accordance with the Company's Bye-laws 109(A) and 189(ix), and Mr. Bernie Ting Wai-cheung shall retire in accordance with the Company's Bye-laws 109(A) and 189(v), and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

## PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

**Former Non-executive Chairman**

**Dr. Dennis Ting Hok-shou, OBE, JP**, aged 77, has resigned as Non-executive Chairman of the Company in July 2010. He had been the Non-executive Chairman of the Company since its incorporation in 1989. He had been a director of Kader Industrial Company Limited, the Group's subsidiary since 1961.

Dr. Ting has served a number of trade organisations and public committees. At present, he is the Honorary Life President of the Hong Kong Plastics Manufacturers' Association, the Honorary President of Federation of Hong Kong Industries and the Chairman of the Board of Governors of Hong Kong Shue Yan University.

Dr. Ting was a director of H.C. Ting's Holdings Limited which is a substantial shareholder of the Company. He is the father of Mr. Bernie Ting Wai-cheung, the Non-executive Director of the Company, brother of Mr. Kenneth Ting Woo-shou, the Chairman of the Company, uncle of Mr. Ivan Ting Tien-li, the Managing Director of the Company, and brother-in-law of Mrs. Nancy Ting Wang Wan-sun, the Executive Director of the Company.

# Report of the Directors *(Continued)*

### Chairman

**Mr. Kenneth Ting Woo-shou, SBS, JP**, aged 68, was appointed as Chairman of the Company and has resigned as Managing Director of the Company in July 2010. He had been the Managing Director of the Company since its incorporation in 1989. He has been a director of Kader Industrial Company Limited since 1971 and was appointed the Chairman in 1993. He is also an Independent Non-executive Director of Wheelock and Company Limited.

Mr. Ting currently serves as the President of HK Wuxi Trade Association Limited, the Honorary President of Federation of Hong Kong Industries, The Chinese Manufacturers' Association of Hong Kong and The Toys Manufacturers' Association of Hong Kong Limited, and the Honorary Life President of the Hong Kong Plastics Manufacturers' Association Limited.

He also serves as a member of a number of other trade organisations and public committees such as The Hong Kong General Chamber of Commerce, The Hong Kong Polytechnic University Court and The Hong Kong University of Science and Technology Court. He is a member of the Board of Directors of the Faculty of Business and Economics of The University of Hong Kong. He also serves as member of the Jiangsu Provincial Committee of Chinese People's Political Consultative Conference.

Mr. Ting is a director of H.C. Ting's Holdings Limited which is a substantial shareholder of the Company. He is the brother of Dr. Dennis Ting Hok-shou, the Former Non-executive Chairman of the Company, father of Mr. Ivan Ting Tien-li, the Managing Director of the Company, husband of Mrs. Nancy Ting Wang Wan-sun, the Executive Director of the Company, and uncle of Mr. Bernie Ting Wai-cheung, the Non-executive Director of the Company.

### Managing Director

**Mr. Ivan Ting Tien-li**, aged 36, was appointed as Managing Director of the Company in July 2010. He was appointed as an Executive Director of the Company in April 2006. He holds a Bachelor's Degree in International Politics and Economics. He has been the Executive Director of Kader Industrial Company Limited since 1998. Apart from this, he also serves as director of certain other subsidiaries of the Company. Mr. Ting currently serves as the Vice Chairman of the Hong Kong Exporters' Association. He is the son of Mr. Kenneth Ting Woo-shou, the Chairman of the Company and Mrs. Nancy Ting Wang Wan-sun, the Executive Director of the Company, the nephew of Dr. Dennis Ting Hok-shou, the Former Non-executive Chairman of the Company, and the cousin of Mr. Bernie Ting Wai-cheung, the Non-executive Director of the Company.

### Executive Director

**Mrs. Nancy Ting Wang Wan-sun**, aged 63, was appointed as Non-executive Director of the Company in January 2008, and was redesignated as an Executive Director of the Company in February 2009. She has been the Executive Director of Kader Industrial Company Limited since 2001. Mrs. Ting has not held any directorship in other listed public companies in the last three years. She is the wife of Mr. Kenneth Ting Woo-shou, the Chairman of the Company, mother of Mr. Ivan Ting Tien-li, the Managing Director of the Company, sister-in-law of Dr. Dennis Ting Hok-shou, the Former Non-executive Chairman of the Company, and auntie of Mr. Bernie Ting Wai-cheung, the Non-executive Director of the Company.

**Non-executive Directors**

**Dr. Moses Cheng Mo-chi, GBS, OBE, JP**, aged 61, was appointed as an Independent Non-executive Director of the Company in March 1999, and was redesignated as Non-executive Director of the Company in September 2004.

Dr. Cheng is the senior partner of Messrs. P.C. Woo & Co. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng currently holds directorships in City Telecom (H.K.) Limited, China COSCO Holdings Company Limited, China Mobile Limited, China Resources Enterprise, Limited, Towngas China Company Limited, Hong Kong Exchanges and Clearing Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited, Guangdong Investment Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. He is also an Independent Non-executive Director of ARA Asset Management Limited, a company whose shares are listed on Singapore Exchange Limited. His other directorships in public listed companies in the last three years include Beijing Capital International Airport Company Limited, Galaxy Entertainment Group Limited and Shui On Construction and Materials Limited and ARA Asset Management (Singapore) Limited (a public listed company in Singapore). Save as disclosed above, Dr. Cheng did not hold any directorship, whether in Hong Kong or overseas, in any other public listed companies in the previous three years.

**Mr. Bernie Ting Wai-cheung**, aged 45, was appointed as Non-executive Director of the Company in July 2010. He was appointed as a director of Kader Industrial Company Limited since July 2010. He is the Director & General Manager of Qualidux Industrial Company Limited. He studied Mechanical Engineering at the University of Toronto, Canada. He obtained his MBA at Worcester Polytechnic Institute in the USA. He briefly worked in a manufacturing company in Canada. He is now working at Qualidux Industrial Company Limited as Director & General Manager. Mr. Ting has not held any directorship in other listed public companies in the last three years.

Mr. Ting is the Chairman of Hong Kong Toys Council under the auspices of the Federations of Hong Kong Industries. He became the Vice President of International Council of Toys Industries (ICTI) in 2009. He participates in The Toys Manufacturers' Association of Hong Kong and Toys Advisory Council of Hong Kong Trade Development Council. As part of his public duties in Hong Kong, he is the Vice Chairman of The Hong Kong Standards and Testing Centre Ltd. & Hong Kong Q-Mark Council. He has become the Council Member of Vocational Training Council since 2008. He contributes his spare time to community service through Rotary Club of Hong Kong South.

He is the son of Dr. Dennis Ting Hok-shou, the Former Non-executive Chairman of the Company, the nephew of Mr. Kenneth Ting Woo-shou, the Chairman of the Company and Mrs. Nancy Ting Wang Wan-sun, the Executive Director of the Company, and the cousin of Mr. Ivan Ting Tien-li, the Managing Director of the Company.

# Report of the Directors *(Continued)*

**Independent Non-executive Directors**

**Mr. Liu Chee-ming**, aged 60, has been an Independent Non-executive Director of the Company since June 1998. Mr. Liu is the Managing Director of Platinum Holdings Company Limited ("Platinum"). Prior to setting up Platinum, Mr. Liu was a member of the Executive Committee of Jardine Fleming Holdings Limited where he had worked for 19 years. He was the head of Investment Banking Department between 1992 and 1995.

Mr. Liu is an Independent Non-executive Director of StarHub Limited, a Singapore listed company. He is also a Non-executive Director of CIMC Raffles Offshore (Singapore) Ltd listed on the Oslo OTC Exchange. He is currently a Governor of the Singapore International School and the Director of The Singapore International School Foundation Ltd. He is a member of the Takeovers Appeal Committee and was appointed as a Deputy Chairman of the Takeovers and Mergers Panel of the Securities and Futures Commission in Hong Kong.

**Mr. Floyd Chan Tsoi-yin**, aged 67, has been an Independent Non-executive Director of the Company since 30 September 2004. Mr. Chan is a member of the American Institute of Certified Public Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants. He had been a partner of BDO Seidman in the United States for many years. He was the Asia Pacific Regional Coordinator of BDO International and a member of BDO McCabe Lo Limited's executive committee in Hong Kong. He has significant experience in assisting clients in exploring business opportunities in the Asia Pacific region, particularly the Southeast Asian developing countries and The People's Republic of China. He is also closely involved with assisting clients in developing business in North America and Europe.

**Mr. Andrew Yao Cho-fai, JP**, aged 45, has been an Independent Non-executive Director of the Company since 30 September 2004. Mr. Yao, graduated from the University of California, Berkeley and Harvard Graduate School of Business, is Chairman & Chief Executive Officer of Van Shung Chong Holdings Ltd.

Mr. Yao is a Standing Committee Member of the Shanghai China People's Political Consultative Conference, Standing Committee Member of All-China Youth Federation, Vice Chairman of Shanghai Youth Federation, Former Chairman of Hong Kong United Youth Association and Board Member of Fudan University in Shanghai. He is also a Court Member of The University of Hong Kong and Member of the Barristers Disciplinary Tribunal Panel. He was awarded the "Young Industrialist Award of Hong Kong" in 2004. He was awarded Justice of Peace by HKSAR in 2008.

**Mr. Desmond Chum Kwan-yue**, aged 38, has been an Independent Non-executive Director of the Company since 10 March 2009. Mr. Chum is also an Independent Non-executive Director of Bingo Group Holdings Limited. Mr. Chum is a portfolio manager at Claren Road Asset Management, a US based credit hedge fund. Prior to working at Claren Road Asset Management, Mr. Chum was a Managing Director of Citigroup where he spent 12 years and helped to build its fixed income franchise in Asia. He oversaw a team of investment professionals and ran the Global Special Situations Group's investment activities in the Greater China Region. He has extensive experience in sourcing, evaluating and executing private lending, private equity and real estate investments in the Greater China Region. Mr. Chum graduated from Oxford University.

**Mr. Ronald Montalto**, aged 62, has been an Independent Non-executive Director of the Company since 22 April 2009. Mr. Montalto graduated from East Carolina University in 1971. He was also awarded Juris Doctor from Emory University School of Law in 1974. Mr. Montalto was practicing Attorney in Atlanta between 1975 and 1982. Currently, he is Member of State Bar of California (Inactive). Prior to his retirement, Mr. Montalto consulted for Mattel Inc. senior management in developing a plan to relocate all Mattel's European manufacturing operations and back office support to Asia during 2005. He was a Senior Vice President of various Operations at Mattel where he worked for 21 years (15 of which were in Hong Kong) and established Mattel's Asian sourcing unit and was responsible for managing and integrating Mattel Brands' procurement and manufacturing Operations. He was a Director of Business Development of Mattel Far East Operations (Hong Kong) between 1983 and 1987. Since retirement, Mr. Montalto has consulted periodically on sales advisory programs for Teradata, a division of NCR (National Cash Register Corporation). He also conducted an Asian business/supply chain study for Enesco, an industry leading international giftware company headquartered in Chicago. Mr. Montalto has not held any directorship in other listed public companies in the last three years.

## DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming annual general meeting have an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

All Non-executive Directors are engaged on a term of service of two years, renewable for another two years upon expiry, and subject to re-election upon retirement by rotation at the forthcoming annual general meeting under the Company's Bye-laws 109(A) and 189(ix).

## 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 31 December 2010, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

# Report of the Directors *(Continued)*

### (1) Interests in the Company

| | Number of ordinary shares of HK$0.10 each | | | | |
|---|---|---|---|---|---|
| Name of directors | Personal interests | Family interests | Corporate interests | Total interests | % of total issued share capital |
| Kenneth Ting Woo-shou | 133,279,385 | 1,452,629 (i) | 244,175,800 (ii) | 378,907,814 | 56.94% |
| Dennis Ting Hok-shou | 9,730,789 | 275,000 (iii) | 236,969,800 (iv) | 246,975,589 | 37.12% |
| Ivan Ting Tien-li | 14,336,303 | – | – | 14,336,303 | 2.15% |
| Nancy Ting Wang Wan-sun | 1,452,629 | 133,279,385 (v) | – | 134,732,014 | 20.25% |
| Moses Cheng Mo-chi | 11,000 | – | – | 11,000 | 0.00% |
| Bernie Ting Wai-cheung | – | – | – | – | – |
| Liu Chee-ming | – | – | 1,000,000 | 1,000,000 | 0.15% |
| Floyd Chan Tsoi-yin | – | – | – | – | – |
| Andrew Yao Cho-fai | – | – | – | – | – |
| Desmond Chum Kwan-yue | – | – | – | – | – |
| Ronald Montalto | – | – | – | – | – |

*Notes:*

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

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

(iii) The spouse of Dr. Dennis Ting Hok-shou is the beneficial shareholder.

(iv) Included in the "Corporate Interests" above were 209,671,000 shares of the Company held by the Company's substantial shareholder, H.C. Ting's Holdings Limited, in which Dr. Dennis Ting Hok-shou and Mr. Kenneth Ting Woo-shou together have a controlling interest.

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

### (2) Interests in Associated Corporations

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

*Notes:*

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

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

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

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

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

All the interests stated above represent long positions. As at 31 December 2010, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Save as disclosed above, as at 31 December 2010, 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.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS

As at 31 December 2010, save for certain directors' interests in the share capital of the Company as disclosed above, no other person was recorded in the register kept by the Company under section 336 of the SFO, as having an interest of 5% or more of the issued share capital of the Company.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year 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.

# Report of the Directors *(Continued)*

## DIRECTORS' REMUNERATION

The directors' fees are determined by shareholders at the annual general meeting and the other emoluments payable to directors are determined by the Remuneration Committee with reference to the prevailing market practice, the profitability of the Group, the directors' performance and responsibilities within the Group and contributions to the Group.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws in Bermuda.

## DIRECTORS' INTERESTS IN CONTRACTS

The Group has interests in associates, Allman Holdings Limited, Pacific Squaw Creek, Inc. and Squaw Creek Associates, LLC, in which Mr. Kenneth Ting Woo-shou has beneficial interests.

During the year, the Group had dealings in packaging printing with New Island Printing Company Limited ("New Island") which were carried out at arm's length and in the ordinary course of business of the Group. Mr. Kenneth Ting Woo-shou was interested in these transactions as a non-executive director and shareholder of New Island until 21 October 2010 on which date his entire interest in New Island was disposed of to an unrelated third party of the Group. Purchases from New Island during the period from 1 January 2010 to 21 October 2010 amounted to HK$2,851,000 which accounted for approximately 0.54% of the Group's total purchases.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, Mr. Kenneth Ting Woo-shou, Dr. Dennis Ting Hok-shou and Mr. Bernie Ting Wai-cheung, directors of the Company, are considered to have interests in Qualidux Industrial Company Limited ("Qualidux"), a company engaging in toy manufacturing long before the listing of the Company on the Stock Exchange, which competes or is likely to compete with the business of the Group pursuant to the Listing Rules. Qualidux employs a total workforce of around 5,500 employees.

