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KADER HOLDINGS COMPANY LIMITED
開達集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 180)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

The Board of Directors of Kader Holdings Company Limited (the “Company”) announces that the results of the Company and its subsidiaries (together referred to as the “Group”) for the year ended 31 December 2010 together with comparative figures for the year 2009 are summarised as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2010

	<i>Note</i>	2010 HK\$'000	2009 HK\$'000 (restated)
Turnover	3, 4	1,600,246	1,537,676
Other revenue	5(a)	18,315	18,591
Other net income/(loss)	5(b)	12,991	(1,942)
Changes in inventories of finished goods and work in progress		73,541	(21,243)
Cost of purchase of finished goods		(19,273)	(30,760)
Raw materials and consumables used		(589,362)	(495,325)
Staff costs	6(b)	(640,645)	(614,969)
Depreciation	6(c)	(40,017)	(36,468)
Other operating expenses		(339,476)	(266,013)
Profit from operations		76,320	89,547
Finance costs	6(a)	(7,880)	(8,038)
Share of profits less losses of associates		(5,598)	(16,988)
Valuation gains on investment properties		103,208	93,513
Net gain on disposal of investment properties	7	31,220	365
Excess of interest in fair values of the acquiree's identifiable assets over cost of business combination	8	—	64,401
Profit before taxation		197,270	222,800
Income tax	9	(37,951)	(49,332)
Profit for the year		159,319	173,468
Attributable to:			
Equity shareholders of the Company		164,528	175,391
Non-controlling interests		(5,209)	(1,923)
Profit for the year		159,319	173,468
Earnings per share			
Basic	10(a)	24.73¢	26.36¢
Diluted	10(b)	24.73¢	26.36¢

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

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

CONSOLIDATED BALANCE SHEET
At 31 December 2010

	Note	At 31 December 2010 HK\$'000	At 31 December 2009 HK\$'000 (restated)	At 1 January 2009 HK\$'000 (restated)
Non-current assets				
Fixed assets				
– Investment properties		707,941	659,278	598,878
– Other property, plant and equipment		234,861	218,152	140,711
– Construction in progress		270	–	–
		943,072	877,430	739,589
Intangible assets		667	701	536
Goodwill		–	4,583	7,643
Interests in associates		25,376	36,150	46,596
Other non-current financial assets		15,488	11,388	5,506
Deferred tax assets		20,071	16,549	29,704
		1,004,674	946,801	829,574
Current assets				
Inventories		438,136	327,276	213,761
Current tax recoverable		331	3,174	1,397
Trade and other receivables	12	201,162	245,013	151,040
Cash and cash equivalents		163,003	97,796	32,904
		802,632	673,259	399,102
Current liabilities				
Trade and other payables	13	(316,286)	(343,039)	(222,112)
Bank loans and overdrafts		(310,091)	(281,672)	(211,984)
Obligations under finance leases		(292)	(306)	(602)
Current tax payable		(10,293)	(7,806)	(7,155)
		(636,962)	(632,823)	(441,853)
Net current assets/(liabilities)		165,670	40,436	(42,751)
Total assets less current liabilities		1,170,344	987,237	786,823
Non-current liabilities				
Bank loans		(30,417)	–	–
Rental deposits		(3,746)	(5,016)	(5,717)
Obligations under finance leases		–	(292)	(258)
Deferred tax liabilities		(101,205)	(87,872)	(72,989)
Accrued employee benefits		(4,731)	(6,709)	(1,502)
		(140,099)	(99,889)	(80,466)
NET ASSETS		1,030,245	887,348	706,357
CAPITAL AND RESERVES				
Share capital		66,541	66,541	66,541
Reserves		964,534	816,977	634,103
Total equity attributable to equity shareholders of the Company		1,031,075	883,518	700,644
Non-controlling interests		(830)	3,830	5,713
TOTAL EQUITY		1,030,245	887,348	706,357

Notes:-

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

This announcement does not comprise the consolidated financial statements for the year ended 31 December 2010 but the information herein has been extracted from such consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2010 comprise the Group and the Group's interest in associates.

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

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

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 has not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) has had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.
- The amendment introduced by the *Improvements to HKFRSs (2009)* omnibus standard in respect of HKAS 17, *Leases*, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region ("HKSAR"), but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.
- The HK (Int) 5 sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time should be classified as a current liability in accordance with paragraph 69(d) of HKAS 1, *Presentation of financial statements*, irrespective of the probability that the lender will invoke the clause without cause.

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

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:
 - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

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

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

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in accounting policies will be applied as from 1 January 2010:
 - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
 - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if re-acquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

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

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, *Investments in associates*, the following accounting policies will be applied as from 1 January 2010:
 - If the group holds interests in the acquiree immediately prior to obtaining significant influence, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - If the Group loses significant influence, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if re-acquired. Previously such transactions were treated as partial disposals.

