



KADER

Manufacturing Trust

KADER HOLDINGS COMPANY LIMITED

INTERIM REPORT 2017

(Stock Code : 180)

Interim Results For the Six Months Ended 30 June 2017

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 2017, together with comparative figures for the corresponding period in 2016 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017 - unaudited

		Six months ended 30 June	
	<i>Note</i>	2017	2016
		HK\$'000	HK\$'000
Revenue	5 & 6	323,215	319,007
Other income		11,522	(835)
Changes in inventories of finished goods and work in progress		16,145	14,635
Cost of purchase of finished goods		(11,618)	(11,546)
Raw materials and consumables used		(93,841)	(75,803)
Staff costs		(107,653)	(119,675)
Depreciation		(14,236)	(16,186)
Other operating expenses		(69,598)	(79,035)
		53,936	30,562
Profit from operations		53,936	30,562
Finance costs	7(a)	(3,576)	(4,733)
Share of profits less losses of associates		2,482	1,305
		52,842	27,134
Profit before taxation	7	52,842	27,134
Income tax expense	8	(7,416)	(7,371)
		45,426	19,763
Profit for the period		45,426	19,763
Attributable to:			
Equity shareholders of the Company		39,584	18,223
Non-controlling interests		5,842	1,540
		45,426	19,763
Profit for the period		45,426	19,763
Earnings per share	9		
Basic		4.16¢	1.92¢
		4.16¢	1.92¢
Diluted		4.16¢	1.92¢
		4.16¢	1.92¢

The notes on pages 7 to 19 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15(a).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 June 2017 - unaudited

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Profit for the period	45,426	19,763
Other comprehensive income for the period: (after tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	4,946	(12,524)
Available-for-sale securities: – changes in fair value during the period	1,603	391
Total comprehensive income for the period	51,975	7,630
Attributable to:		
Equity shareholders of the Company	46,082	6,243
Non-controlling interests	5,893	1,387
Total comprehensive income for the period	51,975	7,630

Note: There is no tax expense or benefit in relation to the profit or loss and other comprehensive income in either the current or the prior period.

The notes on pages 7 to 19 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017 - unaudited

		At 30 June 2017	At 31 December 2016
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Investment properties	<i>10</i>	1,616,473	1,616,473
Other property, plant and equipment	<i>10</i>	128,982	130,559
		1,745,455	1,747,032
Intangible assets		1,322	1,679
Interests in associates		56,708	53,845
Other non-current financial assets		13,314	8,608
Deferred tax assets		16,364	9,985
		1,833,163	1,821,149
Current assets			
Inventories	<i>11</i>	318,948	293,026
Loans to an associate		20,326	22,556
Trade and other receivables	<i>12</i>	146,985	143,472
Cash and cash equivalents	<i>13</i>	81,457	62,157
		567,716	521,211
Current liabilities			
Trade and other payables	<i>14</i>	165,481	140,164
Bank loans		305,420	329,585
Current tax payable		47,346	41,792
		518,247	511,541
Net current assets		49,469	9,670
Total assets less current liabilities carried forward		1,882,632	1,830,819

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)*As at 30 June 2017 - unaudited*

	At	At
	30 June	31 December
	2017	2016
<i>Note</i>	HK\$'000	HK\$'000
Total assets less current liabilities brought forward	1,882,632	1,830,819
Non-current liabilities		
Bank loans	13,298	–
Deferred rental expenses	3,854	3,845
Rental deposits	3,406	2,720
Deferred tax liabilities	21,875	21,770
Accrued employee benefits	251	251
	42,684	28,586
NET ASSETS	1,839,948	1,802,233
CAPITAL AND RESERVES		
Share capital	95,059	95,059
Reserves	1,742,300	1,710,477
Total equity attributable to equity shareholders of the Company	1,837,359	1,805,536
Non-controlling interests	2,589	(3,303)
TOTAL EQUITY	1,839,948	1,802,233

The notes on pages 7 to 19 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 - unaudited

