KADER

Manufacturing Trust

KADER HOLDINGS COMPANY LIMITED

ANNUAL REPORT 2011

(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

Lao Wai-keung

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

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

NOMINATION COMMITTEE

Kenneth Ting Woo-shou *(Chairman)*
(Executive Director)
Floyd Chan Tsoi-yin
(Independent Non-executive Director)
Desmond Chum Kwan-yue
(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 present 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 2011.

On behalf of the Board of Directors (the "Board") of the Company, I report that the Group's turnover for the financial year ended 31 December 2011 amounted to approximately HK$1,299.49 million, representing a decrease of approximately 18.79% over that reported last year and that loss from operations for 2011 amounted to approximately HK$113.83 million as compared to profit of approximately HK$76.32 million for last year. The Group's profit attributable to shareholders for the financial year ended 31 December 2011 was approximately HK$18.13 million, which included valuation gains on investment property amounting to approximately HK$188.74 million, as compared to last year's profit attributable to shareholders of approximately HK$164.53 million which included valuation gains on investment properties of approximately HK$103.21 million.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: HK1.5 cents per ordinary share).

The overall business environment remains challenging given the uncertainties arising from Europe's sovereign debt crisis. Toy manufacturers are confronted with continued escalation of raw material costs, the appreciation of the Renminbi Yuan ("RMB"), the increase in statutory minimum wages, labour shortages and high inflation in the People's Republic of China. These are all factors which will affect the results of the Group and 2012 will be a difficult year.

In view of the above, the Group will continue to be on the alert and adopt our existing business strategies to cope with the changing business environment. The Group will dedicate effort to capture opportunities to promote the steady development of its core businesses, including building relationships with new customers to enlarge the customer base in the toys and model train business, developing own brand products and exploring sales opportunities in the global market. The Group will continue to improve its production efficiency, monitor its pricing of products, reduce unnecessary operational costs and implement various measures to minimise expenses to maintain gross profit margins. These measures will enhance the Group's sources of revenue and profitability, and ultimately create greater returns for our shareholders in the future.

On behalf of the Board, 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 continued viability of the Group. In addition, I 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, 29 March 2012

Management Discussion and Analysis

RESULTS

The Board announce that the Group's turnover for the financial year ended 31 December 2011 amounted to approximately HK$1,299.49 million, representing a decrease of approximately 18.79% over that reported last year and that loss from operations for 2011 amounted to approximately HK$113.83 million as compared to profit of approximately HK$76.32 million for last year. The Group's profit attributable to shareholders for the financial year ended 31 December 2011 was approximately HK$18.13 million, which included valuation gains on investment property amounting to approximately HK$188.74 million, as compared to last year's profit attributable to shareholders of approximately HK$164.53 million which included valuation gains on investment properties of approximately HK$103.21 million.

BUSINESS REVIEW

In 2011, many uncertainties in the macro business environment posed great challenges to the business environment of the toy industry. During the year under review, the toy industry faced tremendous operating pressures due to Europe's sovereign debt crisis, high inflation, high labour costs, spiralling raw material costs, increasing energy costs and the appreciation of RMB. 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 expand new product lines and explore sales opportunities in the global market.

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 2011, the turnover for the Group's OEM/ODM toys business was approximately HK$406.93 million, representing a decrease of approximately 39.31% as compared to last year.

The sales and profitability of the toys business slowed down in the second half year of 2011 owing to the impact of the debt crisis in Europe. During the year under review, the uncertainty in the global economy has continued to depress consumer spending sentiment. The sluggish consumer demand has inevitably impacted the business performance of the Group's toys business. In addition, high inflation in Mainland China contributed to an increase in raw material costs and other necessary costs such as energy and labour. To manage such changes, apart from an increase in product prices, the Group implemented 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.

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

Model Trains

The turnover for model trains for the year ended 31 December 2011 was approximately HK$860.88 million, representing a decrease of approximately 3.95% as compared to last year.

During the year under review, the Group has continued to improve the quality of and develop innovative products, enrich the product line and promote the product image and brand name. This strategy has succeeded in receiving encouraging responses from customers and gaining their loyalty, which in turn has helped maintain our leading position in the industry. In 2011, Williams by Bachmann line continued to grow with the addition to the line of the new Baldwin 4-6-0 Steam Locomotive, E-Z Street™ products, and accessories and operating rolling stock. Also, circus-themed HO and LS train sets were licensed from the Ringling Bros. and Barnum & Bailey™ Circus in 2011. The train sets will hit the market in 2012, with licensing for O scale products also slated for 2012. In addition, our Liliput brand successfully launched the first items from its N scale range.

The Group is proud to announce that during the year, our subsidiary, Bachmann Europe Plc., was awarded "Manufacturer of the Year 2011" in the overall category and also for the OO scale and N scale model trains category by Model Rail Magazine, RM Web and MREMAG. Bachmann Europe Plc. has received the "Manufacturer of the Year" award in the overall category for four continuous years. In addition, our OO scale model trains, "Derby Lightweight diesel multiple unit" and "FNA nuclear flask wagon" were awarded "Model of the Year 2011" under different categories. Moreover, our Graham Farish N scale model trains "Class A1 steam locomotive", "Class 4CEP electric multiple unit" and "MK 1 coaches" were awarded "Model of the Year 2011". In addition, our Liliput brand HO scale "E10" was awarded first place in "Model of the Year" in electric locos category while HOe scale diesel loco "D15" was awarded first place in "Model of the Year" in narrow gauge category by German magazine "eisenbahnmagazin". Last but not the least, our Liliput brand N scale "FLIRT" was awarded first place in "Swiss Model of the Year 2011" by "spur-N-schweiz".

Property Investment

For the financial year ended 31 December 2011, the Group's rental income amounted to approximately HK$31.05 million, representing a decrease of approximately 4.54% over the previous year. In addition, the Group recorded a valuation gain of approximately HK$188.74 million on its investment property for the year, as compared to last year's valuation gain of approximately HK$103.21 million.

During the year under review, the Group managed to maintain the occupancy rate of its investment property above 95%.

Management Discussion and Analysis *(Continued)*

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2011, the Group's net asset value per share was approximately HK$1.53 (2010: approximately HK$1.55). The Group had net current liabilities of approximately HK$14.37 million (2010: net current assets of approximately HK$165.67 million). Total bank borrowings were approximately HK$492.59 million (2010: approximately HK$340.51 million) while the Group secured total banking facilities of approximately HK$660.57 million (2010: approximately HK$601.83 million). Included in total bank borrowings were revolving loans of approximately HK$239.75 million (2010: approximately HK$80.00 million) which are intended to be rolled over upon maturity. The Group's financial gearing, based on the total interest bearing borrowings compared to the total equity, was approximately 48.50% (2010: approximately 33.08%). The majority of borrowings are on floating interest rate terms. The Group will negotiate with banks to increase the banking facilities for working capital needs, if necessary.

Capital Structure

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 2011, an investment property, certain leasehold land and buildings, inventories and other assets of the Group with a net book value of approximately HK$1,257.96 million (2010: approximately HK$1,025.11 million) were mortgaged to various banks to secure the banking facilities granted to the Group.

Material Acquisitions and Disposals

There were no material acquisitions and disposals during the year ended 31 December 2011.

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 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

(a) 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 attorney 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.

Having considered the Litigation with the Company's various legal counsels, the management and the Board believe that the Company's opposition to the plaintiffs' complaint, as well as the Company's defenses and appeal rights, continue to be meritorious. As such, the Company continues to vigorously defend the Litigation including an appeal from the Order, filed on 24 June 2011. Hearing of the appeal was conducted on 21 March 2012 and a decision is pending. 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.

(b) During the year, the Inland Revenue Department of Hong Kong ("IRD") conducted a review of the operations of certain subsidiaries of the Company for prior years since 2004, focusing on certain sales and purchases between these subsidiaries. The Group is in the process of collating and providing additional information to the IRD. The Group considers its tax affairs to be based on the extent to which reliable estimates can be made, but due to various uncertainties, the Group is not in a position to estimate the possibility of paying additional Hong Kong Profits Tax for prior years or the quantum thereof, if any. The expected outcome of the disputes is subject to uncertainties and resulting liabilities may exceed provisions recorded.

As at 31 December 2011, except for the above, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Group employed 11,502 (2010: 17,973) 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 plants while the number of management and administrative staff remains stable. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In the area of staff training, the Group encourages staff to participate in courses on technical skills improvement and personal development.

Management Discussion and Analysis *(Continued)*

PROSPECTS

The sovereign debt issues stemming from Europe has adversely hit the world's economy and dampened the toys market, with numerous players being squeezed out of the market. For the coming year, the Group is conservative but optimistic towards its performance. The Group will focus on the continuous development of our OEM/ODM toys and model trains business. In addition, the Group will continue to explore sales opportunities in the global market, develop own brand products, streamline operational procedures without sacrificing controls, improve operational and production efficiency and develop automated processes.

Given our dominant market position, effective strategies and high caliber management team, the Group is confident of achieving performance improvements and a profit margin. 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, 29 March 2012

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance to enhance corporate performance and accountability. 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

The Board sets its corporate governance procedure and duties pursuant to the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and it accordingly reviews and monitors the training and continuous development in profession of directors and senior management and its policies and practices in compliance with relevant laws and regulatory requirements. Throughout the year ended 31 December 2011, the Group has complied with all code provisions set out in the CG Code.

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 20 to 24 of this annual report.

Mr. Kenneth Ting Woo-shou served as Chairman of the Board throughout the year 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.

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 approving material transactions; steering the Group on strategic direction; setting up a Board committee for issues the Board deems 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 of the Group and obtain independent professional advice whenever deemed necessary. The Company Secretary is responsible for communications with Board members.