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

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

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.
- As a result of the amendment to HKAS 17, *Leases*, arising from the “*Improvements to HKFRSs (2009)*” omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group’s judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the interests in land located in the HKSAR and subject to the Government’s land policy of renewal without payment of an additional land premium will no longer be classified by the Group as operating leases as the Group considers that it is in a position economically similar to that of a purchaser. This change in accounting policy has no material impact on the current or previous periods as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.
- In order to comply with the requirements of HK (Int) 5, the Group has changed its accounting policy for the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the balance sheet. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the balance sheet date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

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

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

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

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

(b) Effect on Group's consolidated balance sheet

(i) As at 31 December 2009

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

(ii) As at 1 January 2009

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

3. TURNOVER

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

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

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

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

4. SEGMENT REPORTING

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

Toys and model trains:	The manufacture and sale of plastic, electronic and stuffed toys and model trains. These products are manufactured in the Group's manufacturing facilities located primarily in Mainland China.
Property investment:	The leasing of office premises, 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 and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below:

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

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

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

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

(c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, intangible assets, goodwill and interests in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the 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	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Hong Kong (place of domicile)	53,748	69,689	754,723	660,619
Mainland China	15,597	12,159	162,172	201,214
North America	927,274	885,105	37,699	41,974
Europe	474,633	448,401	14,521	15,057
Others	128,994	122,322	—	—
	1,546,498	1,467,987	214,392	258,245
	1,600,246	1,537,676	969,115	918,864

5. OTHER REVENUE AND NET INCOME/(LOSS)

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

6. PROFIT BEFORE TAXATION

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

	2010 HK\$'000	2009 HK\$'000
(a) Finance costs		
Interest on bank borrowings repayable within five years	7,846	7,941
Finance charges on obligations under finance leases	34	36
Interest on loan from a director	—	61
	<hr/>	<hr/>
	7,880	8,038
(b) Staff costs		
Salaries, wages and other benefits	576,266	554,835
Employer's contributions to defined contribution		
retirement plans, net of forfeited contributions of		
HK\$116,000 (2009: HK\$146,000)	64,379	60,134
	<hr/>	<hr/>
	640,645	614,969

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

Cost of inventories includes HK\$528,720,000 (2009: HK\$475,074,000) relating to staff costs, depreciation charges, impairment loss in respect of fixed assets and operating lease charges, which amount is also included in the respective total amounts disclosed separately above and in the income statement for each of these types of expenses.

7. NET GAIN ON DISPOSAL OF INVESTMENT PROPERTIES

On 21 April 2010, certain subsidiaries of the Company entered into sales 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 ("PRC"), for a total consideration of HK\$77,614,000. These agreements were completed on 13 and 14 May 2010 and a gain of HK\$31,220,000, net of legal fees and other direct expenses of HK\$994,000, was recognised in the consolidated income statement for the year ended 31 December 2010.

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

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

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

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

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

9. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

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

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

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

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

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

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

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$164,528,000 (2009: HK\$175,391,000) and the weighted average of 665,412,000 ordinary shares (2009: 665,412,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The Company did not have dilutive potential ordinary shares outstanding during both 2010 and 2009. Accordingly, the diluted earnings per share is the same as the basic earnings per share for both 2010 and 2009.

11. DIVIDENDS

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

	2010 HK\$'000	2009 HK\$'000
Final dividend proposed after the balance sheet date of HK1.5 cents per ordinary share (2009: HK1.5 cents per ordinary share)	<u>9,981</u>	<u>9,981</u>

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

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

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

12. TRADE AND OTHER RECEIVABLES

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

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

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 billings. 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.

13. TRADE AND OTHER PAYABLES

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

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

BUSINESS REVIEW

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

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

Toys

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

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

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

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

Model Trains

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

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

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

The Group is proud to announce that during the year, our subsidiary, Bachmann Europe Plc., was awarded “Manufacturer of the Year 2010” in the overall category and also for the OO scale and N scale model trains category by Model Rail Magazine, RM Web and MREMAG. In addition, our OO scale model trains, “7F 2-8-0 steam”, “Cravens Class 105 DMU”, “Mk1 TPO coach” and “JJA ‘Autoballaster’ hopper”, were awarded “Model of the Year 2010” under different categories. Moreover, our Graham Farish N scale model train “DP1 Deltic prototype” was awarded “Model of the Year 2010” under category 7. In addition, our Liliput brand HO scale electrical locomotive in category 3 “E44.5” was awarded the first place of “Electric Loco of the Year 2010” by Train Magazine in Germany. Last but not least, our loco “Reihe 4041” was awarded “Model of the Year 2010” by VOEMEC in Austria.

Property Investment

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

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

FINANCIAL REVIEW

Results

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

Liquidity and Financial Resources

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

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated in Hong Kong Dollars, United States Dollars, Sterling Pounds, RMB and Euros. During the year under review, the majority of the Group's sales revenues were denominated in Hong Kong Dollars, United States Dollars and Sterling Pounds while the majority of its raw materials and equipment purchases were settled in Hong Kong Dollars. As such, the Group faces a certain degree of exchange rate risk mainly arising from Sterling Pounds denominated sales transactions for which the exchange rate volatility is relatively high.

EMPLOYEES AND REMUNERATION POLICIES

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

PROSPECTS

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

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

DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 30 May 2011 to Thursday, 2 June 2011, both days inclusive, during which period no transfers of shares will be effected. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 27 May 2011.

PURCHASE, SALE OR REDEMPTION OF SHARES

There has been no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year ended 31 December 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2010, the Group has complied with the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) except for the deviation from CG Code E.1.2 as described below:

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as its model code for securities transactions by the Company’s Directors and relevant employees who are or may be in possession of unpublished price sensitive information. Based on specific enquiries made, all Directors have confirmed that they have complied with the Model Code throughout the year.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the key accounting policies and discussed auditing, internal controls and financial reporting matters, including a review of the annual results for the year ended 31 December 2010.

By order of the Board
Kenneth Ting Woo-shou
Chairman

Hong Kong, 30 March 2011

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