		Attributable to equity shareholders of the Company										
		Share capital	Share premium	Capital reserve	Contributed surplus	Exchange reserve	Land and buildings revaluation reserve	Fair value reserve	Revenue reserve	Total	Non- controlling interests	Total equity
Note		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Balance at 1 January 2016	95,059	185,138	10,815	173,397	(56,946)	62,667	(779)	1,247,662	1,717,013	445	1,717,458
	Changes in equity for the six months ended 30 June 2016:											
	Total comprehensive income for the period	-	-	-	-	(12,371)	-	391	18,223	6,243	1,387	7,630
	Dividends approved in respect of the previous year	15	-	-	-	-	-	-	(14,259)	(14,259)	-	(14,259)
	Balances at 30 June 2016 and 1 July 2016	95,059	185,138	10,815	173,397	(69,317)	62,667	(388)	1,251,626	1,708,997	1,832	1,710,829
	Changes in equity for the six months ended 31 December 2016:											
	Total comprehensive income for the period	-	-	-	-	(8,424)	-	281	104,682	96,539	(1,033)	95,506
	Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,102)	(4,102)
	Balances at 31 December 2016 and 1 January 2017	95,059	185,138	10,815	173,397	(77,741)	62,667	(107)	1,356,308	1,805,536	(3,303)	1,802,233
	Changes in equity for the six months ended 30 June 2017:											
	Total comprehensive income for the period	-	-	-	-	4,895	-	1,603	39,584	46,082	5,893	51,975
	Dividends approved in respect of the previous year	15	-	-	-	-	-	-	(14,259)	(14,259)	-	(14,259)
	Deregistration of a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	-	(1)	(1)
	Balance at 30 June 2017	<u>95,059</u>	<u>185,138</u>	<u>10,815</u>	<u>173,397</u>	<u>(72,846)</u>	<u>62,667</u>	<u>1,496</u>	<u>1,381,633</u>	<u>1,837,359</u>	<u>2,589</u>	<u>1,839,948</u>

The notes on pages 7 to 19 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017 - unaudited

		Six months ended 30 June	
		2017	2016
	Note	HK\$'000	HK\$'000
Operating activities			
Cash generated from operations		66,872	41,669
Tax paid		(7,999)	(111)
		<u>66,872</u>	<u>41,669</u>
Net cash generated from operating activities		58,873	41,558
		<u>58,873</u>	<u>41,558</u>
Investing activities			
Payment for the purchase of property, plant and equipment		(11,834)	(14,631)
Payment for the purchase of available-for-sale securities		(3,103)	(3,900)
Other cash flows arising from investing activities		3,321	5,203
		<u>3,321</u>	<u>5,203</u>
Net cash used in investing activities		(11,616)	(13,328)
		<u>(11,616)</u>	<u>(13,328)</u>
Financing activities			
Dividend paid to equity shareholders of the Company		(14,259)	(14,259)
Other cash flows (used in)/arising from financing activities		(14,444)	24,098
		<u>(14,444)</u>	<u>24,098</u>
Net cash (used in)/generated from financing activities		(28,703)	9,839
		<u>(28,703)</u>	<u>9,839</u>
Net increase in cash and cash equivalents		18,554	38,069
Cash and cash equivalents at 1 January	13	62,157	59,260
Effect of foreign exchanges rates changes		746	(24)
		<u>746</u>	<u>(24)</u>
Cash and cash equivalents at 30 June	13	81,457	97,305
		<u>81,457</u>	<u>97,305</u>

The notes on pages 7 to 19 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. Reporting entity

Kader Holdings Company Limited is a company domiciled in Bermuda. The interim financial report of the Company as at and for the six months ended 30 June 2017 comprises the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in associates.

The financial report of the Group as at and for the year ended 31 December 2016 are available upon request from the Company’s principal office at 11/F, 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong or at <http://www.kaderholdings.com>.

2. Basis of preparation

The interim financial report for the six months ended 30 June 2017 comprises the Group and the Group’s interests in associates.

The 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 interim financial report was approved by the Board of Directors and authorised for issue on 30 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of the interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2017.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(Continued)*

3. Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and the financial position for the current or prior periods have been prepared or presented in this interim financial report.

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

4. Estimates

The preparation of interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2016.

5. Segment reporting

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(Continued)*

5. Segment reporting *(Continued)*

(a) Segment results, assets and liabilities

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of intangible assets, interests in associates, other non-current financial assets, deferred tax assets, current tax recoverable, cash and cash equivalents and other corporate assets. Segment liabilities include all liabilities with the exception of current tax payable, deferred tax liabilities and other corporate liabilities.

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

5. Segment reporting (Continued)

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

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

	Toys and model trains		Property investment		Investment holding		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
For the six months ended 30 June								
Revenue from external customers	296,373	293,968	26,842	25,039	-	-	323,215	319,007
Inter-segment revenue	-	-	598	598	-	-	598	598
Reportable segment revenue	296,373	293,968	27,440	25,637	-	-	323,813	319,605
Reportable segment profit/(loss) (adjusted EBITDA)	35,949	27,774	23,288	21,780	(1,914)	(1,236)	57,323	48,318
Additions to non-current segment assets during the period	11,834	14,631	-	-	-	-	11,834	14,631
	Toys and model trains		Property investment		Investment holding		Total	
	At 30 June 2017	At 31 December 2016	At 30 June 2017	At 31 December 2016	At 30 June 2017	At 31 December 2016	At 30 June 2017	At 31 December 2016
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Reportable segment assets	569,215	546,229	1,617,443	1,616,773	293,714	309,179	2,480,372	2,472,181
Reportable segment liabilities	731,859	737,202	24,322	23,563	4,444	4,337	760,625	765,102