As the Board of Directors of the Company is independent from the board of the abovementioned company and none of the above directors can control the Board of the Company, the Group is capable of carrying on its business independently of, and at arm's length from, the business of such company.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company has maintained the public float of more than 25% of the Company's issued share capital as required under the Listing Rules.

## INDEPENDENT AUDITORS

A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board
**Kenneth Ting Woo-shou**
*Chairman*

Hong Kong, 30 March 2011

# Independent Auditor's Report

**To the shareholders of Kader Holdings Company Limited**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Kader Holdings Company Limited (the "Company") set out on pages 29 to 115, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the Bermuda Companies Act 1981 and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

# Independent Auditor's Report *(Continued)*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2011

# Consolidated Income Statement

*For the year ended 31 December 2010*

| | Note | 2010 HK$'000 | 2009 HK$'000 (restated) |
|---|---|---|---|
| **Turnover** | 3, 12 | **1,600,246** | 1,537,676 |
| Other revenue | 4(a) | **18,315** | 18,591 |
| Other net income/(loss) | 4(b) | **12,991** | (1,942) |
| Changes in inventories of finished goods and work in progress | | **73,541** | (21,243) |
| Cost of purchase of finished goods | | **(19,273)** | (30,760) |
| Raw materials and consumables used | | **(589,362)** | (495,325) |
| Staff costs | 5(b) | **(640,645)** | (614,969) |
| Depreciation | 13 | **(40,017)** | (36,468) |
| Other operating expenses | | **(339,476)** | (266,013) |
| **Profit from operations** | | **76,320** | 89,547 |
| Finance costs | 5(a) | **(7,880)** | (8,038) |
| Share of profits less losses of associates | 19 | **(5,598)** | (16,988) |
| Valuation gains on investment properties | 13 | **103,208** | 93,513 |
| Net gain on disposal of investment properties | 6 | **31,220** | 365 |
| Excess of interest in fair values of the acquiree's identifiable assets over cost of business combination | 18 | **–** | 64,401 |
| **Profit before taxation** | 5 | **197,270** | 222,800 |
| Income tax | 7 | **(37,951)** | (49,332) |
| **Profit for the year** | | **159,319** | 173,468 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | 11 | **164,528** | 175,391 |
| Non-controlling interests | | **(5,209)** | (1,923) |
| **Profit for the year** | | **159,319** | 173,468 |
| **Earnings per share** | 11 | | |
| Basic | | **24.73¢** | 26.36¢ |
| Diluted | | **24.73¢** | 26.36¢ |

The notes on pages 36 to 115 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 28(c).

# Consolidated Statement of Comprehensive Income

*For the year ended 31 December 2010*

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Profit for the year** | **159,319** | 173,468 |
| **Other comprehensive income for the year (after tax and reclassification adjustments)** | | |
| Exchange differences on translation of financial statements of subsidiaries outside Hong Kong | **(7,140)** | 4,672 |
| Share of exchange reserve of associates | **(1,392)** | (808) |
| Available-for-sale equity securities: net movement in the fair value reserve | **1,685** | 3,542 |
| **Total comprehensive income for the year** | **152,472** | 180,874 |
| **Attributable to:** | | |
| Equity shareholders of the Company | **157,538** | 182,757 |
| Non-controlling interests | **(5,066)** | (1,883) |
| **Total comprehensive income for the year** | **152,472** | 180,874 |

The notes on pages 36 to 115 form part of these financial statements.

# Consolidated Balance Sheet

*At 31 December 2010*

| | Note | At 31 December 2010 HK$'000 | At 31 December 2009 HK$'000 (restated) | At 1 January 2009 HK$'000 (restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Fixed assets | | | | |
| – Investment properties | 13 | **707,941** | 659,278 | 598,878 |
| – Other property, plant and equipment | 13 | **234,861** | 218,152 | 140,711 |
| – Construction in progress | 14 | **270** | – | – |
| | | **943,072** | 877,430 | 739,589 |
| Intangible assets | 15 | **667** | 701 | 536 |
| Goodwill | 16 | **–** | 4,583 | 7,643 |
| Interests in associates | 19 | **25,376** | 36,150 | 46,596 |
| Other non-current financial assets | 20 | **15,488** | 11,388 | 5,506 |
| Deferred tax assets | 27(b) | **20,071** | 16,549 | 29,704 |
| | | **1,004,674** | 946,801 | 829,574 |
| **Current assets** | | | | |
| Inventories | 21 | **438,136** | 327,276 | 213,761 |
| Current tax recoverable | 27(a) | **331** | 3,174 | 1,397 |
| Trade and other receivables | 22 | **201,162** | 245,013 | 151,040 |
| Cash and cash equivalents | 23(a) | **163,003** | 97,796 | 32,904 |
| | | **802,632** | 673,259 | 399,102 |
| **Current liabilities** | | | | |
| Trade and other payables | 24 | **(316,286)** | (343,039) | (222,112) |
| Bank loans and overdrafts | 25 | **(310,091)** | (281,672) | (211,984) |
| Obligations under finance leases | 26 | **(292)** | (306) | (602) |
| Current tax payable | 27(a) | **(10,293)** | (7,806) | (7,155) |
| | | **(636,962)** | (632,823) | (441,853) |
| **Net current assets/(liabilities)** | | **165,670** | 40,436 | (42,751) |
| **Total assets less current liabilities carried forward** | | **1,170,344** | 987,237 | 786,823 |

# Consolidated Balance Sheet *(Continued)*

*At 31 December 2010*

| | Note | At 31 December 2010 HK$'000 | At 31 December 2009 HK$'000 (restated) | At 1 January 2009 HK$'000 (restated) |
|---|---|---|---|---|
| **Total assets less current liabilities brought forward** | | **1,170,344** | 987,237 | 786,823 |
| **Non-current liabilities** | | | | |
| Bank loans | 25 | **(30,417)** | – | – |
| Rental deposits | | **(3,746)** | (5,016) | (5,717) |
| Obligations under finance leases | 26 | **–** | (292) | (258) |
| Deferred tax liabilities | 27(b) | **(101,205)** | (87,872) | (72,989) |
| Accrued employee benefits | | **(4,731)** | (6,709) | (1,502) |
| | | **(140,099)** | (99,889) | (80,466) |
| **NET ASSETS** | | **1,030,245** | 887,348 | 706,357 |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | 28(d) | **66,541** | 66,541 | 66,541 |
| Reserves | | **964,534** | 816,977 | 634,103 |
| **Total equity attributable to equity shareholders of the Company** | | **1,031,075** | 883,518 | 700,644 |
| **Non-controlling interests** | | **(830)** | 3,830 | 5,713 |
| **TOTAL EQUITY** | | **1,030,245** | 887,348 | 706,357 |

Approved and authorised for issue by the Board of Directors on 30 March 2011.

**Kenneth Ting Woo-shou**
*Director*

**Ivan Ting Tien-li**
*Director*

The notes on pages 36 to 115 form part of these financial statements.

# Balance Sheet

*At 31 December 2010*

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 17 | **1,001,035** | 956,968 |
| **Current assets** | | | |
| Trade and other receivables | 22 | **297** | 222 |
| Cash and cash equivalents | 23(a) | **135** | 350 |
| | | **432** | 572 |
| **Current liabilities** | | | |
| Trade and other payables | 24 | **(94,026)** | (86,520) |
| **Net current liabilities** | | **(93,594)** | (85,948) |
| **Total assets less current liabilities** | | **907,441** | 871,020 |
| **Non-current liabilities** | | | |
| Accrued employee benefits | | **(69)** | (69) |
| **NET ASSETS** | | **907,372** | 870,951 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28(d) | **66,541** | 66,541 |
| Reserves | | **840,831** | 804,410 |
| **TOTAL EQUITY** | | **907,372** | 870,951 |

Approved and authorised for issue by the Board of Directors on 30 March 2011.

**Kenneth Ting Woo-shou**
*Director*

**Ivan Ting Tien-li**
*Director*

The notes on pages 36 to 115 form part of these financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2010*

| | | 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$'000 | Non-controlling interest HK$'000 | Total equity HK$'000 |
| **Balance at 1 January 2009** | | 66,541 | 109,942 | 10,815 | 173,397 | (19,406) | 36,187 | – | 323,168 | 700,644 | 5,713 | 706,357 |
| **Changes in equity for 2009:** | | | | | | | | | | | | |
| Profit/(loss) for the year | | – | – | – | – | – | – | – | 175,391 | 175,391 | (1,923) | 173,468 |
| Other comprehensive income | | – | – | – | – | 3,824 | – | 3,542 | – | 7,366 | 40 | 7,406 |
| Total comprehensive income | | – | – | – | – | 3,824 | – | 3,542 | 175,391 | 182,757 | (1,883) | 180,874 |
| Disposal of investment property previously transferred from land and buildings | | – | – | – | – | – | (710) | – | 710 | – | – | – |
| Reversal of deferred tax on disposal of investment property previously transferred from land and buildings | *27(b)* | – | – | – | – | – | 117 | – | – | 117 | – | 117 |
| **Balance at 31 December 2009 and 1 January 2010** | | **66,541** | **109,942** | **10,815** | **173,397** | **(15,582)** | **35,594** | **3,542** | **499,269** | **883,518** | **3,830** | **887,348** |
| **Changes in equity for 2010:** | | | | | | | | | | | | |
| Profit/(loss) for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **164,528** | **164,528** | **(5,209)** | **159,319** |
| Other comprehensive income | | **–** | **–** | **–** | **–** | **(8,675)** | **–** | **1,685** | **–** | **(6,990)** | **143** | **(6,847)** |
| Total comprehensive income | | **–** | **–** | **–** | **–** | **(8,675)** | **–** | **1,685** | **164,528** | **157,538** | **(5,066)** | **152,472** |
| Investment in a subsidiary | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **406** | **406** |
| Dividends approved in respect of the prior year | *28(c)* | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(9,981)** | **(9,981)** | **–** | **(9,981)** |
| **Balance at 31 December 2010** | | **66,541** | **109,942** | **10,815** | **173,397** | **(24,257)** | **35,594** | **5,227** | **653,816** | **1,031,075** | **(830)** | **1,030,245** |

The notes on pages 36 to 115 form part of these financial statements.

# Consolidated Cash Flow Statement

*For the year ended 31 December 2010*

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 23(b) | **25,844** | 140,709 |
| Tax (paid)/refunded: | | | |
| Hong Kong Profits Tax paid | | **(13,179)** | (18,763) |
| Hong Kong Profits Tax refunded | | **–** | 68 |
| Tax paid outside Hong Kong | | **(12,177)** | (5,476) |
| Tax recovered outside Hong Kong | | **2,608** | 821 |
| **Net cash generated from operating activities** | | **3,096** | 117,359 |
| **Investing activities** | | | |
| Net cash outflow on acquisition of a subsidiary | | **–** | (54,022) |
| Payment for the purchase of fixed assets | | **(46,966)** | (50,467) |
| Payment for construction in progress | | **(270)** | – |
| Payment for purchase of available-for-sale securities | | **(2,415)** | (2,340) |
| Net proceeds from disposal of investment property | | **76,620** | 2,465 |
| Proceeds from disposal of fixed assets | | **441** | 744 |
| Interest received | | **333** | 515 |
| Increase in investment in an associate | | **(1)** | (1,560) |
| Decrease in amounts due from associates | | **2,709** | 1,672 |
| Increase in investment in subsidiaries | | **406** | – |
| Increase in loan to associate | | **(1,950)** | – |
| **Net cash generated from/(used in) investing activities** | | **28,907** | (102,993) |
| **Financial activities** | | | |
| Proceeds from new bank loans | | **121,417** | 122,134 |
| Repayment of bank loans | | **(70,720)** | (57,579) |
| Capital element of finance lease rentals paid | | **(306)** | (650) |
| Decrease in amounts due to related companies | | **(2,097)** | (2) |
| Repayment of advance from a director | | **–** | (7,114) |
| Dividend paid to equity shareholders of the Company | | **(9,981)** | – |
| Interest paid | | **(7,846)** | (8,002) |
| Interest element of finance lease rentals paid | | **(34)** | (36) |
| **Net cash generated from financing activities** | | **30,433** | 48,751 |
| **Net increase in cash and cash equivalents** | | **62,436** | 63,117 |
| **Cash and cash equivalents at 1 January** | | **89,768** | 29,884 |
| **Effect of foreign exchange rate changes** | | **(5,529)** | (3,233) |
| **Cash and cash equivalents at 31 December** | 23(a) | **146,675** | 89,768 |

The notes on pages 36 to 115 form part of these financial statements.

# Notes to the Financial Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These 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. These 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"). A summary of the significant accounting policies adopted by the Group and the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Company for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 36.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(c) Subsidiaries and non-controlling interests**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(d)).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(m)).

# Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(d) Associates**

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(e) and (m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(e)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(d)).

In the Group's balance sheet, investments in associates are stated at cost less impairment losses (see note 1(m)).

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(e) Goodwill**

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

**(f) Other investments in debt and equity securities**

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(m)).

# Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(f) Other investments in debt and equity securities** *(Continued)*

Other investments in securities are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss. When these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(v)(iii). When these investments are derecognised or impaired (see note 1(m)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

**(g) Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

**(h) Investment properties**

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value unless they are still in the course of construction or development at the balance sheet date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(v)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(l)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(l).

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(i) Other property, plant and equipment**

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(m)):

– buildings held for own use which are situated on leasehold land, classified as held under operating leases (see note 1(l)); and

– other items of plant and equipment.

Where land and buildings are transferred from investment properties, cost represents the fair value at the date of change in use of the properties.

In preparing these financial statements, the Group has relied upon the provisions set out in paragraph 80A of HKAS 16, *Property, plant and equipment*, issued by the HKICPA, with the effect that the fair value of investment property transferred to land and buildings in prior years has been treated as the deemed cost of those land and buildings at the date of transfer. Such previously revalued land and buildings have not been revalued to fair value at the balance sheet date and are stated at deemed cost less accumulated depreciation and impairment losses (see note 1(m)) and will not be revalued in future years.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

(i) Leasehold land classified as held under finance leases is depreciated over the unexpired term of lease.

(ii) Freehold land is not depreciated.

(iii) Other fixed assets at the following rates:

| | | |
|---|---|---|
| Plant and machinery | – | 20% to 25% per annum |
| Furniture and fixtures | – | 20% to 25% per annum |
| Moulds and tools | – | 10% to 30% per annum |
| Vehicles and pleasure craft | – | 30% per annum |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(j) Construction in progress**

Construction in progress represents fixed assets under construction and equipment pending installation and is initially recognised at cost less impairment losses (see note 1(m)). Cost comprise cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use.

**(k) Intangible assets (other than goodwill)**

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)). Amortisation of intangible assets with finite lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Club memberships are amortised from the date they are available for use over an estimated useful life of 20 years. Both the period and method of amortisation are reviewed annually.

