KADER

Manufacturing Trust

KADER HOLDINGS COMPANY LIMITED
開達集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 180)

Announcement of Interim Results For the Six Months Ended 30 June 2009

The Board of Directors of Kader Holdings Company Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") and the Group's interests in associates for the six months ended 30 June 2009, together with comparative figures for the corresponding period in 2008 are as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009 – unaudited

	Note	Six months ended 30 June **2009** *HK$'000*	**2008** *HK$'000*
Turnover	*4(b)*	**501,630**	290,793
Other revenue		**8,347**	6,977
Other net income		**1,416**	4,738
Changes in inventories of finished goods and work in progress		**26,549**	40,888
Cost of purchase of finished goods		**(12,607)**	(29,486)
Raw materials and consumables used		**(165,315)**	(113,030)
Staff costs		**(235,088)**	(109,018)
Depreciation expenses		**(16,588)**	(11,914)
Amortisation of interest in leasehold land held for own use		**(11)**	(11)
Other operating expenses		**(114,423)**	(73,046)
(Loss)/profit from operations		**(6,090)**	6,891
Finance costs	*6(a)*	**(3,105)**	(4,313)
Share of profits less losses of associates		**(962)**	(455)
Excess of interest in fair values of the acquiree's identifiable assets over cost of business combination	*7*	**64,401**	–
Profit before taxation	*4(b),6*	**54,244**	2,123
Income tax (charge)/credit	*8*	**(6,053)**	6,501
Profit for the period		**48,191**	8,624
Attributable to:			
Equity shareholders of the Company		**48,626**	8,612
Minority interests		**(435)**	12
Profit after taxation		**48,191**	8,624
Earnings per share attributable to equity shareholders of the Company			
Basic	*10(a)*	**7.31¢**	1.29¢
Diluted	*10(b)*	**7.31¢**	1.29¢

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2009 – unaudited

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Profit for the period	**48,191**	8,624
Other comprehensive income for the period (after tax and reclassification adjustments)		
Exchange differences on translation of financial statements of overseas subsidiaries	**10,443**	(2,344)
Share of exchange reserve of associates	**(275)**	20
Available-for-sale securities: net movement in fair value reserve	**1,731**	113
Total comprehensive income for the period	**60,090**	6,413
Attributable to:		
Equity shareholders of the Company	**60,459**	6,208
Minority interests	**(369)**	205
Total comprehensive income for the period	**60,090**	6,413

CONSOLIDATED BALANCE SHEET
As at 30 June 2009 – unaudited

	Note	At 30 June 2009 HK$'000	At 31 December 2008 HK$'000
Non-current assets			
Fixed assets			
– Investment properties		**598,878**	598,878
– Other property, plant and equipment		**175,487**	139,857
– Interests in leasehold land held for own use under an operating lease		**843**	854
		775,208	739,589
Intangible assets		**717**	536
Goodwill		**7,643**	7,643
Interests in associates		**48,357**	46,596
Other non-current financial assets		**9,577**	5,506
Deferred tax assets		**28,519**	29,704
		870,021	829,574
Current assets			
Inventories		**412,167**	213,761
Current tax recoverable		**1,328**	1,397
Trade and other receivables	*11*	**203,820**	151,040
Cash and cash equivalents		**47,802**	32,904
		665,117	399,102
Current liabilities			
Trade and other payables	*12*	**327,709**	222,112
Bank loans and overdrafts		**211,433**	144,237
Obligations under finance leases		**276**	602
Current tax payable		**4,701**	7,155
		544,119	374,106
Net current assets		**120,998**	24,996
Total assets less current liabilities carried forward		**991,019**	854,570

CONSOLIDATED BALANCE SHEET *(Continued)*
As at 30 June 2009 – unaudited

	Note	**At 30 June 2009** *HK$'000*	At 31 December 2008 *HK$'000*
Total assets less current liabilities brought forward		**991,019**	854,570
Non-current liabilities			
Bank loans		**140,950**	67,747
Rental deposits		**4,352**	5,717
Obligations under finance leases		**–**	258
Deferred tax liabilities		**72,908**	72,989
Accrued employee benefits		**6,362**	1,502
		224,572	148,213
NET ASSETS		**766,447**	706,357
CAPITAL AND RESERVES			
Share capital		**66,541**	66,541
Reserves		**694,562**	634,103
Total equity attributable to equity shareholders of the Company		**761,103**	700,644
Minority interests		**5,344**	5,713
TOTAL EQUITY		**766,447**	706,357

NOTES

1. Independent review

The consolidated interim financial report for the six months ended 30 June 2009 is unaudited, but has been reviewed by the Audit Committee.