Corporate Governance Report *(Continued)*

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**	**Annual General Meeting**
Number of meetings held	**4**	**2**	**1**	**1**
Executive Directors				
Mr. Kenneth Ting Woo-shou *(Chairman & Remuneration Committee Chairman)*	4/4	–	1/1	1/1
Mr. Ivan Ting Tien-li *(Managing Director)*	4/4	–	–	1/1
Mrs. Nancy Ting Wang Wan-sun	2/4	–	–	–
Non-executive Directors				
Dr. Moses Cheng Mo-chi	4/4	2/2	–	1/1
Mr. Bernie Ting Wai-cheung	4/4	–	–	1/1
Independent Non-executive Directors				
Mr. Liu Chee-ming *(Audit Committee Chairman)*	2/4	2/2	–	–
Mr. Floyd Chan Tsoi-yin	4/4	2/2	1/1	–
Mr. Andrew Yao Cho-fai	4/4	1/2	1/1	–
Mr. Desmond Chum Kwan-yue	3/4	–	–	1/1
Mr. Ronald Montalto	4/4	–	–	–

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 member of the Remuneration Committee, entirely of either a Non-executive Director or INEDs.

In addition, the Company established the Nomination Committee for reviewing the Board composition and identifying and nominating candidates for appointment to the Board on 29 March 2012. Members of the Nomination Committee comprise, except for the Chairman of the Committee, entirely of INEDs.

Remuneration Committee

The Remuneration Committee was established in 2005 with written Terms of Reference posted on the Company's website. To comply with the Listing Rules, Mr. Kenneth Ting Woo-shou has ceased to be the Chairman of the Remuneration Committee but remains as a member of the Committee on 29 March 2012 and Mr. Andrew Yao Cho-fai has been appointed as the Chairman of the Committee accordingly. Currently, the Remuneration Committee is chaired by Mr. Andrew Yao Cho-fai. Other members of the Committee are Mr. Kenneth Ting Woo-shou and Mr. Floyd Chan Tsoi-yin. The Remuneration Committee met once during the year to review and approve directors' remuneration.

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.

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 director can approve his or her own remuneration.

The emoluments of each of the directors of the Company for 2011 are set out in note 8 to the financial statements.

Audit Committee

The Audit Committee was established in 1999 with written Terms of Reference posted on the Company's website. The Audit Committee comprises three INEDs and one Non-executive Director. All committee members have appropriate industrial 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.

Corporate Governance Report *(Continued)*

In discharging their responsibilities in the review of the Group's financial results, and the 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. Any 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 to ensure that management has performed its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff, training programmes and budget of the Company's accounting and financial reporting function;

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

4. Reviewing arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and ensuring that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

5. Reviewing the external auditor's management letter, any 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 provide 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.

Nomination Committee

The Company established the Nomination Committee on 29 March 2012 with written Terms of Reference posted on the Company's website. Currently, the Nomination Committee is chaired by Mr. Kenneth Ting Woo-shou. Other members of the Committee are Mr. Floyd Chan Tsoi-yin and Mr. Desmond Chum Kwan-yue. The Nomination Committee shall meet at least once a year.

The duties of the Committee are to (i) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement corporate strategy; (ii) identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorship; (iii) assess the independence of independent non-executive directors; and (iv) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the chief executive.

AUDITORS' REMUNERATION

Each year, the auditors are appointed at the Annual General Meeting ("AGM") and at the AGM held on 2 June 2011, 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 2011 are as follows:

Services rendered	**Fees paid/payable**
	HK$'000
Audit services	2,762
Non-audit services	121
	2,883

In addition, certain subsidiaries were audited by other auditors for the year ended 31 December 2011 and the related fees amounted to HK$1,261,000.

Corporate Governance Report *(Continued)*

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.

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The directors acknowledge their responsibilities 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 28 and 29 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibilities 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 responsibilities 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.

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 Directors 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. 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 by sending to the Company Secretary at the principal place of business a written request for such general meetings together with the proposed agenda items. 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 update information on the Group's operations, announcements, circulars, notices, as well as interim and annual reports.

As at 31 December 2011, the Company had 665,411,594 shares in issue, with a par value of HK$0.10 each. Interests of the directors and chief executives in the shares of the Company are disclosed in the Report of the Directors set out on pages 24 to 26 of the annual report.

Report of the Directors

The Directors of the Company submit their annual report together with the audited financial statements for the year ended 31 December 2011.

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 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 2011 are set out on pages 113 to 115 of the annual report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2011 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 30 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 29(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 approximately HK$18,129,000 (2010: approximately HK$164,528,000) 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 do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: HK1.5 cents per ordinary share).

DONATIONS

Donations made by the Group during the year for charitable and other purposes amounted to approximately HK$283,000 (2010: HK$602,000).

FIXED ASSETS

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 2011 are set out in note 24 to the financial statements.

RETIREMENT SCHEMES

Details of the retirement schemes of the Group are set out in note 33 to the financial statements.

PROPERTY

Particulars of the property 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:

	2011	2010
	%	%
Purchases		
– the largest supplier	**8**	7
– five largest suppliers combined	**24**	25
Sales		
– the largest customer	**27**	37
– five largest customers combined	**46**	53

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.

Report of the Directors *(Continued)*

DIRECTORS

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

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

Non-executive Directors:
Moses Cheng Mo-chi
Bernie Ting Wai-cheung

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 INEDs an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers its INEDs to be independent. Members of the Board clearly understand their responsibility and obligations.

Mr. Ivan Ting Tien-li, Dr. Moses Cheng Mo-chi, Mr. Floyd Chan Tsoi-yin and Mr. Andrew Yao Cho-fai shall retire by rotation in accordance with the Company's Bye-laws 109(A) and 189(ix), and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Chairman

Mr. Kenneth Ting Woo-shou, SBS, JP, aged 69, was appointed as the Chairman of the Company and resigned as the Managing Director of the Company in July 2010. He has 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 as 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 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 37, was appointed as the 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 an 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, 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 64, was appointed as a 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 an 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, 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 62, was appointed as an Independent Non-executive Director of the Company in March 1999, and was redesignated as a 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 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 Galaxy Entertainment Group Limited, China COSCO Holdings Company 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 46, was appointed as a 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 the 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 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.

Independent Non-executive Directors

Mr. Liu Chee-ming, aged 61, 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 was appointed as an Independent Non-executive Director of Haitong Securities Company Limited in November 2011, a company listed in Shanghai. He 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 68, 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 46, 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 the Chairman & Chief Executive Officer of Van Shung Chong Holdings Ltd. He retired as a Non-executive Director of North Asia Strategic Holdings Limited which is a company listed in GEM Board of The Stock Exchange of Hong Kong Limited with effect from 15 September 2011.

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, Former 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 the HKSAR in 2008.

Mr. Desmond Chum Kwan-yue, aged 39, 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.

Report of the Directors *(Continued)*

Mr. Ronald Montalto, aged 63, 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). After 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 and Dansk Investment Group, a California company with manufacturing operations in Shanghai. 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 2011, the interests and short positions of the directors and chief executives 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 were as follows:

(1) Interests in the Company

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

Notes:

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

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

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

(2) Interests in Associated Corporations

Name of associated corporation	Beneficial interests	Class of shares	Number of shares held			% of interests in associated corporation
			Personal interests	Family interests	Corporate interests	
Allman Holdings Limited	Kenneth Ting Woo-shou	Ordinary shares of US$1.00 each	–	–	920 (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 2011, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Save as disclosed above, as at 31 December 2011, none of the directors and chief executives of the Company nor their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS

As at 31 December 2011, save for certain directors' interests in the share capital of the Company as disclosed above, no other person was recorded in the register kept by the Company under section 336 of the SFO, as having an interest of 5% or more of the issued share capital of the Company.

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.

EMOLUMENT POLICY

The directors' fees are determined by shareholders at the annual general meeting. The other emoluments of the directors and senior management are determined 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. The Group may also provide discretionary bonuses to its employees as an incentive for their contribution to the Group subject to the Group's profitability and the individual's performance.

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

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, Mr. Kenneth Ting Woo-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 3,500 employees.

As the Board 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, 29 March 2012

Independent Auditor's Report

KPMG

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") and its subsidiaries (together "the Group") set out on pages 30 to 115, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 the 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.

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 2011 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 Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2012

Consolidated Income Statement

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Turnover	3, 12	**1,299,487**	1,600,246
Other revenue	4(a)	**16,968**	18,315
Other net income	4(b)	**17,014**	12,991
Changes in inventories of finished goods and work in progress		**11,661**	73,541
Cost of purchase of finished goods		**(22,420)**	(19,273)
Raw materials and consumables used		**(433,904)**	(589,362)
Staff costs	5(b)	**(704,898)**	(640,645)
Depreciation	13	**(44,411)**	(40,017)
Other operating expenses		**(253,326)**	(339,476)
(Loss)/profit from operations		**(113,829)**	76,320
Finance costs	5(a)	**(9,799)**	(7,880)
Share of profits less losses of associates	18	**(20,882)**	(5,598)
Valuation gains on investment properties	13	**188,742**	103,208
Net (loss)/gain on disposal of investment properties	6	**(80)**	31,220
Profit before taxation	5	**44,152**	197,270
Income tax	7	**(27,992)**	(37,951)
Profit for the year		**16,160**	159,319
Attributable to:			
Equity shareholders of the Company	10	**18,129**	164,528
Non-controlling interests		**(1,969)**	(5,209)
Profit for the year		**16,160**	159,319
Earnings per share	11		
Basic		**2.72¢**	24.73¢
Diluted		**2.72¢**	24.73¢

The notes on pages 38 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 29(c).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	2011 $'000	2010 $'000
Profit for the year	**16,160**	159,319
Other comprehensive income for the year (after tax and reclassification adjustments)		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**(18,624)**	(7,140)
Share of exchange reserve of associates	**–**	(1,392)
Available-for-sale equity securities: net movement in the fair value reserve	**(2,174)**	1,685
Total comprehensive income for the year	**(4,638)**	152,472
Attributable to:		
Equity shareholders of the Company	**(2,820)**	157,538
Non-controlling interests	**(1,818)**	(5,066)
Total comprehensive income for the year	**(4,638)**	152,472