**(l) Leased assets**

*(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(h)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group or taken over from the previous lessee.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(l) Leased assets** *(Continued)*

*(ii) Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(m). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

*(iii) Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

**(m) Impairment of assets**

*(i) Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

# Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(m) Impairment of assets** *(Continued)*

*(i) Impairment of investments in debt and equity securities and other receivables (Continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in subsidiaries and associates (including those recognised using the equity method (see note 1(d))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(m)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(m) Impairment of assets** *(Continued)*

*(i) Impairment of investments in debt and equity securities and other receivables (Continued)*

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit and loss.

*(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than investment properties carried at revalued amounts);
- intangible assets; and
- goodwill.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(m) Impairment of assets** *(Continued)*

*(ii) Impairment of other assets (Continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. In respect of properties carried at revalued amounts, any impairment loss shall be treated as a revaluation decrease to the extent of any revaluation surplus previously recognised in the revaluation reserve in respect of that property. Any impairment loss beyond amounts previously recognised in the revaluation reserve in respect of that property is recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(m) Impairment of assets** *(Continued)*

*(iii) Interim financial reporting and impairment*

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

**(n) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(o) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment of doubtful debts.

**(p) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

**(q) Trade and other payables**

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(r) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

**(s) Employee benefits**

*(i) Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(s) Employee benefits** *(Continued)*

*(ii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

**(t) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss can be utilised.

# Notes to the Financial Statements *(Continued)*

## 1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Income tax *(Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(u) Financial guarantees issued, provisions and contingent liabilities**

*(i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(u)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

*(ii) Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(v) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

*(i) Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

*(ii) Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

*(iii) Interest income*

Interest income is recognised as it accrues using the effective interest method.

*(iv) Air-conditioning, management and maintenance service charges from tenants*

Air-conditioning, management and maintenance service charges from tenants is recognised when the related services are rendered.

*(iv) Testing income and film making and photo taking income on products*

Testing income and film making and photo taking income on products are recognised when the agreed services have been provided.

*(v) Inducement fees and material charges*

Inducement fees and material charges are recognised when the right to receive payment is established.

*(vi) Sale of properties*

Revenue arising from the sale of properties is recognised upon the later of the signing of the sale and purchase agreement and the issue of an occupation permit by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(w) Translation of foreign currencies**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars ("HKD") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations, are translated into HKD at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

**(x) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in profit or loss in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(y) Related parties**

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

**(z) Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations 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:

- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*
- *Improvements to HKFRSs (2009)*
- HK(IFRIC) 17, *Distributions of non-cash assets to owners*
- HK (Int) 5, *Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause*

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

The above developments resulted in changes in accounting policy but none of these changes in policy has had a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 has not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) has had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

- The amendment introduced by the *Improvements to HKFRSs (2009)* omnibus standard in respect of HKAS 17, *Leases*, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region ("HKSAR"), but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

- The HK (Int) 5 sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time should be classified as a current liability in accordance with paragraph 69(d) of HKAS 1, *Presentation of financial statements*, irrespective of the probability that the lender will invoke the clause without cause.

# Notes to the Financial Statements *(Continued)*

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  – Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

  – In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in accounting policies will be applied as from 1 January 2010:

  – If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

  – If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

  In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, *Investments in associates*, the following accounting policies will be applied as from 1 January 2010:

  – If the Group holds interests in the acquiree immediately prior to obtaining significant influence, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  – If the Group loses significant influence, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

- As a result of the amendment to HKAS 17, *Leases*, arising from the "*Improvements to HKFRSs (2009)*" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the interests in land located in the HKSAR and subject to the Government's land policy of renewal without payment of an additional land premium will no longer be classified by the Group as operating leases as the Group considers that it is in a position economically similar to that of a purchaser. This change in accounting policy has no material impact on the current or previous periods as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

- In order to comply with the requirements of HK (Int) 5, the Group has changed its accounting policy for the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the balance sheet. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the balance sheet date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively by re-presenting the opening balances at 1 January 2009 and 2010, with consequential reclassification adjustments to comparatives for the year ended 31 December 2009. The reclassification has no effect on reported profit or loss, total income and expense or net assets for any period presented.

The following tables disclose the adjustments that have been made in accordance with HKAS 17 and HK (Int) 5 to the consolidated income statement for the year ended 31 December 2009 and consolidated balance sheets as at 31 December 2009 and 1 January 2009 as previously reported:

**(a) Effect on Group's consolidated income statement for the year ended 31 December 2009**

| | **As previously reported** *HK$'000* | **Effect of adoption of HKAS 17** *HK$'000* | **Effect of adoption of HK (Int) 5** *HK$'000* | **As restated** *HK$'000* |
|---|---|---|---|---|
| Depreciation | 36,445 | 23 | – | 36,468 |
| Amortisation of interest in leasehold land held for own use | 23 | (23) | – | – |

**(b) Effect on Group's consolidated balance sheet**

*(i) As at 31 December 2009*

| | **As previously reported** *HK$'000* | **Effect of adoption of HKAS 17** *HK$'000* | **Effect of adoption of HK (Int) 5** *HK$'000* | **As restated** *HK$'000* |
|---|---|---|---|---|
| Other property, plant and equipment | 217,321 | 831 | – | 218,152 |
| Interest in leasehold land held for own use under operating leases | 831 | (831) | – | – |
| Bank loans and overdrafts – current | 140,628 | – | 141,044 | 281,672 |
| Bank loans – non-current | 141,044 | – | (141,044) | – |

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

**(b) Effect on Group's consolidated balance sheet** *(Continued)*

*(ii) As at 1 January 2009*

| | **As previously reported** *HK$'000* | **Effect of adoption of HKAS 17** *HK$'000* | **Effect of adoption of HK (Int) 5** *HK$'000* | **As restated** *HK$'000* |
|---|---|---|---|---|
| Other property, plant and equipment | 139,857 | 854 | – | 140,711 |
| Interest in leasehold land held for own use under operating leases | 854 | (854) | – | – |
| Bank loans and overdrafts – current | 144,237 | – | 67,747 | 211,984 |
| Bank loans – non-current | 67,747 | – | (67,747) | – |

3. TURNOVER

The principal activity of the Company is investment holding. The principal activities of the Group and its subsidiaries 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, rental income and royalties received during the year. The amount of each significant category of revenue recognised in turnover during the year is as follows:

| | **2010** *HK$'000* | 2009 *HK$'000* |
|---|---|---|
| Sales of goods | **1,566,835** | 1,502,659 |
| Gross rentals from investment properties | **32,525** | 33,064 |
| Royalty income | **886** | 1,953 |
| | **1,600,246** | 1,537,676 |

3. TURNOVER *(Continued)*

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues. In 2010 revenue from sales of toys and model trains to this customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately HK$591,962,000 (2009: HK$576,333,000) and arose in the North America geographical region in which the toys and model trains division is active. Details of the concentrations of credit risk arising from this customer, are set out in note 29(a).

Further details regarding the Group's principal activities are disclosed in note 12 to these financial statements.

4. OTHER REVENUE AND NET INCOME/(LOSS)

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (restated) |
| **(a) Other revenue** | | |
| Interest income | **217** | 515 |
| Interest income from available-for-sale debt securities | **116** | – |
| | **333** | 515 |
| Air conditioning, management and maintenance service charges from tenants | **6,250** | 6,144 |
| Film making and photo taking income on products | **2,260** | 3,360 |
| Inducement fees | **–** | 1,950 |
| Testing income | **806** | 954 |
| Sales of scrap | **957** | 925 |
| Material charges | **3,876** | 207 |
| Others | **3,833** | 4,536 |
| | **18,315** | 18,591 |
| **(b) Other net income/(loss)** | | |
| Net gain on disposal of fixed assets | **293** | 94 |
| Net exchange gain/(loss) | **12,698** | (2,036) |
| | **12,991** | (1,942) |

# Notes to the Financial Statements *(Continued)*

## 5. PROFIT BEFORE TAXATION

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(a) Finance costs** | | |
| Interest on bank borrowings repayable within five years | **7,846** | 7,941 |
| Finance charges on obligations under finance leases | **34** | 36 |
| Interest on loan from a director | **–** | 61 |
| | **7,880** | 8,038 |
| **(b) Staff costs** | | |
| Salaries, wages and other benefits | **576,266** | 554,835 |
| Employer's contributions to defined contribution retirement plans, net of forfeited contributions of HK$111,000 (2009: HK$146,000) | **64,379** | 60,134 |
| | **640,645** | 614,969 |

5. PROFIT BEFORE TAXATION *(Continued)*

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

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| | | (restated) |
| **(c) Other items** | | |
| Amortisation of intangible assets *(note 15)* | **34** | 33 |
| Depreciation *(note 13)* | | |
| – owned assets | **39,764** | 36,318 |
| – assets held under finance leases | **253** | 150 |
| | **40,017** | 36,468 |
| Impairment losses | | |
| – fixed assets *(note 13(a))* | **326** | 17 |
| – trade receivables *(note 22(b))* | **2,060** | 10,504 |
| – other receivables | **7,602** | – |
| – goodwill *(note 16)* | **4,583** | – |
| – amounts due from associates | **6,131** | – |
| | **20,702** | 10,521 |
| Operating lease charges | | |
| – rental of land and buildings | **37,548** | 37,054 |
| – other rentals | **39** | 134 |
| | **37,587** | 37,188 |
| Reversal of impairment loss on trade receivables *(note 22(b))* | **(2,520)** | (26,886) |
| Auditors' remuneration | **4,036** | 3,220 |
| Cost of inventories *(note 21(b))* | **1,238,383** | 1,167,829 |
| Rental receivable from investment properties less direct outgoings of HK$3,588,000 (2009: HK$3,397,000) | **(28,937)** | (29,667) |

Cost of inventories includes HK$528,720,000 (2009: HK$475,074,000) 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.

## 6. NET GAIN ON DISPOSAL OF INVESTMENT PROPERTIES

On 21 April 2010, certain subsidiaries of the Company entered into sale and purchase agreements with two independent third parties to dispose of sixteen units in a commercial building at Lujiazui Road, Shanghai, The People's Republic of China (the "PRC"), for a total consideration of HK$77,614,000. These agreements were completed on 13 and 14 May 2010 and a gain of HK$31,220,000, net of legal fees and other direct expenses of HK$994,000, was recognised in the consolidated income statement for the year ended 31 December 2010.

## 7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

**(a) Taxation in the consolidated income statement represents:**

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Current tax – Hong Kong Profits Tax** | | |
| Provision for the year | **17,068** | 16,298 |
| (Over)/under-provision in respect of prior years | **(1,430)** | 396 |
| | **15,638** | 16,694 |
| **Current tax – Outside Hong Kong** | | |
| Provision for the year | **12,342** | 4,516 |
| Under/(over)-provision in respect of prior years | **171** | (115) |
| | **12,513** | 4,401 |
| **Deferred tax *(note 27(b))*** | | |
| Origination and reversal of temporary differences | **9,789** | 28,237 |
| Effect on deferred tax balances at 1 January resulting from a decrease in tax rate | **11** | – |
| | **9,800** | 28,237 |
| | **37,951** | 49,332 |

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

The Corporate Income Tax ("CIT") rate applicable to subsidiaries registered in the PRC is 25% (2009: 25%). Certain PRC subsidiaries are entitled to an income tax holiday granted by the PRC tax authorities whereby they are exempted from CIT for two years starting from the first profit making year and thereafter subject to CIT at 50% of the prevailing tax rate for the following three years.

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

**(a) Taxation in the consolidated income statement represents:** *(Continued)*

During the year ended 31 December 2010, the British Government announced a decrease in the corporation tax rate applicable to the Group's operations in the United Kingdom from 28% to 27%. The decrease is taken into account in the preparation of the Group's financial statements. Accordingly, the deferred tax balances relevant to the Group's operations in the United Kingdom is calculated using a tax rate of 27% (2009: 28%).

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation | **197,270** | 222,800 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned | **24,794** | 5,158 |
| Tax effect of non-deductible expenses | **25,811** | 12,612 |
| Tax effect of non-taxable income | **(17,616)** | (3,439) |
| Tax effect of previously unrecognised tax losses utilised | **(14,055)** | (322) |
| Tax effect of unused tax losses not recognised | **20,265** | 35,042 |
| Effect on deferred tax balances at 1 January resulting from a decrease in tax rate | **11** | – |
| (Over)/under-provision in prior years | **(1,259)** | 281 |
| Actual tax expense | **37,951** | 49,332 |

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | 2010 | | | | |
|---|---|---|---|---|---|
| | **Directors' fees** | **Salaries, allowances and benefits in kind** | **Discretionary bonuses** | **Retirement scheme contributions** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Executive directors: | | | | | |
| Kenneth Ting Woo-shou | **80** | **600** | **50** | **60** | **790** |
| Ivan Ting Tien-li | **60** | **660** | **110** | **66** | **896** |
| Nancy Ting Wang Wan-sun | **60** | **–** | **–** | **–** | **60** |
| Non-executive directors: | | | | | |
| Moses Cheng Mo-chi | **60** | **–** | **–** | **–** | **60** |
| Bernie Ting Wai-cheung (Appointed on 2 July 2010) | **30** | **–** | **–** | **–** | **30** |
| Dennis Ting Hok-shou (Resigned on 2 July 2010) | **40** | **334** | **28** | **33** | **435** |
| Independent non-executive directors: | | | | | |
| Liu Chee-ming | **100** | **–** | **–** | **–** | **100** |
| Floyd Chan Tsoi-yin | **100** | **–** | **–** | **–** | **100** |
| Andrew Yao Cho-fai | **100** | **–** | **–** | **–** | **100** |
| Desmond Chum Kwan-yue | **80** | **–** | **–** | **–** | **80** |
| Ronald Montalto | **80** | **–** | **–** | **–** | **80** |
| | **790** | **1,594** | **188** | **159** | **2,731** |

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Executive directors: | | | | | |
| Kenneth Ting Woo-shou | 100 | 600 | 50 | 60 | 810 |
| Ivan Ting Tien-li | 80 | 660 | 55 | 66 | 861 |
| Nancy Ting Wang Wan-sun | 60 | – | – | – | 60 |
| Non-executive directors: | | | | | |
| Dennis Ting Hok-shou | 70 | 334 | – | 33 | 437 |
| Moses Cheng Mo-chi | 60 | – | – | – | 60 |
| Independent non-executive directors: | | | | | |
| Liu Chee-ming | 100 | – | – | – | 100 |
| Floyd Chan Tsoi-yin | 100 | – | – | – | 100 |
| Andrew Yao Cho-fai | 100 | – | – | – | 100 |
| Desmond Chum Kwan-yue | 65 | – | – | – | 65 |
| Ronald Montalto | 56 | – | – | – | 56 |
| | 791 | 1,594 | 105 | 159 | 2,649 |

## 9. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none (2009: none) is a director whose emoluments are set out in note 8. The aggregate of the emoluments in respect of the five (2009: five) individuals with highest emoluments are as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other emoluments | **9,600** | 7,257 |
| Discretionary bonuses | **776** | 675 |
| Retirement scheme contributions | **349** | 326 |
| | **10,725** | 8,258 |

The emoluments of the five (2009: five) individuals with the highest emoluments are within the following bands:

| | **2010 Number of employees** | 2009 Number of employees |
|---|---|---|
| Nil to HK$1,000,000 | **–** | – |
| HK$1,000,001 to HK$1,500,000 | **2** | 3 |
| HK$1,500,001 to HK$2,000,000 | **–** | 1 |
| HK$2,000,001 to HK$2,500,000 | **2** | 1 |
| HK$4,000,001 to HK$4,500,000 | **1** | – |

## 10. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$46,402,000 (2009: HK$15,869,000) which has been dealt with in the financial statements of the Company.