2. Basis of preparation

The consolidated interim financial report for the six months ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates.

This consolidated interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The consolidated interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 3.

3. Changes in accounting policies

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

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*

The amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, but has not resulted in additional reportable segments being identified and presented (see note 4). As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

3. Changes in accounting policies *(Continued)*

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendment has resulted in changes to the Group's accounting policies:

  – As a result of amendments to HKAS 28, *Investments in associates*, impairment losses recognised in respect of the associates carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

4. Segment reporting

The Group manages its businesses by divisions, which are organised by business lines. On first-time adoption of HKFRS 8, *Operating segments* and 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.
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.

4. Segment reporting *(Continued)*

(a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of intangible assets, interests in associates, investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

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, directors' and auditors' remuneration 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 period is set out below:

	Toys and model trains		Property investment		Investment holding		Total	
For the six months ended 30 June	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**484,610**	273,980	**17,020**	16,813	**–**	–	**501,630**	290,793
Inter-segment revenue	**–**	–	**262**	489	**–**	–	**262**	489
Reportable segment revenue	**484,610**	273,980	**17,282**	17,302	**–**	–	**501,892**	291,282
Reportable segment (loss)/profit (adjusted EBITDA)	**(7,794)**	(3,395)	**9,133**	10,603	**(2,543)**	(3,542)	**(1,204)**	3,666
Reportable segment assets	**780,753**	456,125	**663,814**	663,829	**164,854**	248,706	**1,609,421**	1,368,660
Additions to non-current segment assets during the period	**50,079**	16,433	**–**	–	**–**	–	**50,079**	16,433
Reportable segment liabilities	**541,211**	474,963	**33,385**	35,989	**90,656**	85,319	**665,252**	596,271

4. Segment reporting *(Continued)*

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

Revenue	Six months ended 30 June 2009 *HK$'000*	2008 *HK$'000*
Reportable segment revenue	**501,892**	291,282
Elimination of inter-segment revenue	**(262)**	(489)
Consolidated turnover	**501,630**	290,793

Profit	Six months ended 30 June 2009 *HK$'000*	2008 *HK$'000*
Reportable segment (loss)/profit	**(1,204)**	3,666
Elimination of inter-segment losses	**1,953**	1,950
Reportable segment profit derived from Group's external customers	**749**	5,616
Share of profits less losses of associates	**(962)**	(455)
Other revenue	**8,347**	6,977
Other net income	**1,416**	4,738
Depreciation	**(16,588)**	(11,914)
Amortisation of land lease premium	**(11)**	(11)
Finance costs	**(3,105)**	(4,313)
Excess of interest in fair values of the acquiree's identifiable assets over cost of business combination	**64,401**	–
Unallocated income	**–**	1,500
Unallocated headoffice and corporate expenses	**(3)**	(15)
Consolidated profit before taxation	**54,244**	2,123

Assets	At 30 June 2009 *HK$'000*	At 31 December 2008 *HK$'000*
Reportable segment assets	**1,609,421**	1,368,660
Elimination of inter-segment receivable	**(218,587)**	(264,630)
	1,390,834	1,104,030
Interests in associates	**48,357**	46,596
Intangible assets	**717**	536
Other non-current financial assets	**9,577**	5,506
Deferred tax assets	**28,519**	29,704
Current tax recoverable	**1,328**	1,397
Cash and cash equivalents	**47,802**	32,904
Unallocated headoffice and corporate assets	**8,004**	8,003
Consolidated total assets	**1,535,138**	1,228,676

NOTES (Continued)

4. **Segment reporting** *(Continued)*

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

Liabilities	**At 30 June 2009** *HK$'000*	At 31 December 2008 *HK$'000*
Reportable segment liabilities	**665,252**	596,271
Elimination of inter-segment payables	**(218,587)**	(264,630)
	446,665	331,641
Current tax liabilities	**4,701**	7,155
Deferred tax liabilities	**72,908**	72,989
Unallocated head office and corporate liabilities	**244,417**	110,534
Consolidated total liabilities	**768,691**	522,319

5. **Seasonality of operations**

The Group's toys and model trains division, a separate business segment (see note 4), on average experiences higher sales in the second half year, compared to the first half year, due to the increased demand of its products during the holiday season. As such, the first half year reports lower revenues and segment results for this segment than the second half.