The notes on pages 38 to 115 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Fixed assets			
– Investment properties	13	**890,033**	707,941
– Other property, plant and equipment	13	**243,472**	234,861
– Construction in progress	14	**–**	270
		1,133,505	943,072
Intangible assets	15	**634**	667
Goodwill	16	**–**	–
Interests in associates	18	**20,916**	25,376
Other non-current financial assets	19	**15,653**	15,488
Deferred tax assets	26(b)	**18,240**	20,071
		1,188,948	1,004,674
Current assets			
Inventories	20	**438,355**	438,136
Current tax recoverable	26(a)	**10,043**	331
Trade and other receivables	21	**178,240**	201,162
Cash and cash equivalents	22(a)	**110,790**	163,003
		737,428	802,632
Current liabilities			
Trade and other payables	23	**(284,593)**	(316,286)
Bank loans and overdrafts	24	**(463,171)**	(310,091)
Obligations under finance leases	25	**–**	(292)
Current tax payable	26(a)	**(4,033)**	(10,293)
		(751,797)	(636,962)
Net current (liabilities)/assets		**(14,369)**	165,670

Consolidated Balance Sheet *(Continued)*

At 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Total assets less current liabilities		**1,174,579**	1,170,344
Non-current liabilities			
Bank loans	24	**(29,417)**	(30,417)
Rental deposits	27	**(5,351)**	(3,746)
Deferred tax liabilities	26(b)	**(121,993)**	(101,205)
Accrued employee benefits	28	**(2,110)**	(4,731)
		(158,871)	(140,099)
NET ASSETS		**1,015,708**	1,030,245
CAPITAL AND RESERVES			
Share capital	29(d)	**66,541**	66,541
Reserves		**951,733**	964,534
Total equity attributable to equity shareholders of the Company		**1,018,274**	1,031,075
Non-controlling interests		**(2,566)**	(830)
TOTAL EQUITY		**1,015,708**	1,030,245

Approved and authorised for issue by the Board of Directors on 29 March 2012.

Kenneth Ting Woo-shou
Director

Ivan Ting Tien-li
Director

The notes on pages 38 to 115 form part of these financial statements.

Balance Sheet

At 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Interests in subsidiaries	17	**1,077,056**	1,001,035
Current assets			
Trade and other receivables	21	**299**	297
Cash and cash equivalents	22(a)	**198**	135
		497	432
Current liabilities			
Trade and other payables	23	**(74,915)**	(94,026)
Net current liabilities		**(74,418)**	(93,594)
Total assets less current liabilities		**1,002,638**	907,441
Non-current liabilities			
Accrued employee benefits	28	**–**	(69)
NET ASSETS		**1,002,638**	907,372
CAPITAL AND RESERVES	29(a)		
Share capital		**66,541**	66,541
Reserves		**936,097**	840,831
TOTAL EQUITY		**1,002,638**	907,372

Approved and authorised for issue by the Board of Directors on 29 March 2012.

Kenneth Ting Woo-shou
Director

Ivan Ting Tien-li
Director

The notes on pages 38 to 115 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Contributed surplus $'000	Exchange reserve $'000	Land and buildings revaluation reserve $'000	Fair value reserve $'000	Revenue reserve $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
		Attributable to equity shareholders of the Company										
Balance at 1 January 2010		66,541	109,942	10,815	173,397	(15,582)	35,594	3,542	499,269	883,518	3,830	887,348
Changes in equity for 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 non-wholly owned subsidiary		–	–	–	–	–	–	–	–	–	406	406
Dividends approved in respect of the previous year	*29(c)*	–	–	–	–	–	–	–	(9,981)	(9,981)	–	(9,981)
Balance at 31 December 2010 and 1 January 2011		**66,541**	**109,942**	**10,815**	**173,397**	**(24,257)**	**35,594**	**5,227**	**653,816**	**1,031,075**	**(830)**	**1,030,245**
Changes in equity for 2011:												
Profit/(loss) for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**18,129**	**18,129**	**(1,969)**	**16,160**
Other comprehensive income		**–**	**–**	**–**	**–**	**(18,775)**	**–**	**(2,174)**	**–**	**(20,949)**	**151**	**(20,798)**
Total comprehensive income		**–**	**–**	**–**	**–**	**(18,775)**	**–**	**(2,174)**	**18,129**	**(2,820)**	**(1,818)**	**(4,638)**
Investment in a non-wholly owned subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,401**	**2,401**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,319)**	**(2,319)**
Dividends approved in respect of the previous year	*29(c)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,981)**	**(9,981)**	**–**	**(9,981)**
Balance at 31 December 2011		**66,541**	**109,942**	**10,815**	**173,397**	**(43,032)**	**35,594**	**3,053**	**661,964**	**1,018,274**	**(2,566)**	**1,015,708**

The notes on pages 38 to 115 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	**2011** **$'000**	2010 $'000
Operating activities			
Cash (used in)/generated from operations	22(b)	**(99,467)**	25,844
Tax (paid)/refunded:			
Hong Kong Profits Tax paid		**(13,076)**	(13,179)
Hong Kong Profits Tax refunded		**305**	–
Tax paid outside Hong Kong		**(8,581)**	(12,177)
Tax recovered outside Hong Kong		**–**	2,608
Net cash (used in)/generated from operating activities		**(120,819)**	3,096
Investing activities			
Payment for the purchase of fixed assets		**(51,479)**	(46,966)
Payment for construction in progress		**(278)**	(270)
Payment for purchase of available-for-sale securities		**(2,339)**	(2,415)
Net proceeds from disposal of investment property		**6,570**	76,620
Proceeds from disposal of fixed assets		**931**	441
Interest received		**1,131**	333
Increase in investment in associate		**(1,904)**	(1)
(Increase)/decrease in amounts due from associates		**(4,378)**	2,709
Increase in investment in non-wholly owned subsidiaries		**–**	406
Increase in loans to an associate		**(10,140)**	(1,950)
Net cash (used in)/generated from investing activities		**(61,886)**	28,907

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Financial activities			
Proceeds from new bank loans		**245,625**	121,417
Repayment of bank loans		**(102,805)**	(70,720)
Capital element of finance lease rentals paid		**(292)**	(306)
Decrease in amounts due to related companies		**(2,489)**	(2,097)
Dividend paid to equity shareholders of the Company		**(9,981)**	(9,981)
Contribution by non-controlling interests		**2,401**	–
Dividend paid to non-controlling interests		**(2,319)**	–
Interest paid		**(9,799)**	(7,846)
Interest element of finance lease rentals paid		**–**	(34)
Net cash generated from financing activities		**120,341**	30,433
Net (decrease)/increase in cash and cash equivalents		**(62,364)**	62,436
Cash and cash equivalents at 1 January		**146,675**	89,768
Effect of foreign exchange rate changes		**729**	(5,529)
Cash and cash equivalents at 31 December	*22(a)*	**85,040**	146,675

The notes on pages 38 to 115 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 2011 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 35.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

The Group recorded a loss from operations of $113,829,000 during the year ended 31 December 2011 and net current liabilities of $14,369,000 as at that date. These financial statements have been prepared on a going concern basis notwithstanding the Group's loss from operations and the net current liabilities because the directors are of the opinion that based on a cash flow forecast of the Group for the year ending 31 December 2012, the Group would have adequate funds to meet its liabilities as and when they fall due for at least twelve months from the balance sheet date. The financial statements do not include any adjustments relating to the carrying amount and classification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern, see note 35(c).

(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 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.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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)(i)).

(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 1(m)(i)). 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates *(Continued)*

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(f)) or, when appropriate, the cost on initial recognition of an investment in an associate.

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

(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)(ii)).

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.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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)(i)).

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)(iv). When these investments are derecognised or impaired (see note 1(m)(i)), 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Investment properties *(Continued)*

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).

(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)(ii)):

– 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)(ii)) 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.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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 and buildings thereon are depreciated over the unexpired term of lease and their estimated useful lives, being no more than 50 years.

(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.

(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)(ii)). 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)(ii)). 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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)(ii). 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.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Impairment of assets *(Continued)*

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

– For trade and other current receivables and other 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. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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 available-for-sale securities, the cumulative loss that had 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.

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.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

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 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);

– construction in progress;

– intangible assets; and

– goodwill.

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).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– 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.

(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.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(m)(i)), 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Income tax *(Continued)*

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.

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:

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Income tax *(Continued)*

– 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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Revenue recognition *(Continued)*

(iii) Royalty income

Royalty income is recognised in accordance with the substance of the relevant agreements.

(iv) Interest income

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

(v) 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.

(vi) 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.

(vii) Material charges

Material charges are recognised when the right to receive payment is established.

(viii) Sale of properties

Revenue arising from the sale of properties is recognised upon the completion date of the sale and purchase agreement, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer.

(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.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Translation of foreign currencies *(Continued)*

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.

(y) Related parties

(1) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Related parties *(Continued)*

(2) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person 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.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

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

– **HKAS 24 (revised 2009), *Related party disclosures***

HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

– **Improvements to HKFRSs (2010)**

Improvements to HKFRSs (2010), omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in note 30 has been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

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

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:

	2011	2010
	$'000	*$'000*
Sales of goods	**1,267,808**	1,566,835
Gross rentals from investment properties	**31,049**	32,525
Royalty income	**630**	886
	1,299,487	1,600,246

3 TURNOVER *(Continued)*

The Group's customer base is diversified and includes two (2010: one) customers with whom transactions have exceeded 10% of the Group's revenues. In 2011 revenue from sales of toys and model trains to these two customers (2010: one), including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately $499,741,000 (2010: $591,962,000) and arose in the North America and Europe (2010: North America) geographical regions in which the toys and model trains division is active. Details of the concentrations of credit risk arising from these customers, are set out in note 30(a).