Details of dividends paid and payable to equity shareholders of the Company are set out in note 28(c).

# Notes to the Financial Statements *(Continued)*

## 11. 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$164,528,000 (2009: HK$175,391,000) and the weighted average of 665,412,000 ordinary shares (2009: 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 2010 and 2009. Accordingly, the diluted earnings per share is the same as the basic earnings per share for both 2010 and 2009.

## 12. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

12. SEGMENT REPORTING *(Continued)*

**(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, goodwill, 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.

# Notes to the Financial Statements *(Continued)*

## 12. 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 years ended 31 December 2010 and 2009 is set out below:

| | Toys and model trains | | Property investment | | Investment holding | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **1,567,721** | 1,504,612 | **32,525** | 33,064 | **–** | – | **1,600,246** | 1,537,676 |
| Inter-segment revenue | **–** | – | **2,039** | 523 | **–** | – | **2,039** | 523 |
| **Reportable segment revenue** | **1,567,721** | 1,504,612 | **34,564** | 33,587 | **–** | – | **1,602,285** | 1,538,199 |
| **Reportable segment profit/(loss) (adjusted EBITDA)** | **87,123** | 99,475 | **18,784** | 19,539 | **(726,740)** | (15,002) | **(620,833)** | 104,012 |
| Interest income | **217** | 515 | **–** | – | **116** | – | **333** | 515 |
| Interest expenses | **(7,858)** | (7,986) | **(22)** | (52) | **–** | – | **(7,880)** | (8,038) |
| Depreciation and amortisation for the year | **(40,017)** | (36,468) | **–** | – | **(34)** | (33) | **(40,051)** | (36,501) |
| Impairment of: | | | | | | | | |
| – fixed assets | **(326)** | (17) | **–** | – | **–** | – | **(326)** | (17) |
| – goodwill | **–** | – | **–** | – | **(4,583)** | – | **(4,583)** | – |
| **Reportable segment assets** | **367,836** | 1,431,898 | **811,073** | 659,990 | **814,235** | 145,121 | **1,993,144** | 2,237,009 |
| Additions to non-current segment assets during the year | **47,236** | 82,127 | **–** | – | **–** | – | **47,236** | 82,127 |
| **Reportable segment liabilities** | **152,112** | 540,767 | **18,390** | 35,093 | **700,286** | 709,538 | **870,788** | 1,285,398 |

12. SEGMENT REPORTING *(Continued)*

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

| | 2010 *HK$'000* | 2009 *HK$'000* (restated) |
|---|---|---|
| **Revenue** | | |
| Reportable segment revenue | **1,602,285** | 1,538,199 |
| Elimination of inter-segment revenue | **(2,039)** | (523) |
| Consolidated turnover | **1,600,246** | 1,537,676 |
| **Profit** | | |
| Reportable segment (loss)/profit | **(620,833)** | 104,012 |
| Elimination of inter-segment losses | **706,554** | 5,993 |
| Reportable segment profit derived from Group's external customers | **85,721** | 110,005 |
| Other revenue | **18,315** | 18,591 |
| Other net income/(loss) | **12,991** | (1,942) |
| Depreciation and amortisation | **(40,051)** | (36,501) |
| Finance costs | **(7,880)** | (8,038) |
| Share of profits less losses of associates | **(5,598)** | (16,988) |
| Valuation gains on investment properties | **103,208** | 93,513 |
| Net gain on disposal of investment properties | **31,220** | 365 |
| Excess of interest in fair values of the acquiree's identifiable assets over cost of business combination | **–** | 64,401 |
| Unallocated corporate expenses | **(656)** | (606) |
| Consolidated profit before taxation | **197,270** | 222,800 |
| **Assets** | | |
| Reportable segment assets | **1,993,144** | 2,237,009 |
| Elimination of inter-segment receivables | **(433,834)** | (810,431) |
| | **1,559,310** | 1,426,578 |
| Intangible assets | **667** | 701 |
| Goodwill | **–** | 4,583 |
| Interests in associates | **25,376** | 36,150 |
| Other non-current financial assets | **15,488** | 11,388 |
| Deferred tax assets | **20,071** | 16,549 |
| Current tax recoverable | **331** | 3,174 |
| Cash and cash equivalents | **163,003** | 97,796 |
| Unallocated head office and corporate assets | **23,060** | 23,141 |
| Consolidated total assets | **1,807,306** | 1,620,060 |

12. SEGMENT REPORTING *(Continued)*

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

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **Liabilities** | | |
| Reportable segment liabilities | **870,788** | 1,285,398 |
| Elimination of inter-segment payables | **(433,834)** | (810,431) |
| | **436,954** | 474,967 |
| Current tax payable | **10,293** | 7,806 |
| Deferred tax liabilities | **101,205** | 87,872 |
| Unallocated head office and corporate liabilities | **228,609** | 162,067 |
| Consolidated total liabilities | **777,061** | 732,712 |

**(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, goodwill 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 physcial 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 goodwill, and the location of operations, in the case of interests in associates.

| | Revenue from external customers | | Specified non-current assets | |
|---|---|---|---|---|
| | 2010 HK$'000 | 2009 HK$'000 | 2010 HK$'000 | 2009 HK$'000 |
| Hong Kong (place of domicile) | **53,748** | 69,689 | **754,723** | 660,619 |
| Mainland China | **15,597** | 12,159 | **162,172** | 201,214 |
| North America | **927,274** | 885,105 | **37,699** | 41,974 |
| Europe | **474,633** | 448,401 | **14,521** | 15,057 |
| Others | **128,994** | 122,322 | **–** | – |
| | **1,546,498** | 1,467,987 | **214,392** | 258,245 |
| | **1,600,246** | 1,537,676 | **969,115** | 918,864 |

# Notes to the Financial Statements *(Continued)*

13. FIXED ASSETS

**The Group**

| | Land and buildings held for own use carried at cost | | | | Investment properties | | | |
|---|---|---|---|---|---|---|---|---|
| | In Hong Kong | Outside Hong Kong | Equipment | Sub-total | In Hong Kong | Outside Hong Kong | Sub-total | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost or valuation:** | | | | | | | | |
| At 1 January 2008 (restated) | 32,432 | 35,165 | 496,133 | 563,730 | 601,307 | 45,000 | 646,307 | 1,210,037 |
| Exchange adjustments | – | (6,310) | (9,572) | (15,882) | – | – | – | (15,882) |
| Additions | – | 122 | 33,587 | 33,709 | – | – | – | 33,709 |
| Acquisition through subsidiary | – | – | 235 | 235 | – | – | – | 235 |
| Disposals | – | – | (15,531) | (15,531) | – | – | – | (15,531) |
| (Deficit)/surplus on revaluation | – | – | – | – | (48,929) | 1,500 | (47,429) | (47,429) |
| At 31 December 2008 (restated) | 32,432 | 28,977 | 504,852 | 566,261 | 552,378 | 46,500 | 598,878 | 1,165,139 |
| **Representing** | | | | | | | | |
| Cost | 32,432 | 28,977 | 504,852 | 566,261 | – | – | – | 566,261 |
| Valuation – 2008 | – | – | – | – | 552,378 | 46,500 | 598,878 | 598,878 |
| | 32,432 | 28,977 | 504,852 | 566,261 | 552,378 | 46,500 | 598,878 | 1,165,139 |
| **Cost or valuation:** | | | | | | | | |
| At 1 January 2009 (restated) | 32,432 | 28,977 | 504,852 | 566,261 | 552,378 | 46,500 | 598,878 | 1,165,139 |
| Exchange adjustments | – | 3,593 | 824 | 4,417 | – | – | – | 4,417 |
| Transfer | 31,013 | – | – | 31,013 | (31,013) | – | (31,013) | – |
| Additions | – | 305 | 50,550 | 50,855 | – | – | – | 50,855 |
| Acquisition through subsidiary *(note 18)* | – | – | 31,272 | 31,272 | – | – | – | 31,272 |
| Disposals | – | – | (7,495) | (7,495) | (2,100) | – | (2,100) | (9,595) |
| Surplus/(deficit) on revaluation | – | – | – | – | 94,613 | (1,100) | 93,513 | 93,513 |
| At 31 December 2009 (restated) | 63,445 | 32,875 | 580,003 | 676,323 | 613,878 | 45,400 | 659,278 | 1,335,601 |
| **Representing** | | | | | | | | |
| Cost | 63,445 | 32,875 | 580,003 | 676,323 | – | – | – | 676,323 |
| Valuation – 2009 | – | – | – | – | 613,878 | 45,400 | 659,278 | 659,278 |
| | 63,445 | 32,875 | 580,003 | 676,323 | 613,878 | 45,400 | 659,278 | 1,335,601 |
| **Cost or valuation:** | | | | | | | | |
| At 1 January 2010 (restated) | **63,445** | **32,875** | **580,003** | **676,323** | **613,878** | **45,400** | **659,278** | **1,335,601** |
| Exchange adjustments | **–** | **(416)** | **2,233** | **1,817** | **–** | **–** | **–** | **1,817** |
| Transfer | **9,145** | **–** | **–** | **9,145** | **(9,145)** | **–** | **(9,145)** | **–** |
| Additions | **–** | **584** | **46,382** | **46,966** | **–** | **–** | **–** | **46,966** |
| Disposals | **–** | **(80)** | **(7,566)** | **(7,646)** | **–** | **(45,400)** | **(45,400)** | **(53,046)** |
| Surplus on revaluation | **–** | **–** | **–** | **–** | **103,208** | **–** | **103,208** | **103,208** |
| At 31 December 2010 | **72,590** | **32,963** | **621,052** | **726,605** | **707,941** | **–** | **707,941** | **1,434,546** |
| **Representing** | | | | | | | | |
| Cost | **72,590** | **32,963** | **621,052** | **726,605** | **–** | **–** | **–** | **726,605** |
| Valuation – 2010 | **–** | **–** | **–** | **–** | **707,941** | **–** | **707,941** | **707,941** |
| | **72,590** | **32,963** | **621,052** | **726,605** | **707,941** | **–** | **707,941** | **1,434,546** |

# Notes to the Financial Statements *(Continued)*

13. FIXED ASSETS *(Continued)*

**The Group** *(Continued)*

| | Land and buildings held for own use carried at cost | | | | Investment properties | | | |
|---|---|---|---|---|---|---|---|---|
| | In Hong Kong | Outside Hong Kong | Equipment | Sub-total | In Hong Kong | Outside Hong Kong | Sub-total | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Accumulated deprecation and impairment:** | | | | | | | | |
| At 1 January 2008 (restated) | 3,085 | 12,149 | 409,644 | 424,878 | – | – | – | 424,878 |
| Exchange adjustments | – | (1,195) | (8,944) | (10,139) | – | – | – | (10,139) |
| Charge for the year | 769 | 1,097 | 24,221 | 26,087 | – | – | – | 26,087 |
| Impairment loss | – | – | 86 | 86 | – | – | – | 86 |
| Written back on disposals | – | – | (15,362) | (15,362) | – | – | – | (15,362) |
| At 31 December 2008 (restated) | 3,854 | 12,051 | 409,645 | 425,550 | – | – | – | 425,550 |
| At 1 January 2009 (restated) | 3,854 | 12,051 | 409,645 | 425,550 | – | – | – | 425,550 |
| Exchange adjustments | – | 2,300 | 681 | 2,981 | – | – | – | 2,981 |
| Charge for the year *(note 5(c))* | 1,178 | 926 | 34,364 | 36,468 | – | – | – | 36,468 |
| Impairment loss *(note 5(c))* | – | – | 17 | 17 | – | – | – | 17 |
| Written back on disposals | – | – | (6,845) | (6,845) | – | – | – | (6,845) |
| At 31 December 2009 (restated) | 5,032 | 15,277 | 437,862 | 458,171 | – | – | – | 458,171 |
| At 1 January 2010 (restated) | **5,032** | **15,277** | **437,862** | **458,171** | **–** | **–** | **–** | **458,171** |
| Exchange adjustments | **–** | **(126)** | **854** | **728** | **–** | **–** | **–** | **728** |
| Charge for the year *(note 5(c))* | **1,699** | **943** | **37,375** | **40,017** | **–** | **–** | **–** | **40,017** |
| Impairment loss *(note 5(c))* | **–** | **–** | **326** | **326** | **–** | **–** | **–** | **326** |
| Written back on disposals | **–** | **(79)** | **(7,419)** | **(7,498)** | **–** | **–** | **–** | **(7,498)** |
| At 31 December 2010 | **6,731** | **16,015** | **468,998** | **491,744** | **–** | **–** | **–** | **491,744** |
| **Net book value:** | | | | | | | | |
| At 31 December 2010 | **65,859** | **16,948** | **152,054** | **234,861** | **707,941** | **–** | **707,941** | **942,802** |
| At 31 December 2009 (restated) | 58,413 | 17,598 | 142,141 | 218,152 | 613,878 | 45,400 | 659,278 | 877,430 |
| At 31 December 2008 (restated) | 28,578 | 16,926 | 95,207 | 140,711 | 552,378 | 46,500 | 598,878 | 739,589 |

13. FIXED ASSETS *(Continued)*

**(a) Impairment loss**

During the year, the Group assessed the recoverable amount of the Group's moulds and equipment and as a result, the carrying amount of certain moulds and equipment was written down by HK$326,000 (2009: HK$17,000) (included in "Other operating expenses"). The estimates of recoverable amount were based on the moulds' and equipment's fair value less costs to sell, determined by reference to anticipated future use.

**(b) Revaluation of investment properties**

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Medium term leases at valuation: | | |
| – In Hong Kong | **707,941** | 613,878 |
| – Outside Hong Kong | **–** | 45,400 |
| | **707,941** | 659,278 |

All investment properties of the Group were revalued as at 31 December 2010 on an open market value basis, by either making reference to the comparable sales evidence in the relevant locality, or otherwise, by capitalising the current rent derived from the existing tenancies with the provision for any reversionary income potential. The valuations were carried out by an independent firm of surveyors, DTZ Debenham Tie Leung, who have among their staff, Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being revalued.