6. **Profit before taxation**

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

	Six months ended 30 June	
	2009 *HK$'000*	2008 *HK$'000*
(a) **Finance costs**		
Finance charges on obligations under finance leases	**16**	21
Interest on other borrowings	**3,089**	4,292
	3,105	4,313
(b) **Other items**		
Cost of inventories	**397,277**	198,645
Amortisation of intangible assets	**17**	18
Net loss/(gain) on disposal of fixed assets	**11**	(1,931)
Interest income	**(531)**	(732)
Net gain on disposal of financial assets	**–**	(1,244)

7. 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 ("Sanka 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). Sanda Kan is principally engaged in the manufacturing and trading of toys and model trains.

Management has not obtained 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. 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 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	221	–	221
Deferred tax assets	42	–	42
Inventories	117,676	–	117,676
Trade and other receivables	165,226	–	165,226
Cash and cash equivalents	20,537	–	20,537
Trade and other payables	(190,367)	–	(190,367)
Current taxation	(888)	–	(888)
Long service payments	(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)
Consideration paid, satisfied in cash			66,300
Net cash outflow in respect of purchase of subsidiary:			
Consideration paid, satisfied in cash			66,300
Professional costs incurred			8,259
			74,559
Less: cash acquired			(20,537)
			54,022

8. Income tax charge/(credit)

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax	**4,318**	4,792
Current tax – Outside Hong Kong	**589**	(426)
Deferred taxation	**1,146**	(10,867)
Income tax charge/(credit)	**6,053**	(6,501)

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2008: 16.5%) to the six months ended 30 June 2009. Taxation for subsidiaries outside Hong Kong is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

9. Dividends

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

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year ended 31 December 2008, approved and paid during the following interim period, of HK Nil cents per ordinary share (six months ended 30 June 2008: HK 1.5 cents per ordinary share)	**–**	9,981

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$48,626,000 (six months ended 30 June 2008: HK$8,612,000) and the weighted average number of ordinary shares of 665,412,000 (2008: 665,412,000).

(b) Diluted earnings per share

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

11. Trade and other receivables

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

	At 30 June 2009 *HK$'000*	At 31 December 2008 *HK$'000*
Current	**120,075**	67,229
1 to 3 months overdue	**35,924**	20,454
More than 3 months overdue but less than 12 months overdue	**5,388**	4,373
More than 12 months overdue	**–**	108
Total trade debtors, net of allowance for doubtful debts	**161,387**	92,164
Other debtors and prepayments	**42,433**	58,876
	203,820	151,040

Credit evaluations are performed on all customers requiring credit over a certain amount. Debtors are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

12. Trade and other payables

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

	At 30 June 2009 *HK$'000*	At 31 December 2008 *HK$'000*
Due within 1 month or on demand	**75,248**	52,186
Due after 1 month but within 3 months	**17,847**	1,618
Due after 3 months but within 6 months	**5,779**	84
Due after 6 months	**15**	33
Total trade creditors	**98,889**	53,921
Other payables	**228,820**	168,191
	327,709	222,112

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2009 (2008: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

During the period under review, the Group recorded a consolidated turnover of HK$501.63 million, which increased by 72.50% as compared to HK$290.79 million reported for the corresponding period last year. The increment was mainly due to the inclusion of half-year contribution from Sanka Kan group. The profit attributable to equity shareholders amounted to HK$48.63 million, representing an increase of 464.63% as compared to HK$8.61 million reported for the corresponding period. This was primarily attributable to the excess of interest in fair value of the acquiree's identifiable assets over cost of business combination.

BUSINESS REVIEW

Toys and Model Trains

During the first half year of 2009, the turnover for the Group's OEM/ODM toys business was HK$188.49 million, which increased by 53.30% as compared to the corresponding period 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 and broadened our customer base. However, given concerns over product safety and recalls around the world, we have continued to place more effort in enhancing safety precautions and quality control, further increasing the cost of testing for toys. On the other hand, the Group faces keen competition which continues to limit the scope of price increases. As the Group has to absorb part of these increasing costs, profit margins have been affected.

Regarding the model trains business, the turnover in the first half year of 2009 was approximately HK$296.12 million, which increased by 96.08% as compared to the corresponding period last year. The increment was mainly attributable to the inclusion of half-year contribution from Sanda Kan group since its acquisition. The Group is proud to announce that the Group's subsidiary, Bachmann Europe Plc., was awarded "Manufacturer of the Year 2008" by Model Rail Magazine, RM Web and MREMAG. In addition, our Branchline OO scale model train Class 55 Deltic, G2 0-8-0 Steam and BR 12T Ventilated Van, Graham Farish N scale model train Class 108 and Stanier Coaches were awarded "Model of the Year 2008" under different categories. The Group continued to gain the loyalty of customers and has maintained our leading position in the industry.