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

4 OTHER REVENUE AND NET INCOME

	2011	2010
	$'000	*$'000*
(a) Other revenue		
Bank interest income	**127**	94
Interest income from loan to an associate	**506**	–
Interest income from available-for-sale debt securities	**142**	116
Other interest income	**356**	123
	1,131	333
Air-conditioning, management and maintenance service charges from tenants	**6,703**	6,250
Film making and photo taking income on products	**1,197**	2,260
Testing income	**856**	806
Sales of scrap	**741**	957
Material charges	**1,694**	3,876
Others	**4,646**	3,833
	16,968	18,315
(b) Other net income		
Net gain on disposal of fixed assets	**626**	293
Net exchange gain	**16,388**	12,698
	17,014	12,991

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

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

	2011	2010
	$'000	*$'000*
(a) Finance costs		
Interest on bank overdrafts	**552**	101
Interest on bank borrowings repayable within five years	**9,247**	7,745
Finance charges on obligations under finance leases	**–**	34
	9,799	7,880

	2011	2010
	$'000	*$'000*
(b) Staff costs		
Salaries, wages and other benefits	**644,974**	576,266
Employer's contributions to defined contribution retirement plans, net of forfeited contributions of $82,000 (2010: $111,000)	**59,924**	64,379
	704,898	640,645

5 PROFIT BEFORE TAXATION *(Continued)*

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

	2011	2010
	$'000	*$'000*
(c) Other items		
Amortisation of intangible assets *(note 15)*	**33**	34
Depreciation *(note 13)*		
– owned assets	**44,411**	39,764
– assets held under finance leases	**–**	253
	44,411	40,017
Impairment losses		
– fixed assets *(note 13)*	**893**	326
– trade receivables *(note 21(b))*	**577**	2,060
– other receivables	**–**	7,602
– goodwill *(note 16)*	**–**	4,583
– amounts due from associates	**–**	6,131
	1,470	20,702
Operating lease charges		
– rental of land and buildings	**39,297**	37,548
– other rentals	**104**	39
	39,401	37,587
Reversal of impairment loss on trade receivables *(note 21(b))*	**(3,667)**	(2,520)
Auditors' remuneration	**3,746**	4,036
Cost of inventories *(note 20(b))*	**1,148,518**	1,238,383
Rentals receivable from investment properties less direct outgoings of $3,974,000 (2010: $3,588,000)	**(27,075)**	(28,937)

Cost of inventories includes $574,724,000 (2010: $528,720,000) relating to staff costs, depreciation charges, impairment losses 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.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

6 NET (LOSS)/GAIN ON DISPOSAL OF INVESTMENT PROPERTIES

On 26 January 2011, a subsidiary of the Company entered into a sale and purchase agreement with two independent third parties to dispose of a unit in a residential building at Discovery Bay, Hong Kong, for a total consideration of $6,650,000. The agreement was completed on 29 March 2011 and a loss of $80,000, net of legal fees and other direct expenses of $80,000, was recognised in the consolidated income statement for the year ended 31 December 2011.

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 $77,614,000. These agreements were completed on 13 and 14 May 2010 and a gain of $31,220,000, net of legal fees and other direct expenses of $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:

	2011	2010
	$'000	*$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**193**	17,068
Over-provision in respect of prior years	**(3,534)**	(1,430)
	(3,341)	15,638
Current tax – Outside Hong Kong		
Provision for the year	**7,960**	12,342
Under-provision in respect of prior years	**747**	171
	8,707	12,513
Deferred tax *(note 26(b))*		
Origination and reversal of temporary differences	**22,616**	9,789
Effect on deferred tax balances at 1 January resulting from a decrease in tax rate	**10**	11
	22,626	9,800
	27,992	37,951

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

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

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 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% (2010: 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 or 2008, whichever the earlier, and thereafter subject to CIT at 50% of the prevailing tax rate for the following three years.

During the year ended 31 December 2011, the British Government announced a decrease in the corporation tax rate applicable to the Group's operations in the United Kingdom (the "UK") from 27% to 26% (2010: 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 UK as at 31 December 2011 was calculated using a tax rate of 26%.

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

	2011	2010
	$'000	*$'000*
Profit before taxation	**44,152**	197,270
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**4,221**	24,794
Tax effect of non-deductible expenses	**16,620**	25,811
Tax effect of non-taxable income	**(8,700)**	(17,616)
Tax effect of previously unrecognised tax losses utilised	**(1,580)**	(14,055)
Tax effect of unused tax losses not recognised	**20,208**	20,265
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**10**	11
Over-provision in prior years, net	**(2,787)**	(1,259)
Actual tax expense	**27,992**	37,951

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIRECTORS' REMUNERATION

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

	2011				
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors:					
Kenneth Ting Woo-shou	80	600	50	60	790
Ivan Ting Tien-li	60	660	55	66	841
Nancy Ting Wang Wan-sun	60	–	–	–	60
Non-executive directors:					
Moses Cheng Mo-chi	60	–	–	–	60
Bernie Ting Wai-cheung	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	80	–	–	–	80
Ronald Montalto	80	–	–	–	80
	780	1,260	105	126	2,271

	2010				
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'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

9 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none (2010: none) is a director whose emoluments are set out in note 8. The aggregate of the emoluments in respect of the five (2010: five) individuals with highest emoluments are as follows:

	2011	2010
	$'000	*$'000*
Salaries and other emoluments	**10,002**	9,600
Discretionary bonuses	**571**	776
Retirement scheme contributions	**281**	349
	10,854	10,725

The emoluments of the five (2010: five) individuals with the highest emoluments are within the following bands:

	2011	2010
	Number of employees	Number of employees
Nil to $1,000,000	**–**	–
$1,000,001 to $1,500,000	**2**	2
$2,000,001 to $2,500,000	**2**	2
$4,000,001 to $4,500,000	**1**	1

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $105,247,000 (2010: $46,402,000) 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 29(c).

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

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 $18,129,000 (2010: $164,528,000) and the weighted average of 665,412,000 ordinary shares (2010: 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 2011 and 2010. Accordingly, the diluted earnings per share is the same as the basic earnings per share for both 2011 and 2010.

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 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.

(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, bank borrowings managed by the Group and other corporate liabilities.

12 SEGMENT REPORTING *(Continued)*

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

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, impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below:

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

12 SEGMENT REPORTING *(Continued)*

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

	Toys and model trains		Property investment		Investment holding		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**1,268,438**	1,567,721	**31,049**	32,525	**–**	–	**1,299,487**	1,600,246
Inter-segment revenue	**–**	–	**2,032**	2,039	**–**	–	**2,032**	2,039
Reportable segment revenue	**1,268,438**	1,567,721	**33,081**	34,564	**–**	–	**1,301,519**	1,602,285
Reportable segment (loss)/profit (adjusted EBITDA)	**(234,561)**	87,123	**19,839**	18,784	**451**	(726,740)	**(214,271)**	(620,833)
Interest income	**483**	217	**–**	–	**648**	116	**1,131**	333
Interest expenses	**(9,795)**	(7,858)	**(4)**	(22)	**–**	–	**(9,799)**	(7,880)
Depreciation and amortisation for the year	**(44,411)**	(40,017)	**–**	–	**(33)**	(34)	**(44,444)**	(40,051)
Impairment of:								
– fixed assets	**(893)**	(326)	**–**	–	**–**	–	**(893)**	(326)
– goodwill	**–**	–	**–**	–	**–**	(4,583)	**–**	(4,583)
Reportable segment assets	**319,190**	367,836	**891,495**	811,073	**670,962**	814,235	**1,881,647**	1,993,144
Additions to non-current segment assets during the year	**51,757**	47,236	**–**	–	**–**	–	**51,757**	47,236
Reportable segment liabilities	**168,515**	152,112	**495**	18,390	**382,910**	700,286	**551,920**	870,788

12 SEGMENT REPORTING *(Continued)*

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

	2011	2010
	$'000	*$'000*
Revenue		
Reportable segment revenue	**1,301,519**	1,602,285
Elimination of inter-segment revenue	**(2,032)**	(2,039)
Consolidated turnover	**1,299,487**	1,600,246
Profit		
Reportable segment loss	**(214,271)**	(620,833)
Elimination of inter-segment profit	**111,681**	706,554
Reportable segment (loss)/profit derived from Group's external customers	**(102,590)**	85,721
Other revenue	**16,968**	18,315
Other net income	**17,014**	12,991
Depreciation and amortisation	**(44,444)**	(40,051)
Finance costs	**(9,799)**	(7,880)
Share of profits less losses of associates	**(20,882)**	(5,598)
Valuation gains on investment properties	**188,742**	103,208
Net (loss)/gain on disposal of investment properties	**(80)**	31,220
Unallocated corporate expenses	**(777)**	(656)
Consolidated profit before taxation	**44,152**	197,270

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

12 SEGMENT REPORTING *(Continued)*

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

	2011	2010
	$'000	$'000
Assets		
Reportable segment assets	**1,881,647**	1,993,144
Elimination of inter-segment receivables	**(154,264)**	(433,834)
	1,727,383	1,559,310
Intangible assets	**634**	667
Goodwill	**–**	–
Interests in associates	**20,916**	25,376
Other non-current financial assets	**15,653**	15,488
Deferred tax assets	**18,240**	20,071
Current tax recoverable	**10,043**	331
Cash and cash equivalents	**110,790**	163,003
Unallocated head office and corporate assets	**22,717**	23,060
Consolidated total assets	**1,926,376**	1,807,306
Liabilities		
Reportable segment liabilities	**551,920**	870,788
Elimination of inter-segment payables	**(154,264)**	(433,834)
	397,656	436,954
Current tax payable	**4,033**	10,293
Deferred tax liabilities	**121,993**	101,205
Unallocated head office and corporate liabilities	**386,986**	228,609
Consolidated total liabilities	**910,668**	777,061

12 SEGMENT REPORTING (Continued)

(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 physical location of the asset, in the case of fixed assets, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of interests in associates.