**(c) The analysis of net book value of other properties is as follows:**

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Medium-term leases in Hong Kong | **65,859** | 58,413 |
| Freehold outside Hong Kong | **16,948** | 17,598 |
| | **82,807** | 76,011 |

**(d) Fixed assets held under finance leases**

The Group leases motor vehicles and machinery under finance leases expiring within one to five years. At the end of the lease term the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. During the year, additions to equipment of the Group financed by new finance leases were HK$Nil (2009: HK$388,000). At the balance sheet date, the net book value of plant and machinery held under finance leases of the Group was HK$233,000 (2009: HK$486,000).

13. FIXED ASSETS *(Continued)*

**(e) Fixed assets leased out under operating leases**

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to six years, with an option to renew each lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The carrying amount of the investment properties of the Group held for own use in operating leases was HK$707,941,000 (2009: HK$659,278,000). All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | **The Group** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **25,651** | 26,532 |
| After 1 year but within 5 years | **14,088** | 18,071 |
| | **39,739** | 44,603 |

**(f) Secured assets**

Certain fixed assets of the Group were mortgaged to various banks to secure banking facilities granted to the Group. Details are disclosed in note 25.

14. CONSTRUCTION IN PROGRESS

| | **The Group** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **–** | – |
| Additions | **270** | – |
| At 31 December | **270** | – |

## 15. INTANGIBLE ASSETS

| | The Group Club memberships *HK$'000* |
|---|---|
| **Cost:** | |
| At 1 January 2009 | 670 |
| Acquisition through subsidiary *(note 18)* | 198 |
| At 31 December 2009, 1 January 2010 and 31 December 2010 | **868** |
| **Accumulated amortisation:** | |
| At 1 January 2009 | 134 |
| Charge for the year *(note 5(c))* | 33 |
| At 31 December 2009 | 167 |
| At 1 January 2010 | **167** |
| Charge for the year *(note 5(c))* | **34** |
| At 31 December 2010 | **201** |
| **Net book value:** | |
| At 31 December 2010 | **667** |
| At 31 December 2009 | 701 |

The amortisation charge for the year is included in "Other operating expenses" in the consolidated income statement.

## 16. GOODWILL

| | The Group | | |
|---|---|---|---|
| | Williams Reproductions Limited ("Williams") *HK$'000* | Walitoys & Garment Limited ("Walitoys") *HK$'000* | Total *HK$'000* |
| **Cost:** | | | |
| At 1 January 2009 | 31,200 | 7,643 | 38,843 |
| Adjustment to purchase consideration | – | (3,060) | (3,060) |
| At 31 December 2009, 1 January 2010 and 31 December 2010 | **31,200** | **4,583** | **35,783** |
| **Accumulated impairment losses:** | | | |
| At 1 January 2009 and 31 December 2009 | **31,200** | **–** | **31,200** |
| Impairment loss *(note 5(c))* | **–** | **4,583** | **4,583** |
| At 31 December 2010 | **31,200** | **4,583** | **35,783** |
| **Carrying amount:** | | | |
| At 31 December 2010 | **–** | **–** | **–** |
| At 31 December 2009 | – | 4,583 | 4,583 |

16. GOODWILL *(Continued)*

On 16 October 2007, a subsidiary based in the United States acquired the business and certain assets of Williams, a distributor of toy trains in the United States. The purchase price paid of HK$39,000,000 (equivalent to US$5,000,000) comprised primarily moulds and dies valued at HK$7,800,000 (equivalent to US$1,000,000) and goodwill of HK$31,200,000 (equivalent to US$4,000,000). An impairment loss of HK$31,200,000 was recognised during the year ended 31 December 2008 in respect of the goodwill arising on the acquisition of Williams.

On 4 November 2008, a subsidiary based in Hong Kong signed a sale and purchase agreement to acquire Walitoys, a soft toys trading company incorporated in Hong Kong ("the Agreement"). The purchase consideration paid was HK$8,250,000 and goodwill of HK$7,643,000 was recognised.

Pursuant to the terms of the Agreement on the acquisition of Walitoys, the purchase consideration of HK$8,250,000 would be adjusted if the operating results of Walitoys for the 24-month period ending 31 March 2010 ("Guaranteed Period") did not meet a guaranteed minimum specified in the Agreement ("Guaranteed Profit"). As at 31 December 2009, management considered that it was highly probable that Walitoys' operating results for the Guarantee Period would not meet the Guaranteed Profit and, accordingly, an adjustment was made to the purchase consideration and goodwill on acquisition.

A petition for the winding up of Walitoys was filed with the Court of First Instance of the Hong Kong Special Administrative Region on 3 March 2011 by a creditor in respect of Walitoys' failure to make payment when due. In light of this and the uncertainty over the continued operations of Walitoys, an impairment loss of HK$4,583,000 was recognised at 31 December 2010 in respect of the goodwill arising from the acquisition of Walitoys.

The recoverable amount of the goodwill for the year ended 31 December 2009 was determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period were extrapolated using the estimated rates stated below. The growth rate did not exceed the long-term average growth rate for the business in which the acquired business operates.

Key assumptions used for value-in-use calculations:

| | **Walitoys 2009** |
|---|---|
| Gross margin | 20.0% |
| Growth rate | 10.0% |
| Discount rate | 9.0% |

Management determined the budgeted gross margin based on its expectation for market growth. The discount rates used were pre-tax and reflected specific risks relating to the segment.

## 17. INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **318,844** | 318,844 |
| Add: amounts due from subsidiaries | **810,792** | 771,164 |
| Less: impairment losses | **(128,601)** | (133,040) |
| | **1,001,035** | 956,968 |

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment but the Company will not seek repayment thereof within 12 months of the balance sheet date.

Details of the major subsidiaries at 31 December 2010 which principally affected the results, assets or liabilities of the Group are listed on pages 112 to 115.

## 18. EXCESS OF INTEREST IN FAIR VALUES OF THE ACQUIREE'S IDENTIFIABLE ASSETS OVER COST OF BUSINESS COMBINATION

On 23 January 2009, the Group acquired a 100% equity interest in Sanda Kan (Cayman III) Holdings Company Limited ("Sanda Kan"), a company incorporated in the Cayman Islands with limited liability, for cash consideration of US$8,500,000 (equivalent to HK$66,300,000). As part of the terms of the sale and purchase agreement, the banks agreed to waive the loans and interest payable by Sanda Kan as at 22 January 2009 totalling HK$652,721,000. Sanda Kan is principally engaged in the manufacturing and trading of toys and model trains.

Management did not obtain a professional valuation of the assets and liabilities of Sanda Kan as at the date of acquisition. The fair values of the assets and liabilities of Sanda Kan as at the date of acquisition were based on management's estimation and by reference to external quotations. The resulting excess of interest in fair values of the acquiree's identifiable assets over cost of business combination was attributable to the forced sale of Sanda Kan for the purposes of settling debts.

18. EXCESS OF INTEREST IN FAIR VALUES OF THE ACQUIREE'S IDENTIFIABLE ASSETS OVER COST OF BUSINESS COMBINATION *(Continued)*

The acquisition had the following effect on the Group's assets and liabilities at acquisition:

| | **Pre-acquisition carrying amounts** *HK$'000* | **Fair value adjustments** *HK$'000* | **Recognised values on acquisition of control** *HK$'000* |
|---|---|---|---|
| Acquiree's net assets at the acquisition date: | | | |
| Fixed assets *(note 13)* | 31,272 | – | 31,272 |
| Intangible assets *(note 15)* | 198 | – | 198 |
| Deferred tax assets *(note 27(b))* | 42 | – | 42 |
| Inventories | 117,676 | – | 117,676 |
| Trade and other receivables | 165,249 | – | 165,249 |
| Cash and cash equivalents | 20,537 | – | 20,537 |
| Creditors and accrued charges | (190,367) | – | (190,367) |
| Current taxation | (888) | – | (888) |
| Accrued employee benefits | (4,759) | – | (4,759) |
| Net identifiable assets and liabilities | 138,960 | – | 138,960 |
| Excess of interest in fair values of the acquiree's identifiable assets over cost of business combination | | | (64,401) |
| Professional costs incurred | | | (8,259) |
| Bank loans and accrued interest | | | (652,721) |
| Extinguishment of bank loans and interest | | | 652,721 |
| Consideration paid, satisfied in cash | | | 66,300 |

19. INTERESTS IN ASSOCIATES

| | **The Group** **2010** ***HK$'000*** | 2009 *HK$'000* |
|---|---|---|
| Share of net assets | **88** | 3,972 |
| Amounts due from associates | **23,338** | 32,178 |
| Loan to an associate | **1,950** | – |
| | **25,376** | 36,150 |

Amounts due from associates are unsecured, interest-free and have no fixed terms of repayment, but the Group will not seek repayment thereof within 12 months of the balance sheet date.

Loan to an associate is unsecured, interest-bearing at 5% per annum and has no fixed terms of repayment but the Group will not seek repayment thereof within 12 months of the balance sheet date.

## 19. INTERESTS IN ASSOCIATES *(Continued)*

The following list contains the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| **Name of associate** | **Form of business structure** | **Place of incorporation and operation** | **Group's effective interest** | **Held by a subsidiary** | **Held by an associate** | **Principal activity** |
| Allman Holdings Limited | Incorporated | British Virgin Islands | 36.1% | 36.1% | – | Investment holding |
| Melville Street Trust | Incorporated | Canada | 27.3% | 27.3% | – | Dormant |
| Pacific Squaw Creek, Inc. | Incorporated | USA | 36.1% | 36.1% | 36.1% | Investment holding |
| Redwood Ventures Limited | Incorporated | Hong Kong | 40.0% | 40.0% | – | Trading of toys |
| Squaw Creek Associates, LLC | Limited | USA | 32.0% | 10.0% | 62.0% | Resort operation, and the sale and management of condominium apartments |

**Summary financial information on associates**

| | **Assets** *HK$'000* | **Liabilities** *HK$'000* | **Equity** *HK$'000* | **Revenue** *HK$'000* | **Loss** *HK$'000* |
|---|---|---|---|---|---|
| **2010** | | | | | |
| 100 per cent | **616,043** | **(550,469)** | **65,574** | **188,906** | **(59,154)** |
| Group's effective interest | **103,473** | **(103,385)** | **88** | **18,943** | **(5,598)** |
| 2009 | | | | | |
| 100 per cent | 588,770 | (492,721) | 96,049 | 179,045 | (75,295) |
| Group's effective interest | 91,853 | (87,881) | 3,972 | 19,809 | (16,988) |

## 20. OTHER NON-CURRENT FINANCIAL ASSETS

| | **The Group** | |
|---|---|---|
| | **2010** *HK$'000* | 2009 *HK$'000* |
| Available-for-sale equity securities: | | |
| – Listed in Hong Kong | **605** | 679 |
| – Listed outside Hong Kong | **12,439** | 10,709 |
| | **13,044** | 11,388 |
| Available-for-sale debt securities: | | |
| – Listed in Hong Kong | **2,444** | – |
| | **15,488** | 11,388 |

# Notes to the Financial Statements *(Continued)*

## 21. INVENTORIES

**(a) Inventories in the balance sheet comprise:**

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **119,418** | 81,325 |
| Work in progress | **117,510** | 96,626 |
| Finished goods | **201,208** | 149,325 |
| | **438,136** | 327,276 |

Finished goods amounting to HK$123,018,000 (2009: HK$109,852,000) were pledged to banks to secure banking facilities granted to the Group, see note 25.

**(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows** *(note 5(c))*:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Carrying amount of inventories sold | **1,237,363** | 1,155,066 |
| Write down of inventories | **7,218** | 12,763 |
| Reversal of write-down of inventories | **(6,198)** | – |
| | **1,238,383** | 1,167,829 |

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

## 22. TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade debtors and bills receivable | **192,012** | 225,388 | **–** | – |
| Less: allowance for doubtful debts *(note 22(b))* | **(13,301)** | (14,275) | **–** | – |
| | **178,711** | 211,113 | **–** | – |
| Amount due from a related company | **–** | 20 | **–** | – |
| Deposits and prepayments | **22,451** | 33,880 | **297** | 222 |
| | **201,162** | 245,013 | **297** | 222 |

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Amount due from a related company was unsecured, interest-free and had no fixed terms of repayment.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

**(a) Ageing analysis**

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:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Current | **133,442** | 164,448 |
| Less than 1 month past due | **26,018** | 25,581 |
| 1 to 3 months past due | **16,458** | 16,866 |
| More than 3 months but less than 12 months past due | **2,793** | 4,216 |
| More than 12 months past due | **–** | 2 |
| | **178,711** | 211,113 |

Trade debtors and bills receivable are due within seven to sixty days from the date of billing. Further details on the Group's credit policy are set out in note 29(a).

**(b) Impairment of trade debtors and bills receivable**

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(m)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **14,275** | 3,390 |
| Exchange adjustments | **(1)** | 10 |
| Acquisition through subsidiary | **–** | 27,924 |
| Reversal of impairment loss *(note 5(c))* | **(2,520)** | (26,886) |
| Impairment loss recognised *(note 5(c))* | **2,060** | 10,504 |
| Uncollectible amounts written off | **(513)** | (667) |
| At 31 December | **13,301** | 14,275 |

22. TRADE AND OTHER RECEIVABLES *(Continued)*

**(b) Impairment of trade debtors and bills receivable** *(Continued)*

At 31 December 2010, certain of the Group's trade debtors and bills receivable totalling HK$4,298,000 (2009: HK$9,996,000) were individually determined to be impaired. The individually impaired receivables related to customers with which the Group no longer trades and management assessed that the receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of HK$4,071,000 (2009: HK$6,516,000) were recognised. The Group does not hold any collateral over these balances.