Property Investment

During the period under review, the rental income of the Group amounted to HK$17.02 million, representing a 1.22% increment as compared to the corresponding period last year. The increase reflected the upward adjustment in rental rate upon lease renewals for Kader Building.

The Group's major investment property, Kader Building, continued to generate recurring revenue for the Group. For the first six months of the year, the rental income of Kader Building amounted to HK$16.56 million, representing a 10.33% increment over the corresponding period last year. As at 30 June 2009, the occupancy rate of Kader Building was approximately 84% (2008: 95%).

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 June 2009, the Group's net asset value per share amounted to HK$1.15 (at 31 December 2008: HK$1.06); the current ratio was 1.22 (at 31 December 2008: 1.07); total bank borrowings were approximately HK$352.38 million (at 31 December 2008: HK$211.98 million) while the Group secured total banking facilities of approximately HK$497.43 million (at 31 December 2008: HK$441.47 million) of which the amount unutilised as at 30 June 2009 was approximately HK$172.45 million (at 31 December 2008: HK$279.94 million); the Group's financial gearing, based on the total interest bearing borrowings compared to the total equity, was 45.98% (at 31 December 2008: 30.03%). There is no significant seasonality in borrowing requirements except that during the peak production period in the second half year, the Group's facilities for trade finance will be substantially utilised. The majority of borrowings are on floating interest rate terms.

Capital Structure

During the period under review, there were no changes in the Company's share capital. The Group's source of financing was mainly bank borrowings, which were denominated in Hong Kong Dollars, United States Dollars and Sterling Pounds at prevailing interest rates.

Charges on Group Assets

As at 30 June 2009, certain investment properties, leasehold land and buildings, inventories and other assets of the Group with net book value of HK$778.14 million (at 31 December 2008: HK$823.66 million) were mortgaged to various banks to secure the bank loans and overdrafts granted to the Group.

Material Acquisitions and Disposals

There was no material disposals during the six months ended 30 June 2009, material acquisitions are discussed as follows:

On 23 January 2009, the Group completed the acquisition of Sanda Kan and its subsidiaries for an aggregate consideration of US$8.50 million (equivalent to HK$66.30 million) incurring total advisory fees of US$1.06 million (equivalent to HK$8.26 million). Sanda Kan is an investment holding company and its major subsidiaries are principally engaged in patent licensing, trading, manufacturing and marketing of toys and in particular, manufacturing of model trains and race cars on an OEM basis. The Group believes that the acquisition of Sanda Kan will increase the model train production capacity of the Group, assist in capturing market share in the high margin market segment and expand the Group's sources of revenue. The acquisition provides synergy with the existing model train manufacturing operations of the Group.

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated in Hong Kong Dollars, United States Dollars, Sterling Pounds, Renminbi Yuan and Euros. During the period 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 faced a certain degree of exchange rate risk; mainly arising from Sterling Pounds denominated sales transactions of which the exchange rate volatility is relatively high.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2009, the Group employed approximately 18,880 (at 30 June 2008: 7,030; at 31 December 2008: 6,545) full time management, administrative and production staff in Hong Kong SAR, Mainland China, the United States and Europe. The increase was due to the inclusion of the Sanka Kan group. The Group had seasonal fluctuations in the number of workers employed in its production plant while the number of other 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

Looking ahead, business conditions continue to remain challenging in the second half of 2009 and management will adopt a cost-conscious approach towards managing its current business. 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. Meanwhile, the Company still faces various challenges in its operations. Factors such as the volatility of raw material prices, high product safety standards, the appreciation of the Renminbi Yuan and continually increasing labour costs are expected to affect the Group's profitability. Despite the significant increase in manufacturing costs and uncertainty, the Group believes that the acquisition of Sanda Kan will provide the opportunities to strengthen its business growth by expanding its market share and bring returns to shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2009. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period under review.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board regularly reviews and adopts corporate governance guidelines and developments. Throughout the period under review, the Group has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except for the deviation from CG Code E.1.2.

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 Chairman's attendance, the Chairman was not present at the annual general meeting of the Company held on 3 June 2009.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the key accounting policies, and discussed auditing, internal controls and financial reporting matters, including a review of the interim results for the period ended 30 June 2009.

REMUNERATION COMMITTEE

The Remuneration Committee, comprising of two independent non-executive directors of the Company and the Managing Director of the Company, is responsible for reviewing and making recommendations to the Board on the Company's policy and structure for all remunerations of directors and senior management.

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.

By order of the Board
Kenneth Ting Woo-shou
Managing Director

Hong Kong, 18 September 2009

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

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