	Revenue from external customers		**Specified non-current assets**	
	2011	2010	**2011**	2010
	$'000	*$'000*	***$'000***	*$'000*
Hong Kong (place of domicile)	**53,875**	53,748	**947,057**	754,723
Mainland China	**16,482**	15,597	**175,875**	162,172
North America	**632,298**	927,274	**16,946**	37,699
Europe	**475,128**	474,633	**15,177**	14,521
Others	**121,704**	128,994	**–**	–
	1,245,612	1,546,498	**207,998**	214,392
	1,299,487	1,600,246	**1,155,055**	969,115

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

13 FIXED ASSETS

The Group

	Land and buildings held for own use				Investment properties			
	In Hong Kong	Outside Hong Kong	Equipment	Sub-total	In Hong Kong	Outside Hong Kong	Sub-total	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation:								
At 1 January 2010	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
At 1 January 2011	**72,590**	**32,963**	**621,052**	**726,605**	**707,941**	**–**	**707,941**	**1,434,546**
Exchange adjustments	**–**	**(99)**	**4,118**	**4,019**	**–**	**–**	**–**	**4,019**
Transfer from construction in progress *(note 14)*	**–**	**–**	**548**	**548**	**–**	**–**	**–**	**548**
Additions	**–**	**1,622**	**49,857**	**51,479**	**–**	**–**	**–**	**51,479**
Disposals	**–**	**(278)**	**(7,952)**	**(8,230)**	**(6,650)**	**–**	**(6,650)**	**(14,880)**
Surplus on revaluation	**–**	**–**	**–**	**–**	**188,742**	**–**	**188,742**	**188,742**
At 31 December 2011	**72,590**	**34,208**	**667,623**	**774,421**	**890,033**	**–**	**890,033**	**1,664,454**
Representing								
Cost	**72,590**	**34,208**	**667,623**	**774,421**	**–**	**–**	**–**	**774,421**
Valuation – 2011	**–**	**–**	**–**	**–**	**890,033**	**–**	**890,033**	**890,033**
	72,590	**34,208**	**667,623**	**774,421**	**890,033**	**–**	**890,033**	**1,664,454**

13 FIXED ASSETS *(Continued)*

The Group *(Continued)*

	Land and buildings held for own use				Investment properties			
	In Hong Kong	Outside Hong Kong	Equipment	Sub-total	In Hong Kong	Outside Hong Kong	Sub-total	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Accumulated depreciation and impairment:								
At 1 January 2010	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
At 1 January 2011	**6,731**	**16,015**	**468,998**	**491,744**	**–**	**–**	**–**	**491,744**
Exchange adjustments	**–**	**(57)**	**1,883**	**1,826**	**–**	**–**	**–**	**1,826**
Charge for the year *(note 5(c))*	**771**	**1,071**	**42,569**	**44,411**	**–**	**–**	**–**	**44,411**
Impairment loss *(note 5(c))*	**–**	**–**	**893**	**893**	**–**	**–**	**–**	**893**
Written back on disposals	**–**	**(278)**	**(7,647)**	**(7,925)**	**–**	**–**	**–**	**(7,925)**
At 31 December 2011	**7,502**	**16,751**	**506,696**	**530,949**	**–**	**–**	**–**	**530,949**
Net book value:								
At 31 December 2011	**65,088**	**17,457**	**160,927**	**243,472**	**890,033**	**–**	**890,033**	**1,133,505**
At 31 December 2010	65,859	16,948	152,054	234,861	707,941	–	707,941	942,802

(a) Impairment loss

During the years ended 31 December 2011 and 2010, the Group assessed the recoverable amount of the Group's moulds and equipment and as a result, an impairment loss of $893,000 (2010: $326,000) was recognised to write-down the carrying amount of certain moulds and equipment to their net realisable value. The estimates of net realisable value were based on the moulds' and equipment's fair values less costs to sell, determined by reference to anticipated future use.

13 FIXED ASSETS *(Continued)*

(b) Revaluation of investment properties

	2011	2010
	$'000	*$'000*
Medium term leases at valuation:		
– In Hong Kong	**890,033**	707,941

All investment properties of the Group were revalued as at 31 December 2011 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:

	2011	2010
	$'000	*$'000*
Medium-term leases in Hong Kong	**65,088**	65,859
Freehold outside Hong Kong	**17,457**	16,948
	82,545	82,807

(d) Fixed assets held under finance leases

The Group leased a motor vehicle under a finance lease expiring within five years. At the end of the lease term the Group has the option to purchase the motor vehicle at a price deemed to be a bargain purchase option. The lease did not include contingent rentals. At the balance sheet date, no fixed assets were held under finance leases of the Group (2010: $233,000).

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 three 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 use in operating leases was $890,033,000 (2010: $707,941,000). 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	
	2011	2010
	$'000	*$'000*
Within 1 year	**26,820**	25,651
After 1 year but within 5 years	**23,569**	14,088
	50,389	39,739

(f) Secured assets

Investment properties and, land and buildings of the Group with total carrying value of $890,033,000 (2010: $707,941,000) and $82,545,000 (2010: $82,807,000) respectively, were mortgaged to various banks to secure banking facilities granted to the Group, see note 24(c).

14 CONSTRUCTION IN PROGRESS

	The Group	
	2011	2010
	$'000	*$'000*
At 1 January	**270**	–
Additions	**278**	270
Transfer to fixed assets *(note 13)*	**(548)**	–
At 31 December	**–**	270

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INTANGIBLE ASSETS

	The Group Club membership 2011 $'000	2010 $'000
Cost:		
At 1 January and 31 December	**868**	868
Accumulated amortisation:		
At 1 January	**201**	167
Charge for the year *(note 5(c))*	**33**	34
At 31 December	**234**	201
Net book value:		
At 31 December	**634**	667

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") *Note (a)* *$'000*	Walitoys & Garment Limited ("Walitoys") *Note (b)* *$'000*	Total *$'000*
Cost:			
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	31,200	4,583	35,783
Accumulated impairment losses:			
At 1 January 2010	31,200	–	31,200
Impairment loss (note 5(c))	–	4,583	4,583
At 31 December 2010, 1 January 2011 and 31 December 2011	31,200	4,583	35,783
Carrying amount:			
At 31 December 2011 and 2010	–	–	–

16 GOODWILL (Continued)

(a) 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 $39,000,000 (equivalent to US$5,000,000) comprised primarily moulds and dies valued at $7,800,000 (equivalent to US$1,000,000) and goodwill of $31,200,000 (equivalent to US$4,000,000). An impairment loss of $31,200,000 was recognised during the year ended 31 December 2008 in respect of the goodwill arising on the acquisition of Williams.

(b) 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 $8,250,000 and goodwill of $7,643,000 was recognised.

Pursuant to the terms of the Agreement on the acquisition of Walitoys, the purchase consideration of $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 $4,583,000 was recognised at 31 December 2010 in respect of the goodwill arising from the acquisition of Walitoys.

17 INTERESTS IN SUBSIDIARIES

	The Company	
	2011	2010
	$'000	*$'000*
Unlisted shares, at cost	**318,844**	318,844
Add: amounts due from subsidiaries	**898,770**	810,792
Less: impairment losses	**(140,558)**	(128,601)
	1,077,056	1,001,035

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

Details of the major subsidiaries at 31 December 2011 which principally affected the results, assets or liabilities of the Group are listed on pages 113 to 115.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

18 INTERESTS IN ASSOCIATES

	The Group	
	2011	2010
	$'000	*$'000*
Share of net assets	**(18,890)**	88
Amounts due from associates	**33,847**	29,469
Loans to associate	**12,090**	1,950
Less: impairment losses	**(6,131)**	(6,131)
	20,916	25,376

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

Loan to associate of $1,950,000 (2010: $1,950,000) is unsecured, interest-bearing at 5% (2010: 5%) per annum and has no fixed terms of repayment. The Group does not intend to seek repayment thereof within 12 months of the balance sheet date.

A further loan to associate of $10,140,000 (2010: $Nil) is unsecured, interest-bearing at 5% to 10% and is repayable on 31 May 2013.

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%	–	100.0%	Investment holding
Redwood Ventures Limited	Incorporated	Hong Kong	40.0%	40.0%	–	Trading of toys
Squaw Creek Associates, LLC	Limited liability company	USA	32.4%	10.0%	62.0%	Resort operation, and the sale and management of condominium apartments

18 INTERESTS IN ASSOCIATES *(Continued)*

Summary financial information on associates

	Assets	Liabilities	Equity	Revenue	Loss
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
2011					
100 per cent	**581,324**	**(541,286)**	**40,038**	**229,738**	**(70,683)**
Group's effective interest	**106,609**	**(125,499)**	**(18,890)**	**23,947**	**(20,882)**
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)

19 OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2011	2010
	$'000	*$'000*
Available-for-sale equity securities:		
– Listed in Hong Kong	**448**	605
– Listed outside Hong Kong	**12,718**	12,439
	13,166	13,044
Available-for-sale debt securities:		
– Listed in Hong Kong	**2,487**	2,444
	15,653	15,488

20 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2011	2010
	$'000	*$'000*
Raw materials	**109,304**	119,418
Work in progress	**68,402**	117,510
Finished goods	**260,649**	201,208
	438,355	438,136

Finished goods amounting to $166,878,000 (2010: $123,018,000) were pledged to banks to secure banking facilities granted to the Group, see note 24(c).

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

20 INVENTORIES *(Continued)*

(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	
	2011	2010
	$'000	*$'000*
Carrying amount of inventories sold	**1,147,999**	1,237,363
Write down of inventories	**13,644**	7,218
Reversal of write-down of inventories	**(13,125)**	(6,198)
	1,148,518	1,238,383

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 result of sale of aged inventories.

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	*$'000*	***$'000***	*$'000*
Trade debtors and bills receivable	**165,497**	192,012	**–**	–
Less: allowance for doubtful debts *(note 21(b))*	**(7,906)**	(13,301)	**–**	–
	157,591	178,711	**–**	–
Amount due from related company	**336**	–	**–**	–
Deposits and prepayments	**20,313**	22,451	**299**	297
	178,240	201,162	**299**	297

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

Amount due from related company is unsecured, interest-free and has no fixed terms of repayment. The related company has a common director and shareholder with the Company.

21 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	
	2011	2010
	$'000	*$'000*
Current	**127,358**	133,442
Less than 1 month past due	**13,434**	26,018
1 to 3 months past due	**12,229**	16,458
More than 3 months but less than 12 months past due	**4,218**	2,793
More than 12 months past due	**352**	–
	157,591	178,711

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 30(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)(i)).