**(c) Trade debtors and bills receivable that are not impaired**

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired is as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **129,870** | 144,305 |
| Less than 1 month past due | **23,706** | 24,213 |
| 1 to 3 months past due | **15,070** | 14,744 |
| More than 3 months but less than 12 months past due | **2,778** | 2,023 |
| | **41,554** | 40,980 |
| | **171,424** | 185,285 |

Receivables that are neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 23. CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents comprise:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and cash equivalents in the balance sheet | **163,003** | 97,796 | **135** | 350 |
| Bank overdrafts *(note 25)* | **(16,328)** | (8,028) | | |
| Cash and cash equivalents in the consolidated cash flow statement | **146,675** | 89,768 | | |

### (b) Reconciliation of profit before taxation to cash generated from operations:

| | Note | **2010** ***HK$'000*** | 2009 *HK$'000* |
|---|---|---|---|
| Profit before taxation | | **197,270** | 222,800 |
| Adjustments for: | | | |
| Valuation gains on investment properties | *13* | **(103,208)** | (93,513) |
| Depreciation | *13* | **40,017** | 36,468 |
| Amortisation of intangible assets | *15* | **34** | 33 |
| Impairment of fixed assets | *13* | **326** | 17 |
| Finance costs | *5(a)* | **7,880** | 8,038 |
| Interest income | *4(a)* | **(333)** | (515) |
| Share of profits less losses of associates | *19* | **5,598** | 16,988 |
| Impairment of goodwill | *16* | **4,583** | – |
| Impairment loss on other receivables | *5(c)* | **7,602** | – |
| Impairment loss on amount due from associates | *5(c)* | **6,131** | – |
| Net gain on disposal of fixed assets | *4(b)* | **(293)** | (94) |
| Net gain on disposal of investment property | | **(31,220)** | (365) |
| Write-off of amount due from an associate | | **–** | (7,462) |
| Excess of interest in fair values of the acquiree's identifiable assets over cost of business combination | *18* | **–** | (64,401) |
| Foreign exchange (gain)/loss | | **(6,028)** | 6,795 |
| Changes in working capital: | | | |
| (Increase)/decrease in inventories | | **(110,860)** | 4,161 |
| Decrease in trade and other receivables | | **36,249** | 74,336 |
| Decrease in creditors and accrued charges | | **(25,265)** | (63,130) |
| (Decrease)/increase in rental deposits received | | **(661)** | 105 |
| (Decrease)/increase in accrued employee benefits | | **(1,978)** | 448 |
| Cash generated from operations | | **25,844** | 140,709 |

## 24. TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Creditors and accrued charges | **309,933** | 335,198 | **94,026** | 86,520 |
| Amounts due to related companies | **2,489** | 4,586 | **–** | – |
| Rental deposits | **3,864** | 3,255 | **–** | – |
| | **316,286** | 343,039 | **94,026** | 86,520 |

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

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

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Due within 1 month or on demand | **66,955** | 70,384 |
| Due after 1 month but within 3 months | **8,668** | 761 |
| Due after 3 months but within 6 months | **1,126** | – |
| Due after 6 months | **1,106** | – |
| | **77,855** | 71,145 |

## 25. BANK LOANS AND OVERDRAFTS

**(a) The analysis of the carrying amount of bank loans and overdrafts is as follows:**

| | The Group | | |
|---|---|---|---|
| | **At 31 December 2010** | At 31 December 2009 | At 1 January 2009 |
| | ***HK$'000*** | *HK$'000* (restated) | *HK$'000* (restated) |
| **Current liabilities** | | | |
| Bank overdrafts | **16,328** | 8,028 | 3,020 |
| Current portion of term loans from banks | **203,893** | 132,600 | 141,217 |
| Non-current portion of term loans from banks repayable on demand | **89,870** | 141,044 | 67,747 |
| | **310,091** | 281,672 | 211,984 |
| **Non-current liabilities** | | | |
| Bank loans | **30,417** | – | – |
| | **340,508** | 281,672 | 211,984 |

25. BANK LOANS AND OVERDRAFTS *(Continued)*

**(b) At 31 December 2010, bank loans and overdrafts were repayable as follows:**

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **220,221** | 140,628 |
| After 1 year but within 2 years | **64,750** | 40,077 |
| After 2 years but within 5 years | **55,537** | 100,967 |
| | **120,287** | 141,044 |
| | **340,508** | 281,672 |

**(c) At 31 December 2010, bank loans and overdrafts were secured as follows:**

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| **Secured** | | |
| – Bank overdrafts *(note 23(a))* | **16,328** | 8,028 |
| – Bank loans | **324,180** | 273,644 |
| | **340,508** | 281,672 |

At 31 December 2010, certain investment properties, leasehold land and buildings, inventories and other assets of the Group with net book value of HK$1,025,112,000 (2009: HK$887,342,000) were mortgaged to various banks to secure the bank loans and overdrafts granted to the Group. Details of the secured assets are as follows:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Investment properties *(note 13(b))* | **707,941** | 613,878 |
| Land and buildings *(note 13(c))* | **82,807** | 76,011 |
| Inventories *(note 21(a))* | **123,018** | 109,852 |
| Other assets | **111,346** | 87,601 |
| | **1,025,112** | 887,342 |

All of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 29(b). As at 31 December 2010, none of the covenants relating to drawn down facilities had been breached (2009: Nil).

# Notes to the Financial Statements *(Continued)*

## 26. OBLIGATIONS UNDER FINANCE LEASES

**(a) The analysis of the obligations under finance leases is as follows:**

| | The Group | |
|---|---|---|
| | **At 31 December 2010** | At 31 December 2009 |
| | ***HK$'000*** | *HK$'000* |
| Current | **292** | 306 |
| Non-current | **–** | 292 |
| | **292** | 598 |

**(b) At 31 December 2010, the Group had obligations under finance leases repayable as follows:**

| | The Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **Present value of minimum lease payments** | **Total minimum lease payments** | Present value of minimum lease payments | Total minimum lease payments |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Within 1 year | **72** | **90** | 306 | 340 |
| After 1 year but within 2 years | **78** | **90** | 72 | 90 |
| After 2 years but within 5 years | **142** | **151** | 220 | 241 |
| | **220** | **241** | 292 | 331 |
| | **292** | **331** | 598 | 671 |
| Less: total future interest expenses | | **(39)** | | (73) |
| | | **292** | | 598 |

## 27. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

### (a) Current taxation in the balance sheet represents:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Provision for Hong Kong Profits Tax for the year | **17,068** | 16,298 |
| Provisional Profits Tax paid | **(10,592)** | (12,173) |
| | **6,476** | 4,125 |
| Balance of Profits Tax recoverable relating to prior years | **(331)** | (439) |
| Provision for tax outside Hong Kong | **3,817** | 946 |
| | **9,962** | 4,632 |
| Representing: | | |
| Tax recoverable | **(331)** | (3,174) |
| Tax payable | **10,293** | 7,806 |
| | **9,962** | 4,632 |

# Notes to the Financial Statements *(Continued)*

## 27. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

### (b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

**The Group**

| | Allowances in excess of the related depreciation *HK$'000* | Revaluation of investment properties *HK$'000* | Revaluation of land and buildings *HK$'000* | Provisions and allowances *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Deferred tax arising from:** | | | | | |
| At 1 January 2009 | 17,212 | 47,944 | 7,150 | (29,021) | 43,285 |
| Acquisition through subsidiary *(note 18)* | (42) | – | – | – | (42) |
| Charged to profit or loss *(note 7(a))* | 1,719 | 13,561 | – | 12,957 | 28,237 |
| Credited to reserves | – | – | (117) | – | (117) |
| Transfer from investment properties to land and buildings | – | (2,557) | 2,557 | – | – |
| Exchange difference | (40) | – | – | – | (40) |
| At 31 December 2009 | 18,849 | 58,948 | 9,590 | (16,064) | 71,323 |
| **At 1 January 2010** | **18,849** | **58,948** | **9,590** | **(16,064)** | **71,323** |
| **Charged to profit or loss *(note 7(a))*** | **2,597** | **10,911** | **–** | **(3,719)** | **9,789** |
| **Effect of change in tax rate charged to profit or loss *(note 7(a))*** | **11** | **–** | **–** | **–** | **11** |
| **Transfer from investment properties to land and buildings** | **–** | **(997)** | **997** | **–** | **–** |
| **Exchange difference** | **11** | **–** | **–** | **–** | **11** |
| **At 31 December 2010** | **21,468** | **68,862** | **10,587** | **(19,783)** | **81,134** |

27. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

**(b) Deferred tax assets and liabilities recognised:** *(Continued)*

Reconciliation to the balance sheet:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Net deferred tax assets recognised in the balance sheet | **(20,071)** | (16,549) |
| Net deferred tax liabilities recognised in the balance sheet | **101,205** | 87,872 |
| | **81,134** | 71,323 |

**(c) Deferred tax assets not recognised**

In accordance with the accounting policy set out in note 1(t), the Group and the Company have not recognised deferred tax assets in respect of cumulative tax losses of HK$350,398,000 (2009: HK$330,651,000) and HK$18,481,000 (2009: HK$12,158,000) respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Tax losses for the Group and the Company amounting to HK$83,446,000 (2009: HK$76,396,000) and HK$18,481,000 (2009: HK$12,158,000) respectively do not expire under current tax legislation, while the remaining tax losses amounting to HK$266,952,000 (2009: HK$254,255,000) and HK$Nil (2009: HK$Nil) will expire at various dates up to and including 2030 as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| 2012 | **3,081** | 3,959 | **–** | – |
| 2013 | **124,677** | 125,710 | **–** | – |
| 2014 | **46,305** | 95,336 | **–** | – |
| 2015 | **41,409** | – | **–** | – |
| 2028 | **12,675** | 12,675 | **–** | – |
| 2029 | **16,575** | 16,575 | **–** | – |
| 2030 | **22,230** | – | **–** | – |
| | **266,952** | 254,255 | **–** | – |
| No expiry date | **83,446** | 76,396 | **18,481** | 12,158 |
| | **350,398** | 330,651 | **18,481** | 12,158 |

28. CAPITAL, RESERVES AND DIVIDENDS

**(a) Movements in components of equity**

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

**The Company**

| | Share capital *HK$'000* | Share premium *HK$'000* | Capital reserve *HK$'000* | Contributed surplus *HK$'000* | Retained profits *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| Balance at 1 January 2009 | 66,541 | 109,942 | 9,347 | 175,594 | 493,658 | 855,082 |
| Changes in equity for 2009: | | | | | | |
| Total comprehensive income for the year | – | – | – | – | 15,869 | 15,869 |
| **Balance at 31 December 2009 and 1 January 2010** | **66,541** | **109,942** | **9,347** | **175,594** | **509,527** | **870,951** |
| **Changes in equity for 2010:** | | | | | | |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **–** | **46,402** | **46,402** |
| **Dividends approved in respect of the prior year *(note 28(c))*** | **–** | **–** | **–** | **–** | **(9,981)** | **(9,981)** |
| **Balance at 31 December 2010** | **66,541** | **109,942** | **9,347** | **175,594** | **545,948** | **907,372** |

**(b) Exchange reserve and revenue reserves of the Group are retained as follows:**

| | The Group | | | |
|---|---|---|---|---|
| | Exchange reserve | | Revenue reserve | |
| | **2010** **HK$'000** | 2009 *HK$'000* | **2010** **HK$'000** | 2009 *HK$'000* |
| By the Company and its subsidiaries | **(21,774)** | (14,491) | **713,077** | 552,932 |
| By associates | **(2,483)** | (1,091) | **(59,261)** | (53,663) |
| Total at 31 December | **(24,257)** | (15,582) | **653,816** | 499,269 |

Apart from the above, all other reserves of the Group are retained by the Company and its subsidiaries.

28. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

**(c) Dividends**

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Final dividend proposed after the balance sheet date of HK1.5 cents per ordinary share *(2009: HK1.5 cents per ordinary share)* | **9,981** | 9,981 |

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

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.5 cents per ordinary share *(2009: HK Nil cents per ordinary share)* | **9,981** | – |

**(d) Share capital**

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Number of shares *'000*** | ***HK$'000*** | Number of shares *'000* | *HK$'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 and 31 December *(note 11(a))* | **665,412** | **66,541** | 665,412 | 66,541 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

28. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

**(e) Nature and purpose of reserves**

*(i) Share premium*

The application of the share premium account is governed by section 40 of the Companies Act 1981 of Bermuda.

*(ii) Capital reserve*

The capital reserve arose from acquisitions of subsidiaries and associates prior to 1 January 2001, where the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition was credited to the capital reserve.

*(iii) Contributed surplus*

The contributed surplus may be utilised in accordance with the Bye-laws and other relevant laws of Bermuda, being the place of incorporation of the Company.

*(iv) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

*(v) Revaluation reserve*

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings set out in note 1(i).

*(vi) Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies set out in notes 1(f) and 1(m).

**(f) Distributability of reserves**

At 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of section 79B of the Hong Kong Companies Ordinance was HK$721,542,000 (2009: HK$685,121,000). After the balance sheet date the directors proposed a final dividend of HK1.5 cents per ordinary share (2009: HK1.5 cents per ordinary share), amounting to HK$9,981,000 (2009: HK$9,981,000). This dividend has not been recognised as a liability at the balance sheet date.

**(g) Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

28. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

**(g) Capital management** *(Continued)*

The Group monitors its capital structure on the basis of the net debt-to-equity ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables, rental deposits and obligations under finance leases) less cash and cash equivalents.

During 2010, the Group's strategy was to maintain the net debt-to-equity ratio under 100%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-equity ratio at 31 December 2010 and 2009 was as follows:

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2010** | 2009 | **2010** | 2009 |
| | *Note* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | | | (restated) | | |
| Current liabilities: | | | | | |
| Trade and other payables | *24* | **316,286** | 343,039 | **94,026** | 86,520 |
| Bank loans and overdrafts | *25* | **310,091** | 281,672 | **–** | – |
| Obligations under finance leases | *26* | **292** | 306 | **–** | – |
| | | **626,669** | 625,017 | **94,026** | 86,520 |
| Non-current liabilities: | | | | | |
| Rental deposits | | **3,746** | 5,016 | **–** | – |
| Bank loans | *25* | **30,417** | – | **–** | – |
| Obligations under finance leases | *26* | **–** | 292 | **–** | – |
| Total debt | | **660,832** | 630,325 | **94,026** | 86,520 |
| Less: Cash and cash equivalents | *23(a)* | **(163,003)** | (97,796) | **(135)** | (350) |
| **Net debt** | | **497,829** | 532,529 | **93,891** | 86,170 |
| **Total equity** | | **1,030,245** | 887,348 | **907,372** | 870,951 |
| **Net debt-to-equity ratio** | | **48.3%** | 60.0% | **10.3%** | 9.9% |

A certain subsidiary is subject to the fulfilment of covenants which include maintaining its debt-to-equity ratio below a certain amount, see note 25. Except for the above, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

# Notes to the Financial Statements *(Continued)*

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors 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. Normally, the Group does not obtain collateral from customers in its toys and model trains business. In respect of the Group's property investment business, deposits of between two to three months rent are received from lessees.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, the Group has a certain concentration of credit risk as 14.72% (2009: 28.1%) and 23.38% (2009: 36.8%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively within the toys and model trains segment.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes.

Placement of bank deposits are normally with counterparties that have sound credit ratings.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet, after deducting any impairment allowance. Except for the financial guarantees given by the Group as set out in note 31(a), the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees on the balance sheet date is disclosed in note 31(a).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22.

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(b) Liquidity risk**

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to the approval by the parent Company's board in respect of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

For term loans subject to repayment on demand clauses which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the contractual repayment schedule and, separately, the impact to the timing of the cash outflows if the lenders were to invoke unconditional rights to call the loans with immediate effect.