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

	The Group	
	2011	2010
	$'000	*$'000*
At 1 January	**13,301**	14,275
Exchange adjustments	**7**	(1)
Reversal of impairment loss *(note 5(c))*	**(3,667)**	(2,520)
Impairment loss recognised *(note 5(c))*	**577**	2,060
Uncollectible amounts written off	**(2,312)**	(513)
At 31 December	**7,906**	13,301

21 TRADE AND OTHER RECEIVABLES *(Continued)*

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

At 31 December 2011, certain of the Group's trade debtors and bills receivable totalling $4,834,000 (2010: $4,298,000) 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 $4,339,000 (2010: $4,071,000) 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	
	2011	2010
	$'000	*$'000*
Neither past due nor impaired	**125,026**	129,870
Less than 1 month past due	**13,434**	23,706
1 to 3 months past due	**10,997**	15,070
More than 3 months but less than 12 months past due	**1,926**	2,778
More than 12 months past due	**352**	–
	26,709	41,554
	151,735	171,424

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.

22 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	*$'000*	***$'000***	*$'000*
Cash and cash equivalents in the balance sheet	**110,790**	163,003	**198**	135
Bank overdrafts *(note 24)*	**(25,750)**	(16,328)		
Cash and cash equivalents in the consolidated cash flow statement	**85,040**	146,675		

(b) Reconciliation of profit before taxation to cash (used in)/generated from operations:

	Note	**2011** ***$'000***	2010 *$'000*
Profit before taxation		**44,152**	197,270
Adjustments for:			
Valuation gains on investment properties	*13*	**(188,742)**	(103,208)
Depreciation	*13*	**44,411**	40,017
Amortisation of intangible assets	*15*	**33**	34
Impairment of fixed assets	*13*	**893**	326
Finance costs	*5(a)*	**9,799**	7,880
Interest income	*4(a)*	**(1,131)**	(333)
Share of profits less losses of associates	*18*	**20,882**	5,598
Impairment loss on other receivables	*5(c)*	**–**	7,602
Impairment of goodwill	*16*	**–**	4,583
Impairment loss on amounts due from associates	*5(c)*	**–**	6,131
Net gain on disposal of fixed assets	*4(b)*	**(626)**	(293)
Net loss/(gain) on disposal of investment properties	*6*	**80**	(31,220)
Foreign exchange gain		**(21,701)**	(6,028)
Changes in working capital:			
Increase in inventories		**(219)**	(110,860)
Decrease in trade and other receivables		**22,922**	36,249
Decrease in creditors and accrued charges		**(26,973)**	(25,265)
Decrease in rental deposits received		**(626)**	(661)
Decrease in accrued employee benefits		**(2,621)**	(1,978)
Cash (used in)/generated from operations		**(99,467)**	25,844

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Creditors and accrued charges	**282,960**	309,933	**74,915**	94,026
Amounts due to related companies	**–**	2,489	**–**	–
Rental deposits	**1,633**	3,864	**–**	–
	284,593	316,286	**74,915**	94,026

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 were unsecured, interest-free and had no fixed terms of repayment. The related companies have a common director and shareholder with the Company.

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

	The Group	
	2011	2010
	$'000	$'000
Due within 1 month or on demand	**42,571**	66,955
Due after 1 month but within 3 months	**2,466**	8,668
Due after 3 months but within 6 months	**1,720**	1,126
Due after 6 months	**650**	1,106
	47,407	77,855

24 BANK LOANS AND OVERDRAFTS

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

	The Group	
	2011	2010
	$'000	*$'000*
Current liabilities		
Bank overdrafts	**25,750**	16,328
Current portion of term loans from banks	**385,665**	203,893
	411,415	220,221
Non-current portion of term loans from banks repayable on demand	**51,756**	89,870
	463,171	310,091
Non-current liabilities		
Bank loans	**29,417**	30,417
	492,588	340,508

(b) At 31 December 2011, bank loans and overdrafts were repayable as follows:

	The Group	
	2011	2010
	$'000	*$'000*
Within 1 year or on demand	**411,415**	220,221
After 1 year but within 2 years	**49,257**	64,750
After 2 years but within 5 years	**31,916**	55,537
	81,173	120,287
	492,588	340,508

24 BANK LOANS AND OVERDRAFTS *(Continued)*

(c) At 31 December 2011, bank loans and overdrafts were secured as follows:

	The Group	
	2011	2010
	$'000	*$'000*
Secured		
– Bank overdrafts *(note 22(a))*	**25,750**	16,328
– Bank loans	**466,838**	324,180
	492,588	340,508

At 31 December 2011, an investment property, leasehold land and buildings, inventories and other assets of the Group with total net book value of $1,257,956,000 (2010: $1,025,112,000) 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	
	2011	2010
	$'000	*$'000*
Investment properties *(note 13(f))*	**890,033**	707,941
Land and buildings *(note 13(f))*	**82,545**	82,807
Inventories *(note 20(a))*	**166,878**	123,018
Other assets	**118,500**	111,346
	1,257,956	1,025,112

Certain 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 30(b). As at 31 December 2011, none of the covenants relating to drawn down facilities had been breached (2010: Nil).

25 OBLIGATIONS UNDER FINANCE LEASES

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

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

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2011	2010
	$'000	*$'000*
Provision for Hong Kong Profits Tax for the year	**193**	17,068
Provisional Profits Tax paid	**(10,160)**	(10,592)
	(9,967)	6,476
Balance of Profits Tax recoverable relating to prior years	**–**	(331)
Provision for tax outside Hong Kong	**3,957**	3,817
	(6,010)	9,962
Representing:		
Tax recoverable	**(10,043)**	(331)
Tax payable	**4,033**	10,293
	(6,010)	9,962

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

26 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

Deferred tax arising from:	Depreciation allowances in excess of the related depreciation	Revaluation of investment properties	Revaluation of land and buildings	Provisions and allowances	Tax losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2010	18,849	58,948	9,590	(16,064)	–	71,323
Charged/(credited) 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
At 1 January 2011	**21,468**	**68,862**	**10,587**	**(19,783)**	**–**	**81,134**
Charged/(credited) to profit or loss *(note 7(a))*	**2,123**	**31,142**	**–**	**2,105**	**(12,754)**	**22,616**
Effect of change in tax rate charged to profit or loss *(note 7(a))*	**10**	**–**	**–**	**–**	**–**	**10**
Exchange difference	**(7)**	**–**	**–**	**–**	**–**	**(7)**
At 31 December 2011	**23,594**	**100,004**	**10,587**	**(17,678)**	**(12,754)**	**103,753**

26 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

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

Reconciliation to the balance sheet:

	The Group	
	2011	2010
	$'000	*$'000*
Net deferred tax assets recognised in the balance sheet	**(18,240)**	(20,071)
Net deferred tax liabilities recognised in the balance sheet	**121,993**	101,205
	103,753	81,134

(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 respective cumulative tax losses of $416,250,000 (2010: $350,398,000) and $20,276,000 (2010: $18,481,000) 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 $76,851,000 (2010: $83,446,000) and $20,276,000 (2010: $18,481,000) respectively do not expire under current tax legislation, while the remaining tax losses amounting to $339,399,000 (2010: $266,952,000) and $Nil (2010: $Nil) will expire at various dates up to and including 2031 as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	*$'000*	***$'000***	*$'000*
2012	**3,081**	3,081	**–**	–
2013	**124,677**	124,677	**–**	–
2014	**46,305**	46,305	**–**	–
2015	**41,409**	41,409	**–**	–
2016	**54,546**	–	**–**	–
2028	**12,675**	12,675	**–**	–
2029	**16,575**	16,575	**–**	–
2030	**22,230**	22,230	**–**	–
2031	**17,901**	–	**–**	–
	339,399	266,952	**–**	–
No expiry date	**76,851**	83,446	**20,276**	18,481
	416,250	350,398	**20,276**	18,481

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

27 RENTAL DEPOSITS

Rental deposits represent amount of rental deposits received which are expected to be settled after more than one year.

28 ACCRUED EMPLOYEE BENEFITS

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	*$'000*	***$'000***	*$'000*
At 1 January	**4,731**	6,709	**69**	69
Additional provision made	**437**	1,133	**–**	–
Provision utilised	**(3,058)**	(3,111)	**(69)**	–
	2,110	4,731	**–**	69

Accrued employee benefits represent provision for long service payments in respect of the Group's employees on termination of employment in accordance with the Hong Kong Employment Ordinance.

29 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	Share premium	Capital reserve	Contributed surplus	Retained profits	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January 2010	66,541	109,942	9,347	175,594	509,527	870,951
Changes in equity for 2010:						
Profit and total comprehensive income for the year	–	–	–	–	46,402	46,402
Dividends approved in respect of the prior year *(note 29(c))*	–	–	–	–	(9,981)	(9,981)
Balance at 31 December 2010 and 1 January 2011	66,541	109,942	9,347	175,594	545,948	907,372
Changes in equity for 2011:						
Profit and total comprehensive income for the year	–	–	–	–	105,247	105,247
Dividends approved in respect of the prior year *(note 29(c))*	–	–	–	–	(9,981)	(9,981)
Balance at 31 December 2011	**66,541**	**109,942**	**9,347**	**175,594**	**641,214**	**1,002,638**

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

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

	Exchange reserve		Revenue reserve	
	2011	2010	**2011**	2010
	$'000	*$'000*	***$'000***	*$'000*
By the Company and its subsidiaries	**(40,549)**	(21,774)	**742,107**	713,077
By associates	**(2,483)**	(2,483)	**(80,143)**	(59,261)
Total at 31 December	**(43,032)**	(24,257)	**661,964**	653,816

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

(c) Dividends

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

	2011	2010
	$'000	*$'000*
Final dividend proposed after the balance sheet date of Nil cents per ordinary share (2010: 1.5 cents per ordinary share)	**–**	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

	2011	2010
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 1.5 cents per ordinary share (2010: 1.5 cents per ordinary share)	**9,981**	9,981

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Share capital

	2011 Number of shares '000	**2011** Amount $'000	2010 Number of shares '000	2010 Amount $'000
Authorised:				
Ordinary shares of $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.

(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).

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

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

(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 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $816,808,000 (2010: $721,542,000). After the balance sheet date the directors proposed a final dividend of 1.5 cents per ordinary share for the year ended 31 December 2010 amounting to $9,981,000. This dividend was not recognised as a liability as at 31 December 2010.

(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.

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 2011, 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.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(g) Capital management *(Continued)*

The net debt-to-equity ratio at 31 December 2011 and 2010 was as follows:

		The Group		The Company	
		2011	2010	**2011**	2010
	Note	***$'000***	*$'000*	***$'000***	*$'000*
Current liabilities					
Trade and other payables	*23*	**284,593**	316,286	**74,915**	94,026
Bank loans and overdrafts	*24*	**463,171**	310,091	**–**	–
Obligations under finance leases	*25*	**–**	292	**–**	–
		747,764	626,669	**74,915**	94,026
Non-current liabilities					
Bank loans	*24*	**29,417**	30,417	**–**	–
Rental deposits	*27*	**5,351**	3,746	**–**	–
Total debt		**782,532**	660,832	**74,915**	94,026
Less: Cash and cash equivalents	*22(a)*	**(110,790)**	(163,003)	**(198)**	(135)
Net debt		**671,742**	497,829	**74,717**	93,891
Total equity		**1,015,708**	1,030,245	**1,002,638**	907,372
Net debt-to-equity ratio		**66.1%**	48.3%	**7.5%**	10.3%

A certain subsidiary is subject to the fulfilment of covenants which include maintaining its debt-to-equity ratio below a certain amount, see note 24. Except for the above, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

30 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 6.81% (2010: 14.72%) and 21.07% (2010: 23.38%) 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.

Except for the financial guarantees given by the Group as set out in note 32(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 32(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 21.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

30 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 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 the unconditional rights to call the loans with immediate effect.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk *(Continued)*

The Group

	2011						2010					
	Total contractual undiscounted cash flow						Total contractual undiscounted cash flow					
	On demand $'000	Within 1 year $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Balance sheet carrying amount $'000	On demand $'000	Within 1 year $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Total $'000	Balance sheet carrying amount $'000
Creditors and accrued charges	–	282,960	–	–	282,960	282,960	–	309,933	–	–	309,933	309,933
Amounts due to related companies	–	–	–	–	–	–	–	2,489	–	–	2,489	2,489
Rental deposits	–	1,633	2,783	2,568	6,984	6,984	–	3,864	1,596	2,150	7,610	7,610
Bank overdrafts	25,750	–	–	–	25,750	25,750	16,328	–	–	–	16,328	16,328
Bank loans	–	388,743	50,684	32,337	471,764	466,838	–	207,720	65,007	58,037	330,764	324,180
Finance lease liabilities	–	–	–	–	–	–	–	90	90	151	331	292
	25,750	673,336	53,467	34,905	787,458	782,532	16,328	524,096	66,693	60,338	667,455	660,832
Adjustments to present cash flows on bank loans based on lender's right to demand repayment	419,421	(370,080)	(32,335)	(20,822)	(3,816)		282,763	(196,143)	(53,612)	(38,323)	(5,315)	
	445,171	303,256	21,132	14,083	783,642		299,091	327,953	13,081	22,015	662,140	

The Company

Creditors and accrued charges	–	74,915	–	–	74,915	74,915	–	94,026	–	–	94,026	94,026

As shown in the above analysis, bank loans of the Group amounting to $388,743,000 are due to be repaid during 2012. 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.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

30 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

		2011		2010	
		Effective interest rate	**Amount**	Effective interest rate	Amount
	Note	**%**	***$'000***	*%*	*$'000*
Net fixed rate borrowings:					
Finance lease liabilities	*25*	–	**–**	3.75	292
Variable rate borrowings:					
Bank overdrafts	*24*	**5.64**	**25,750**	7.68	16,328
Bank loans	*24*	**2.71**	**466,838**	2.55	324,180
			492,588		340,508

The Company

The Company did not have any income-earning financial assets or interest-bearing financial liabilities as at 31 December 2011 and 2010.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2011, 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 $3,938,000 (2010: $2,717,000). 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 2010.

(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.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Foreign currency risk *(Continued)*

(i) Currency risk (Continued)

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.

	Exposure to foreign currencies					
	2011			2010		
	USD	**GBP**	**RMB**	USD	GBP	RMB
	$'000	***$'000***	***$'000***	*$'000*	*$'000*	*$'000*
Trade and other receivables	**1,398**	**–**	**349**	2,212	20	139
Cash and cash equivalents	**3,583**	**2,011**	**7,976**	2,309	3,453	18,981
Trade and other payables	**(9,972)**	**(6)**	**(2,381)**	(12,060)	(6)	(1,604)
Net exposure arising from recognised assets and liabilities	**(4,991)**	**2,005**	**5,944**	(7,539)	3,467	17,516
HKD equivalent	**(38,930)**	**24,083**	**7,317**	(58,798)	41,814	20,581

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

(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

	2011			2010		
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after taxation** *$'000*	**Effect on retained profits** *$'000*	Increase/ (decrease) in foreign exchange rates	Effect on profit after taxation *$'000*	Effect on retained profits *$'000*
GBP	**1%**	**201**	**201**	2%	882	882
	(1%)	**(201)**	**(201)**	(2%)	(882)	(882)
RMB	**5%**	**305**	**305**	4%	754	754
	(5%)	**(305)**	**(305)**	(4%)	(754)	(754)

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 2010.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

30 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 19). 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 2011, 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:

	2011			2010		
	Increase/ (decrease) in the relevant risk variable	**Effect on profit after taxation and retained profits**	**Effect on other components of equity**	Increase/ (decrease) in the relevant risk variable	Effect on profit after taxation and retained profits	Effect on other components of equity
		$'000	***$'000***		*$'000*	*$'000*
Stock market index in respect of listed investments:						
Dow Jones Index	**6%**	**–**	**590**	11%	–	1,191
	(6%)	**–**	**(590)**	(11%)	–	(1,191)
Hang Seng Index	**20%**	**–**	**90**	5%	–	30
	(20%)	**–**	**(90)**	(5%)	–	(30)
Bloomberg GCC 200 index	**9%**	**–**	**100**	13%	–	210
	(9%)	**–**	**(100)**	(13%)	–	(210)
Bloomberg GCC 200 Energy Index	**10%**	**–**	**178**	–	–	–
	(10%)	**–**	**(178)**	–	–	–

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Equity price risk *(Continued)*

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 2010.

(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							
	2011				2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets								
Listed available-for-sale securities *(note 19)*								
– equity	13,166	–	–	13,166	13,044	–	–	13,044
– debt	2,487	–	–	2,487	2,444	–	–	2,444
	15,653	–	–	15,653	15,488	–	–	15,488

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(f) Fair values *(Continued)*

(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 2011 and 2010.

(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.

31 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	The Group	
	2011	2010
	$'000	*$'000*
Contracted for	**296**	2,617

At 31 December 2011 and 2010, the Company did not have any capital commitments.

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	Land and buildings		Others	
	2011	2010	**2011**	2010
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year	**11,834**	27,239	**460**	524
After 1 year but within 5 years	**2,556**	13,968	**1,259**	794
Over 5 years	**117**	326	**–**	–
	14,507	41,533	**1,719**	1,318

At 31 December 2011 and 2010, 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(d).

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.

32 CONTINGENT LIABILITIES

At 31 December 2011, there were contingent liabilities in respect of the following:

(a) Financial guarantees issued

The Company has issued guarantees to banks amounting to $636,442,000 (2010: $569,824,000) to secure banking facilities granted by the banks to subsidiaries.

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 it 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 $492,588,000 (2010: $339,712,000).

(b) Litigation

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

32 CONTINGENT LIABILITIES *(Continued)*

(b) Litigation *(Continued)*

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

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

Having considered the Litigation with the Company's various legal counsels, the management and the Board believe that the Company's opposition to the plaintiffs' complaint, as well as the Company's defenses and appeal rights, continue to be meritorious. As such, the Company continues to vigorously defend the Litigation including an appeal from the Order, filed on 24 June 2011. Hearing of the appeal was conducted on 21 March 2012 and a decision is pending. 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.

(c) During the year, the Inland Revenue Department of Hong Kong ("IRD") conducted a review of the operations of certain subsidiaries of the Company for prior years since 2004, focusing on certain sales and purchases between these subsidiaries. The Group is in the process of collating and providing additional information to the IRD. The Group considers its tax affairs to be based on the extent to which reliable estimates can be made, but due to various uncertainties, the Group is not in a position to estimate the possibility of paying additional Hong Kong Profits Tax for prior years or the quantum thereof, if any. The expected outcome of the disputes is subject to uncertainties and resulting liabilities may exceed provisions recorded.

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

33 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 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.

34 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) As at 31 December 2011, the Group advanced funds totalling $27,708,000 (2010: $23,339,000) to certain associates in which certain directors of the Company have beneficial interests. Further details of the associates are given in note 18 to the financial statements.

(c) One of the directors of the Company was also a director and shareholder of a supplier which sold packaging and printing materials to the Group. The director ceased to be a director and shareholder of the supplier on 21 October 2010. During the year ended 31 December 2010, total purchases by the Company from the supplier amounted to $2,851,000.

(d) During the year ended 31 December 2010, the Group obtained funding from certain related companies to finance its operations. Details of the terms of the advances and the balances outstanding are disclosed in note 23 to the financial statements.

(e) During the year ended 31 December 2011, the Group sold OEM products to an associate amounted to $19,185,000 (2010: $Nil).

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

35 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 may not be 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, and the possible 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.

(c) Going concern

The directors have prepared the financial statements on a going concern basis notwithstanding the Group's loss from operations of $113,829,000 for the year ended 31 December 2011 and net current liabilities of $14,369,000 as at that date, because the directors are of the opinion that based on a cash flow forecast of the Group for the year ending 31 December 2012, the Group would have adequate funds to meet its liabilities as and when they fall due for at least twelve months from the balance sheet date. The cash flow forecast assumes the Group will be able to secure ongoing support from the Group's bankers including the continuing provision of existing secured loans to the Group and the Group is able to generate sufficient cash flows from the future operations to cover operating costs and to meet financing commitments.