# Notes to the Financial Statements *(Continued)*

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(b) Liquidity risk** *(Continued)*

**The Group**

| | 2010 | | | | | | 2009 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total contractual undiscounted cash outflow | | | | | | Total contractual undiscounted cash outflow | | | | | |
| | On demand | Within 1 year | More than 1 year but less than 2 years | More than 2 years but less than 5 years | Total | Balance sheet carrying amount | On demand | Within 1 year | More than 1 year but less than 2 years | More than 2 years but less than 5 years | Total | Balance sheet carrying amount |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Bank overdrafts | – | 16,328 | – | – | 16,328 | 16,328 | – | 8,028 | – | – | 8,028 | 8,028 |
| Bank loans | – | 207,720 | 65,007 | 58,037 | 330,764 | 324,180 | – | 135,326 | 42,060 | 102,623 | 280,009 | 273,644 |
| Amounts due to related companies | – | 2,489 | – | – | 2,489 | 2,489 | – | 4,586 | – | – | 4,586 | 4,586 |
| Finance lease liabilities | – | 90 | 90 | 151 | 331 | 292 | – | 340 | 90 | 241 | 671 | 598 |
| Creditors and accrued charges | – | 309,933 | – | – | 309,933 | 309,933 | – | 335,198 | – | – | 335,198 | 335,198 |
| Rental deposits | – | 3,864 | 1,596 | 2,150 | 7,610 | 7,610 | – | 3,255 | 3,543 | 1,473 | 8,271 | 8,271 |
| | – | 540,424 | 66,693 | 60,338 | 667,455 | 660,832 | – | 486,733 | 45,693 | 104,337 | 636,763 | 630,325 |
| Adjustments to present cash flows on bank loans based on lender's right to demand repayment | 282,763 | (196,143) | (53,612) | (38,323) | (5,315) | | 273,644 | (135,326) | (42,060) | (102,623) | (6,365) | |
| | 282,763 | 344,281 | 13,081 | 22,015 | 662,140 | | 273,644 | 351,407 | 3,633 | 1,714 | 630,398 | |

**The Company**

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Creditors and accrued charges | – | 94,026 | – | – | 94,026 | 94,026 | – | 86,520 | – | – | 86,520 | 86,520 |

As shown in the above analysis, bank loans of the Group amounting to HK$207,720,000 were due to be repaid during 2011. The short-term liquidity risk inherent in this contractual maturity date was addressed at the time the loans were drawn and are accounted for in the Group's cash flow forecasts.

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(c) Interest rate risk**

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group monitors the level of its net fixed rate and variable rate borrowings and manages the contractual terms of the interest-bearing financial assets and liabilities. For this purpose the Group defines "net borrowings" as being interest-bearing financial liabilities less interest-bearing investments (excluding cash held for short-term working capital purposes). The Group's interest rate profile as monitored by management is set out in (i) below.

*(i) The following details the interest rate profile of the Group's and the Company's net borrowings (as defined above) at the balance sheet date.*

**The Group**

| | | **2010** | | 2009 | |
|---|---|---|---|---|---|
| | *Note* | **Effective Interest rate %** | ***HK$'000*** | Effective Interest rate % | *HK$'000* |
| **Net fixed rate borrowings:** | | | | | |
| Finance lease liabilities | *26* | **3.75** | **292** | 4.44 | 598 |
| **Variable rate borrowings:** | | | | | |
| Bank overdrafts | *25* | **7.68** | **16,328** | 5.00 | 8,028 |
| Bank loans | *25* | **2.55** | **324,180** | 2.94 | 273,644 |
| | | | **340,508** | | 281,672 |

**The Company**

The Company did not have any income-earning financial assets or interest-bearing financial liabilities as at 31 December 2010 and 2009.

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(c) Interest rate risk** *(Continued)*

*(ii) Sensitivity analysis*

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately HK$2,717,000 (2009: HK$1,965,000). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis for 2009.

**(d) Foreign currency risk**

*(i) Currency risk*

The Group is exposed to foreign currency risk primarily through sales, purchases and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("USD"), Sterling Pounds ("GBP") and Renminbi Yuan ("RMB").

As the HKD is pegged to the USD, the Company does not expect any significant movements in the USD/HKD exchange rate.

The Group's operations outside Hong Kong do not undertake significant transactions in a currency other than their respective functional currencies. Funds are retained by the operations outside Hong Kong for use within the respective operations.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(d) Foreign currency risk** *(Continued)*

*(i) Currency risk (Continued)*

| | Exposure to foreign currencies | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | | 2009 | | |
| | **USD** | **GBP** | **RMB** | USD | GBP | RMB |
| | ***'000*** | ***'000*** | ***'000*** | *'000* | *'000* | *'000* |
| Trade and other receivables | **2,212** | **20** | **139** | 1,125 | 16 | 145 |
| Cash and cash equivalents | **2,309** | **3,453** | **18,981** | 968 | 1,280 | 1,018 |
| Trade and other payables | **(12,060)** | **(6)** | **(1,604)** | (12,641) | (34) | (8,524) |
| Net exposure arising from recognised assets and liabilities | **(7,539)** | **3,467** | **17,516** | (10,548) | 1,262 | (7,361) |
| HKD equivalent | **(58,798)** | **41,814** | **20,581** | (82,274) | 15,558 | (8,347) |

The Company did not have any assets or liabilities denominated in a currency other than the functional currency of the Company.

# Notes to the Financial Statements *(Continued)*

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(d) Foreign currency risk** *(Continued)*

*(ii) Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would have arisen if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

| | **The Group** | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | | 2009 | | |
| | **Increase/ (decrease) in foreign exchange rates** | **Effect on profit after taxation** *HK$'000* | **Effect on retained profits** *HK$'000* | Increase/ (decrease) in foreign exchange rates | Effect on profit after taxation *HK$'000* | Effect on retained profits *HK$'000* |
| GBP | **2%** | **882** | **882** | 10% | 1,556 | 1,556 |
| | **(2%)** | **(882)** | **(882)** | (10%) | (1,556) | (1,556) |
| RMB | **4%** | **754** | **754** | 1% | (83) | (83) |
| | **(4%)** | **(754)** | **(754)** | (1%) | 83 | 83 |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after taxation and equity measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis has been performed on the same basis for 2009.

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(e) Equity price risk**

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 20). Other than unquoted securities held for strategic purposes, all of these investments are listed.

The Group's listed investments are listed both inside and outside Hong Kong. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

At 31 December 2010, it is estimated that changes in the relevant stock market index (for listed investments) with all other variables held constant, would have increased/decreased the Group's profit after taxation (and retained profits) and other components of consolidated equity as follows:

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Increase/ (decrease) in the relevant risk variable** | **Effect on profit after taxation and retained profits** *HK$'000* | **Effect on other components of equity** *HK$'000* | Increase/ (decrease) in the relevant risk variable | Effect on profit after taxation and retained profits *HK$'000* | Effect on other components of equity *HK$'000* |
| **Stock market index in respect of listed investments:** | | | | | | |
| Dow Jones Index | **11%** | **–** | **1,191** | 19% | – | 1,785 |
| | **(11%)** | **–** | **(1,191)** | (19%) | – | (1,785) |
| Hang Seng Index | **5%** | **–** | **30** | 52% | – | 353 |
| | **(5%)** | **–** | **(30)** | (52%) | – | (353) |
| Bloomberg GCC 200 index | **13%** | **–** | **210** | 10% | – | 131 |
| | **(13%)** | **–** | **(210)** | (10%) | – | (131) |

The sensitivity analysis indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would have arisen assuming that the changes in the stock market index had occurred at the balance sheet date and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis has been performed on the same basis for 2009.

# Notes to the Financial Statements *(Continued)*

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(f) Fair values**

*(i) Financial instruments carried at fair value*

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial instruments: disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly and indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | 2009 | | | |
| | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Assets** | | | | | | | | |
| Listed available-for-sale securities *(note 20)* | | | | | | | | |
| – equity | **13,044** | **–** | **–** | **13,044** | 11,388 | – | – | 11,388 |
| – debt | **2,444** | **–** | **–** | **2,444** | – | – | – | – |
| | **15,488** | **–** | **–** | **15,488** | 11,388 | – | – | 11,388 |

*(ii) Fair values of financial instruments carried at other than fair value*

The carrying amount of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2010 and 2009.

## 29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

### (g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

*(i) Securities*

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

*(ii) Interest-bearing loans and borrowings and finance lease liabilities*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

*(iii) Financial guarantees*

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

## 30. COMMITMENTS

### (a) Capital commitments outstanding at 31 December 2010 not provided for in the financial statements were as follows:

| | **The Group** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Contracted for | **2,617** | 165 |

At 31 December 2010 and 2009, the company did not have any capital commitments.

### (b) At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **The Group** | | | |
|---|---|---|---|---|
| | **Land and buildings** | | **Others** | |
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Within 1 year | **27,239** | 25,704 | **524** | 355 |
| After 1 year but within 5 years | **13,968** | 12,383 | **794** | 513 |
| Over 5 years | **326** | 2,717 | **–** | – |
| | **41,533** | 40,804 | **1,318** | 868 |

## 30. COMMITMENTS *(Continued)*

**(b) At 31 December 2010, the total future minimum lease payments under non-cancellable operating lease are payable as follows:** *(Continued)*

At 31 December 2010 and 2009, the Company did not have any commitments under operating leases.

Significant leasing arrangements in respect of land and buildings classified as being held under finance leases are described in note 13.

Apart from these leases, the Group is the lessee in respect of a number of properties and items of equipment under operating leases. The leases typically run for an initial period of one to eight years, with an option to renew each lease upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

## 31. CONTINGENT LIABILITIES

At 31 December 2010, 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 subsidiaries amounting to HK$569,824,000 (2009: HK$543,700,000).

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

As at the balance sheet date, the directors do not consider to be probable that a claim will be made against the Company under any of the guarantees issued. The maximum liability of the Company at the balance sheet date under the guarantees issued is the amount of banking facilities drawn down by the relevant subsidiaries of HK$339,712,000 (2009: HK$287,288,000).

**(b) Litigation**

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

31. CONTINGENT LIABILITIES *(Continued)*

**(b) Litigation** *(Continued)*

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

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

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

The trial on the issue of damages was held in April 2010. A ruling granting damages was issued on 4 March 2011. The Order calls for 24% annual simple interest on the unpaid rent portion of the principal amount and 10% annual simple interest on the remainder of the principal amount. The plaintiff is to submit its version of the interest calculations to which the Company may object.

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

# Notes to the Financial Statements *(Continued)*

32. EMPLOYEE RETIREMENT BENEFITS

In Hong Kong, the Group operates a defined contribution pension scheme ("ORSO scheme") for all qualifying employees. Effective from 1 December 2000, all Hong Kong based employees were also covered under a Mandatory Provident Fund ("MPF") scheme, and the existing ORSO scheme was modified to provide extra benefits for existing and new employees. The amount of employer's and employees' contributions to the ORSO scheme are reduced by the amount required to be paid to the MPF scheme. The contributions to the ORSO scheme are supplementary contributions, over and above the minimum MPF requirements. The assets of the ORSO scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the ORSO scheme, the employees are required to make contributions to the ORSO scheme calculated at 5% of their basic salaries on a monthly basis whilst the employer's contributions vary with the number of years of service of the employees from 5% to 10% of the basic monthly salary. The employees are entitled to 100% of the employer's contributions to the ORSO scheme and the accrued interest after 10 complete years' service, or at an increasing scale of between 50% to 90% after completion of 5 to 9 years' service.

Where there are employees who leave the ORSO scheme prior to vesting fully in the contributions, in accordance with the rules of the ORSO scheme, the forfeited employer's contributions shall be used to reduce the future contributions of the employer.

Subsidiaries incorporated in the PRC participate in the defined contribution retirement schemes operated by the local authorities for employees in the PRC. Contributions to these schemes are charged to profit or loss when incurred.

Employees in the United States of America are covered by a profit sharing plan under section 401(k) of the Internal Revenue Code covering all eligible employees. The plan provides for contributions from both the employer and eligible employees. Employer's contributions are voluntary and are determined each year at the discretion of management.

As regards employees in Europe, contributions are made by the employer to a money purchase defined contribution pension scheme for certain of its employees. The assets of the scheme are held separately by an independent administered fund.

## 33. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

(a) Remuneration for key management personnel of the Group are disclosed in notes 8 and 9 to the financial statements.

(b) One of the directors of the Company has also been a director and shareholder of a supplier which sold packaging and printing materials to the Group. The director ceased to be the director and shareholder of the supplier on 21 October 2010. Total purchases from the related party amounted to HK$2,851,000 (2009: HK$3,044,000) during the year. The amount due to the related party at the year end amounted to HK$Nil (2009: HK$192,000).

(c) As at 31 December 2010, the Group advanced funds totalling HK$23,339,000 (2009: HK$32,178,000) to certain associates in which certain directors of the Company have beneficial interests. Further details of the associates are given in note 19 to the financial statements.

(d) During the year ended 31 December 2009, a director advanced a sum of HK$20,000,000 to the Group, which was settled by the Group during the year ended 31 December 2009. The advance from a director was unsecured, interest-bearing at 1.3% per annum and had no fixed terms of repayment.

(e) During the year, the Group has obtained funding from certain other directors and related companies to finance its operations. Details of the terms of the advances and the balances outstanding are disclosed in note 24 to the financial statements.

## 34. COMPARATIVE FIGURES

As a result of the application of the HK (Int) 5, *Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause* and the amendment to HKAS 17 *Leases*, certain comparative figures have been restated to conform to the current year's presentation. Further details of these developments are disclosed in note 2.

## 35. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date on 11 January 2011, the Group entered into a provisional sale and purchase agreement with an independent third party to dispose of the investment property in Hong Kong held under a finance lease for a total consideration of HK$6,650,000.

# Notes to the Financial Statements *(Continued)*

36. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group believes the following critical accounting policies involves the most significant judgements and estimates used in the preparation of the financial statements.

**(a) Impairment**

If circumstances indicate that the carrying value of fixed assets, goodwill, intangible assets, inventories and receivables may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, *Impairment of assets*. The carrying amounts of fixed assets, goodwill, intangible assets, inventories and receivables are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. Except for goodwill which is tested annually for impairment, other assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount is reduced to recoverable amount. The recoverable amount of fixed assets, goodwill, inventories and intangible assets is the greater of its fair value less cost to sell and the value in use. The recoverable amount of receivables is the estimated future cash flows discounted at the current market rate of return of similar assets. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of sales volumes, selling prices and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, selling prices and the amount of operating costs.

**(b) Taxation and indirect taxes and duties**

Determining the provision for income tax, indirect taxes and duties involves judgement, including the interpretation and application of tax and other legislation, on the future treatment of certain transactions. The Group carefully evaluates the tax and other implication of transactions and provisions are set up accordingly. The treatment of such transactions is reconsidered periodically to take into account all changes in, including interpretation of, tax and other legislation. Where the final outcome of these transactions is different from the amounts that were initially recorded, such differences will impact the provision in the year in which such determination is made.

37. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Revised HKAS 24, *Related party disclosures* | 1 January 2011 |
| HKFRS 9, *Financial instruments* | 1 January 2013 |
| *Improvements to HKFRSs 2010* | 1 July 2010 or 1 January 2011 |
| Amendments to HKAS 12, *Income taxes* | 1 January 2012 |

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position, except for the amendments to HKAS 12, *Income taxes*. The amendments to HKAS 12 will be adopted in the 2012 financial statements and the Group will be required to make retrospective adjustments at that time to the amounts reported in respect of the year ended 31 December 2010, to the extent that the tax consequences that would apply on the sale of the properties at their carrying amount would differ from the amounts accrued for deferred tax under the current policy, in respect of those properties which are not held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time. The Group has not yet completed its assessment of the impact of this new accounting policy on the accrual for deferred tax.

# Principal Subsidiaries

*At 31 December 2010*

| Name | Place of incorporation/ establishment | Place of operation | Issued and fully paid up share capital (all being ordinary shares except where otherwise stated) | Principal activity | Proportion of ownership interest held by | |
|---|---|---|---|---|---|---|
| | | | | | The Company | A subsidiary |
| Allied Sheen Limited | Hong Kong | Hong Kong | 2 shares of HK$1 each | Dormant | – | 100% |
| Bachmann Asia Limited | Hong Kong | Hong Kong | 2 shares of HK$1 each | Agent for sale of toys | – | 100% |
| Bachmann (China) Limited | Hong Kong | Mainland China | 10,000 shares of HK$1 each | Trading of toys | – | 100% |
| Bachmann Europe Plc | UK | UK | 2,050,000 shares of £1 each | Trading of toys | 100% | – |
| Bachmann Industries, Inc. | USA | USA | 4,010,100 shares of US$1 each | Trading of toys | – | 100% |
| Bridge Duke Limited | Hong Kong | Mainland China | 2 shares of HK$1 each | Dormant | – | 100% |
| Bridge Shine Limited | Hong Kong | Mainland China | 2 shares of HK$1 each | Dormant | – | 100% |
| Deltahill Company Limited | Hong Kong | Hong Kong | 100 shares of HK$1 each 1,001,000 non-voting deferred shares of HK$1 each | Provision of management services | – | 100% |
| Dongguan Feng Da Electronics Company Limited *(Note 1)* | Mainland China | Mainland China | Registered capital HK$8,000,000 | Manufacture of toys | – | 100% |
| Dongguan Kader Electronics Company Limited *(Note 2)* | Mainland China | Mainland China | Registered capital HK$10,000,000 | Manufacture of toys | – | 100% |
| Express Tech Limited | Hong Kong | Mainland China | 2 shares of HK$1 each | Dormant | – | 100% |
| Extend Charm Limited | Hong Kong | Mainland China | 2 shares of HK$1 each | Dormant | – | 100% |

# Principal Subsidiaries *(Continued)*

*At 31 December 2010*

| Name | Place of incorporation/ establishment | Place of operation | Issued and fully paid up share capital (all being ordinary shares except where otherwise stated) | Principal activity | Proportion of ownership interest held by The Company | Proportion of ownership interest held by A subsidiary |
|---|---|---|---|---|---|---|
| GHI, Inc. | USA | USA | 1,000 shares of US$1 each | Investment holding | – | 100% |
| Global Treasure Investment Limited | British Virgin Islands | British Virgin Islands | 1 share of US$1 | Investment holding | – | 100% |
| Globe Fame Group Limited | British Virgin Islands | British Virgin Islands | 1 share of US$1 | Investment holding | 100% | – |
| Great Hope Investments Limited | British Virgin Islands | British Virgin Islands | 1 share of US$1 | Investment holding | – | 100% |
| Joy Gain Limited | Hong Kong | Mainland China | 2 shares of HK$1 each | Dormant | – | 100% |
| K D Enterprises Limited | British Virgin Islands | British Virgin Islands | 1 share of US$1 | Investment holding | – | 100% |
| Kader Enterprises Limited | Hong Kong | Mainland China | 1,500,000 shares of HK$10 each | Dormant | – | 100% |
| Kader Industrial Company Limited | Hong Kong | Hong Kong | 412,532,000 shares of HK$0.5 each | Manufacture and trading of toys, and property investment | 100% | – |
| Kondux International Limited | Hong Kong | Hong Kong | 3,000 shares of HK$100 each | Sales of raw materials | – | 100% |
| NC Train Acquisition LLC *(Note 4)* | USA | USA | 100 shares of US$0.01 each | Patents licensing | – | 100% |
| Nice Cheer Limited | Hong Kong | Mainland China | 2 shares of HK$1 each | Dormant | – | 100% |
| Noble Fine Limited | Hong Kong | Mainland China | 2 shares of HK$1 each | Dormant | – | 100% |
| Precise Moulds (Dongguan) Company Limited (Hop Pong) *(Note 5)* | Mainland China | Mainland China | Registered capital RMB4,800,000, issued and fully paid RMB735,700 | Manufacture and sale of moulds | – | 52% |

# Principal Subsidiaries *(Continued)*

*At 31 December 2010*

| Name | Place of incorporation/ establishment | Place of operation | Issued and fully paid up share capital (all being ordinary shares except where otherwise stated) | Principal activity | Proportion of ownership interest held by | |
|---|---|---|---|---|---|---|
| | | | | | The Company | A subsidiary |
| Precise Moulds (Shenzhen) Company Limited *(Note 3)* | Mainland China | Mainland China | Registered capital RMB6,000,000 | Manufacture and sale of moulds | – | 52% |
| Quedron Limited | British Virgin Islands | British Virgin Islands | 25,000 shares of US$1 each | Investment holding | – | 100% |
| Sanda Kan (Cayman III) Holdings Company Limited | Cayman Islands | Cayman Islands | 1,000,000 shares of US$0.01 each | Investment holding | 100% | – |
| Sanda Kan (Mauritius) Holdings Company Limited | The Republic of Mauritius | The Republic of Mauritius | 100 shares of US$0.01 each | Investment holding | – | 100% |
| Sanda Kan Industrial Company Limited | Cayman Islands | Cayman Islands | 1 share of US$0.01 | Trading of toys | – | 100% |
| Sanda Kan Industrial Hong Kong Limited | Hong Kong | Hong Kong | 100 shares of HK$1 each | Trading of toys | – | 100% |
| Sanda Kan Industrial (1981) Limited | Hong Kong | Hong Kong | 344 shares of HK$10 each | Dormant | – | 100% |
| Sanda Kan Industrial (2000) Limited | Hong Kong | Hong Kong | 798,873 shares of HK$0.01 each | Investment holding | – | 100% |
| Sanda Kan Industrial (Dongguan) Company Limited *(Note 1)* | Mainland China | Mainland China | Registered and fully paid-up capital of US$3,020,000 | Manufacture of toys | – | 100% |
| Sanda Kan Technology (Shenzhen) Company Limited *(Note 1)* | Mainland China | Mainland China | Registered and fully paid-up capital of US$5,000,000 | Manufacture of toys | – | 100% |
| SDK Services Limited | Hong Kong | Hong Kong | 100 shares of HK$1 each | Administrative services | – | 100% |

# Principal Subsidiaries *(Continued)*

*At 31 December 2010*

| Name | Place of incorporation/ establishment | Place of operation | Issued and fully paid up share capital (all being ordinary shares except where otherwise stated) | Principal activity | Proportion of ownership interest held by The Company | Proportion of ownership interest held by A subsidiary |
|---|---|---|---|---|---|---|
| Starrex Investment Limited | Hong Kong | Hong Kong | 2 shares of HK$1 each | Property investment | – | 100% |
| Sun Marsh Limited | Hong Kong | Mainland China | 2 shares of HK$1 each | Dormant | – | 100% |
| Technic International Development Limited | Hong Kong | Hong Kong | 1 share of HK$1 | Investment holding | – | 100% |
| Tentdraft Holdings Limited | British Virgin Islands | British Virgin Islands | 25,000 shares of US$1 each | Investment holding | – | 100% |
| Tinco Toys Company Limited | Hong Kong | Hong Kong | 2 shares of HK$1 each | Investment holding, manufacture and trading of soft toys | – | 100% |
| Walitoys & Garment Limited *(Note 6)* | Hong Kong | Hong Kong | 2,000 shares of HK$1 each | Trading of soft toys | – | 51% |

*Notes:*

1. These companies are wholly owned foreign enterprises registered in The People's Republic of China ("the PRC").

2. Dongguan Kader Electronics Company Limited is a co-operative joint venture registered in the PRC.

3. Precise Moulds (Shenzhen) Company Limited is a co-operative joint venture registered in the PRC.

4. The Company is the sole member of this limited liability corporation established in the United States of America.

5. Precise Moulds (Dongguan) Company Limited (Hop Pong) is a co-operative joint-venture registered in the PRC.

6. On 3 March 2011, a petition for the winding up of Walitoys & Garment Limited ("Walitoys") was filed with the Court of First Instance of the Hong Kong Special Administrative Region by a creditor in respect of Walitoys' failure to make payment when due. Walitoys is now in the process of liquidation.

# Group Properties

Details of the major properties of the Group are as follows:

| Location | Existing use | Term of lease |
|---|---|---|
| Major properties held for investment | | |
| The whole building<br>22 Kai Cheung Road<br>Kowloon Bay, Kowloon<br>Hong Kong | Industrial | Medium-term |
| Flat B on first floor<br>No. 53 Caperidge Drive<br>Crestmont Villa, Peninsula Village<br>Discovery Bay City, Lantau Island<br>Hong Kong | Residential | Medium-term |

# Five Year Summary

CONSOLIDATED INCOME STATEMENT

| | Note | **2010 HK$'000** | 2009 HK$'000 (restated) | 2008 HK$'000 (restated) | 2007 HK$'000 (restated) | 2006 HK$'000 (restated) |
|---|---|---|---|---|---|---|
| Turnover | | **1,600,246** | 1,537,676 | 911,191 | 721,709 | 643,216 |
| Profit from operations | | **76,320** | 89,547 | 93,804 | 90,896 | 69,044 |
| Finance costs | | **(7,880)** | (8,038) | (9,721) | (11,599) | (12,582) |
| Share of profits less losses of associates | | **(5,598)** | (16,988) | (1,334) | (12,596) | (34,908) |
| Share of profits of a jointly controlled entity | | **–** | – | – | – | 597 |
| Valuation gains/(losses) on investment properties | | **103,208** | 93,513 | (47,429) | 104,288 | 36,341 |
| Net gain on disposal of investment properties | | **31,220** | 365 | – | – | – |
| Excess of interest in fair values of the acquiree's identifiable assets over cost of business combination | | **–** | 64,401 | – | – | – |
| Impairment of goodwill | | **–** | – | (31,200) | – | – |
| Impairment of unlisted equity security and related loan and interest receivables | | **–** | – | (27,661) | – | – |
| Profit/(loss) before taxation | | **197,270** | 222,800 | (23,541) | 170,989 | 58,492 |
| Income tax | | **(37,951)** | (49,332) | (2,488) | (43,945) | (28,520) |
| Profit/(loss) for the year | | **159,319** | 173,468 | (26,029) | 127,044 | 29,972 |
| **Attributable to:** | | | | | | |
| Equity shareholders of the Company | *1* | **164,528** | 175,391 | (27,652) | 126,599 | 29,972 |
| Non-controlling interest | *1* | **(5,209)** | (1,923) | 1,623 | 445 | – |
| Profit/(loss) for the year | | **159,319** | 173,468 | (26,029) | 127,044 | 29,972 |
| **EARNINGS/(LOSS) PER SHARE** | | | | | | |
| Basic | | **24.73¢** | 26.36¢ | (4.16)¢ | 19.03¢ | 4.50¢ |
| Diluted | | **24.73¢** | 26.36¢ | (4.16)¢ | 19.03¢ | 4.50¢ |
| **DIVIDEND PER SHARE** | | **1.50¢** | 1.50¢ | Nil | 1.50¢ | 1.50¢ |

# Five Year Summary *(Continued)*

## CONSOLIDATED BALANCE SHEET

| | Note | **2010** **HK$'000** | 2009 *HK$'000* (restated) | 2008 *HK$'000* (restated) | 2007 *HK$'000* (restated) | 2006 *HK$'000* (restated) |
|---|---|---|---|---|---|---|
| **Assets and liabilities** | | | | | | |
| Fixed assets | | **943,072** | 877,430 | 739,589 | 785,159 | 666,365 |
| Intangible assets | | **667** | 701 | 536 | 570 | 603 |
| Goodwill | | **–** | 4,583 | 7,643 | 31,200 | – |
| Interests in associates | | **25,376** | 36,150 | 46,596 | 48,760 | 51,040 |
| Interest in a jointly controlled entity | | **–** | – | – | – | 3,554 |
| Other non-current financial assets | | **15,488** | 11,388 | 5,506 | 26,249 | 8,349 |
| Deferred tax assets | | **20,071** | 16,549 | 29,704 | 24,551 | 22,768 |
| Net current assets/(liabilities) | *2* | **165,670** | 40,436 | (42,751) | (51,012) | (28,010) |
| Total assets less current liabilities | | **1,170,344** | 987,237 | 786,823 | 865,477 | 724,669 |
| Non-current liabilities | *2* | **(140,099)** | (99,889) | (80,466) | (89,708) | (71,301) |
| **NET ASSETS** | | **1,030,245** | 887,348 | 706,357 | 775,769 | 653,368 |
| **Capital and reserves** | | | | | | |
| Share capital | | **66,541** | 66,541 | 66,541 | 66,541 | 66,541 |
| Reserves | *1* | **964,534** | 816,977 | 634,103 | 706,172 | 586,827 |
| Total equity attributable to equity shareholders of the Company | | **1,031,075** | 883,518 | 700,644 | 772,713 | 653,368 |
| Non-controlling interests | *1* | **(830)** | 3,830 | 5,713 | 3,056 | – |
| **TOTAL EQUITY** | | **1,030,245** | 887,348 | 706,357 | 775,769 | 653,368 |
| **NET ASSET VALUE PER SHARE** | | **HK$1.55** | HK$1.33 | HK$1.06 | HK$1.16 | HK$0.98 |

**Notes to the five year summary**

1. In order to comply with the amendments to HKFRS 3, *Business Combinations*, HKAS 27, *Consolidated and separate financial statements* and HKAS 28, *Investments in associates*, in 2010 the Group changed its accounting policies for recognising changes in the Group's interests in subsidiaries and associates and the allocation of losses to non-controlling interests. These new policies have been applied prospectively as from the year ended 31 December 2010 and net assets and profits/(losses) for earlier periods have not been restated.

2. In order to comply with the requirements of HK(Int)5, in 2010 the Group changed its accounting policy for the classification of term loans that contain a repayment on demand clause. This new policy has been applied retrospectively by re-presenting the balances at 31 December 2006, 2007, 2008 and 2009. The reclassification has no effect on reported profit or loss, total income and expenses or net assets for any period presented.