Discontinuation of ongoing support from the Group's bankers and deviation in the estimates in the Group's cash flow forecast would affect the conclusion that the Group is able to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

(Expressed in Hong Kong dollars unless otherwise indicated)

35 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Valuation of investment properties

The fair value for the Group's investment properties is calculated by an independent firm of surveyors 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 provision for any reversionary income potential. The valuation model used by the property valuer makes use of market inputs. Should changes be made to the market inputs, the corresponding investment property valuations would change.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 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
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements* (2011)	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
HKFRS 10, *Consolidated financial statements*	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

Notes to the Financial Statements *(Continued)*

(Expressed in Hong Kong dollars unless otherwise indicated)

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011 *(Continued)*

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 Group's results of operations and financial position, except for the Amendments to HKAS 12, *Income taxes*.

The HKICPA has amended HKAS 12 by introducing a rebuttable presumption that deferred tax on investment property carried at fair value under HKAS 40, *Investment property*, shall be measured reflecting the tax consequences of recovering the carrying amount of the investment property entirely through sale. Consequently, this will result in the deferred tax liability on the Group's investment properties being limited to the tax effect of any claw back of depreciation allowances that would occur on sale at the current carrying amount, as there is currently no capital gains tax in Hong Kong.

The amendments of HKAS 12 are effective for annual periods beginning on or after 1 January 2012 with earlier application permitted. The amendments do not contain any transitional provisions and therefore will be applied retrospectively in accordance with HKAS 8, *Accounting policies, changes in accounting estimates and errors*. The Group plans to apply the amendments of HKAS 12 initially for the year ended 31 December 2012. The adoption of the amendments of HKAS 12 is likely to have an impact on retained profits and deferred tax liabilities, at the date of initially applying the amendments, by the amount of deferred tax liabilities recognised on the revaluation of investment properties.

Principal Subsidiaries

At 31 December 2011

Name	Place of operation	Place of incorporation/ establishment	Issued and fully paid up share capital (all being ordinary shares except where otherwise stated)	Proportion of ownership interest held by The Company	Proportion of ownership interest held by A subsidiary	Principal activity
Bachmann Asia Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	–	100%	Agent for sale of toys
Bachmann (China) Limited	PRC	Hong Kong	10,000 shares of HK$1 each	–	100%	Trading of toys
Bachmann Europe Plc	UK	UK	2,050,000 shares of £1 each	100%	–	Trading of toys
Bachmann Industries, Inc.	United States of America ("USA")	USA	4,010,100 shares of US$1 each	–	100%	Trading of toys
Deltahill Company Limited	Hong Kong	Hong Kong	100 shares of HK$1 each, 1,001,000 non-voting deferred shares of HK$1 each	–	100%	Provision of management services
Dongguan Feng Da Electronics Company Limited *(Note 1)*	PRC	PRC	Registered capital HK$8,000,000	–	100%	Manufacture of toys
Dongguan Kader Electronics Company Limited *(Note 2)*	PRC	PRC	Registered capital HK$10,000,000	–	100%	Manufacture of toys
GHI, Inc.	USA	USA	1,000 shares of US$1 each	–	100%	Investment holding
Globe Fame Group Limited	British Virgin Islands	British Virgin Islands	1 share of US$1	100%	–	Investment holding
Great Hope Investments Limited	British Virgin Islands	British Virgin Islands	1 share of US$1	–	100%	Investment holding
K D Enterprises Limited	British Virgin Islands	British Virgin Islands	1 share of US$1	–	100%	Investment holding

Principal Subsidiaries *(Continued)*

At 31 December 2011

Name	Place of operation	Place of incorporation/ establishment	Issued and fully paid up share capital (all being ordinary shares except where otherwise stated)	Proportion of ownership interest held by		Principal activity
				The Company	A subsidiary	
Kader Enterprises Limited	PRC	Hong Kong	1,500,000 shares of HK$10 each	–	100%	Dormant
Kader Industrial Company Limited	Hong Kong	Hong Kong	412,532,000 shares of HK$0.5 each	100%	–	Manufacture and trading of toys, and property investment
Kondux International Limited	Hong Kong	Hong Kong	3,000 shares of HK$100 each	–	100%	Sales of raw materials
NC Train Acquisition LLC *(Note 3)*	USA	USA	Registered capital US$3,986,260	–	100%	Patents licensing
Precise Moulds (Dongguan) Company Limited (Hop Pong) *(Note 2)*	PRC	PRC	Registered capital RMB4,800,000	–	52%	Manufacture and sale of moulds
Precise Moulds (Shenzhen) Company Limited *(Note 2)*	PRC	PRC	Registered capital RMB6,000,000	–	52%	Dormant
Quedron Limited	British Virgin Islands	British Virgin Islands	25,000 shares of US$1 each	–	100%	Investment holding
Sanda Kan (Cayman III) Holdings Company Limited	Cayman Islands	Cayman Islands	1,000,000 shares of US$0.01 each	100%	–	Investment holding
Sanda Kan (Mauritius) Holdings Company Limited	The Republic of Mauritius	The Republic of Mauritius	100 shares of US$0.01 each	–	100%	Investment holding
Sanda Kan Industrial Company Limited	Cayman Islands	Cayman Islands	1 share of US$0.01	–	100%	Trading of toys
Sanda Kan Industrial Hong Kong Limited	Hong Kong	Hong Kong	100 shares of HK$1 each	–	100%	Trading of toys

Principal Subsidiaries *(Continued)*

At 31 December 2011

Name	Place of operation	Place of incorporation/ establishment	Issued and fully paid up share capital (all being ordinary shares except where otherwise stated)	Proportion of ownership interest held by: The Company	A subsidiary	Principal activity
Sanda Kan Industrial (1981) Limited	Hong Kong	Hong Kong	334 shares of HK$10 each	–	100%	Dormant
Sanda Kan Industrial (2000) Limited	Hong Kong	Hong Kong	798,873 shares of HK$0.01 each	–	100%	Investment holding
Sanda Kan Industrial (Dongguan) Company Limited *(Note 1)*	PRC	PRC	Registered and fully paid-up capital of US$3,020,000	–	100%	Manufacture of toys
Sanda Kan Technology (Shenzhen) Company Limited *(Note 1)*	PRC	PRC	Registered and fully paid-up capital of US$5,000,000	–	100%	Manufacture of toys
SDK Services Limited	Hong Kong	Hong Kong	100 shares of HK$1 each	–	100%	Provision of administrative services
Starrex Investment Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	–	100%	Property investment
Technic International Development Limited	Hong Kong	Hong Kong	1 share of HK$1	–	100%	Investment holding
Tentdraft Holdings Limited	British Virgin Islands	British Virgin Islands	25,000 shares of US$1 each	–	100%	Investment holding
Tinco Toys Company Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	–	100%	Investment holding, manufacture and trading of soft toys
Walitoys	Hong Kong	Hong Kong	2,000 shares of HK$1 each	–	51%	Trading of soft toys

Notes:

(1) These companies are wholly foreign owned enterprises registered in the PRC.

(2) These companies are co-operative joint ventures registered in the PRC.

(3) The company is the sole member of this limited liability corporation established in the USA.

Group Property

Detail of the major property of the Group is as follows:

Location	Existing uses	Term of lease
Major property held for investment		
The whole building; Kader Building 22 Kai Cheung Road Kowloon Bay, Kowloon Hong Kong	Industrial and office rental	Medium-term

Five Year Summary

CONSOLIDATED INCOME STATEMENT

(Express in Hong Kong dollars)

	2011	2010	2009	2008	2007
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Turnover	**1,299,487**	1,600,246	1,537,676	911,191	721,709
(Loss)/profit from operations	**(113,829)**	76,320	89,547	93,804	90,896
Finance costs	**(9,799)**	(7,880)	(8,038)	(9,721)	(11,599)
Share of profits less losses of associates	**(20,882)**	(5,598)	(16,988)	(1,334)	(12,596)
Valuation gains/(losses) on investment properties	**188,742**	103,208	93,513	(47,429)	104,288
Net (loss)/gain on disposal of investment properties	**(80)**	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	**44,152**	197,270	222,800	(23,541)	170,989
Income tax	**(27,992)**	(37,951)	(49,332)	(2,488)	(43,945)
Profit/(loss) for the year	**16,160**	159,319	173,468	(26,029)	127,044
Attributable to:					
Equity shareholders of the Company	**18,129**	164,528	175,391	(27,652)	126,599
Non-controlling interests	**(1,969)**	(5,209)	(1,923)	1,623	445
Profit/(loss) for the year	**16,160**	159,319	173,468	(26,029)	127,044
Earnings/(loss) per share					
Basic	**2.72¢**	24.73¢	26.36¢	(4.16)¢	19.03¢
Diluted	**2.72¢**	24.73¢	26.36¢	(4.16)¢	19.03¢
Dividend per share	**Nil**	1.50¢	1.50¢	Nil	1.50¢

Five Year Summary *(Continued)*

CONSOLIDATED BALANCE SHEET

(Express in Hong Kong dollars)

	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
Assets and liabilities					
Fixed assets	**1,133,505**	943,072	877,430	739,589	785,159
Intangible assets	**634**	667	701	536	570
Goodwill	**–**	–	4,583	7,643	31,200
Interests in associates	**20,916**	25,376	36,150	46,596	48,760
Other non-current financial assets	**15,653**	15,488	11,388	5,506	26,249
Deferred tax assets	**18,240**	20,071	16,549	29,704	24,551
Non-current assets	**1,188,948**	1,004,674	946,801	829,574	916,489
Net current (liabilities)/assets	**(14,369)**	165,670	40,436	(42,751)	(51,012)
Total assets less current liabilities	**1,174,579**	1,170,344	987,237	786,823	865,477
Non-current liabilities	**(158,871)**	(140,099)	(99,889)	(80,466)	(89,708)
NET ASSETS	**1,015,708**	1,030,245	887,348	706,357	775,769
CAPITAL AND RESERVES					
Share capital	**66,541**	66,541	66,541	66,541	66,541
Reserves	**951,733**	964,534	816,977	634,103	706,172
Total equity attributable to equity shareholders of the Company	**1,018,274**	1,031,075	883,518	700,644	772,713
Non-controlling interests	**(2,566)**	(830)	3,830	5,713	3,056
TOTAL EQUITY	**1,015,708**	1,030,245	887,348	706,357	775,769
Net assets value per share	**$1.53**	$1.55	$1.33	$1.06	$1.16