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(Continued)*

5. Segment reporting *(Continued)*

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Revenue		
Reportable segment revenue	323,813	319,605
Elimination of inter-segment revenue	(598)	(598)
	<hr/>	<hr/>
Consolidated revenue	323,215	319,007
	<hr/> <hr/>	<hr/> <hr/>
Profit		
Reportable segment profit	57,323	48,318
Elimination of inter-segment profit	–	–
	<hr/>	<hr/>
Reportable segment profit derived from		
Group's external customers	57,323	48,318
Other income	11,522	(835)
Depreciation and amortisation	(14,648)	(16,642)
Finance costs	(3,576)	(4,733)
Share of profits less losses of associates	2,482	1,305
Unallocated head office and corporate expenses	(261)	(279)
	<hr/>	<hr/>
Consolidated profit before taxation	52,842	27,134
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NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

5. Segment reporting (Continued)

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

	At 30 June 2017 HK\$'000	At 31 December 2016 HK\$'000
Assets		
Reportable segment assets	2,480,372	2,472,181
Elimination of inter-segment receivables	<u>(268,984)</u>	<u>(288,652)</u>
	2,211,388	2,183,529
Intangible assets	1,322	1,679
Interests in associates	56,708	53,845
Loans to an associate	20,326	22,556
Other non-current financial assets	13,314	8,608
Deferred tax assets	16,364	9,985
Cash and cash equivalents	81,457	62,157
Unallocated head office and corporate assets	<u>–</u>	<u>1</u>
Consolidated total assets	<u>2,400,879</u>	<u>2,342,360</u>
Liabilities		
Reportable segment liabilities	760,625	765,102
Elimination of inter-segment payables	<u>(268,984)</u>	<u>(288,652)</u>
	491,641	476,450
Current tax payable	47,346	41,792
Deferred tax liabilities	21,875	21,770
Unallocated head office and corporate liabilities	<u>69</u>	<u>115</u>
Consolidated total liabilities	<u>560,931</u>	<u>540,127</u>

6. Seasonality of operations

The Group's toys and model trains division, a separate business segment (see note 5), on average experiences higher sales in the second half of the year, compared to the first half of the year, due to increased demand for its products during the holiday season. As such, the first half of the year generally reports lower revenue and segment results for this segment than the second half.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

7. Profit before taxation

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
(a) Finance costs		
Interest on bank loans	3,576	4,733
	<u>3,576</u>	<u>4,733</u>
(b) Other items		
Cost of inventories (note 11)	186,138	185,867
Amortisation of intangible assets	412	456
Net (gain)/loss on disposal of property, plant and equipment (note 10(b))	(706)	228
Interest income	(630)	(716)
	<u>(630)</u>	<u>(716)</u>

8. Income tax expense

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax	11,577	9,076
Current tax – Outside Hong Kong	2,219	43
Deferred tax	(6,380)	(1,748)
	<u>(6,380)</u>	<u>(1,748)</u>
Income tax expense	7,416	7,371
	<u>7,416</u>	<u>7,371</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2016: 16.5%) to the six months ended 30 June 2017. 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. 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\$39,584,000 (six months ended 30 June 2016: HK\$18,223,000) and the weighted average of 950,588,000 ordinary shares (six months ended 30 June 2016: 950,588,000 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

10. Investment properties and other property, plant and equipment

(a) Acquisitions

During the six months ended 30 June 2017, the Group acquired items of other property, plant and equipment with an aggregate cost of HK\$11,834,000 (six months ended 30 June 2016: HK\$14,631,000).

(b) Disposals

Items of other property, plant and equipment with cost and net book value of HK\$12,742,000 and HK\$136,000 respectively were disposed of during the six months ended 30 June 2017 (six months ended 30 June 2016: HK\$4,848,000 and HK\$260,000), resulting in a gain on disposal of HK\$706,000 (six months ended 30 June 2016: loss on disposal of HK\$228,000).

(c) Valuation

All investment properties of the Group were revalued as at 31 December 2016 on an open market value basis, by either making reference to the comparable sales evidence in the relevant locality, or otherwise, by capitalising the current rent derived from the existing tenancies with the provision for any reversionary income potential.

The directors have reviewed the valuation of the investment properties since the previous annual reporting date taking into account the volatility of the property market and available market data on comparable properties, and consider that the investment properties as at 30 June 2017 are carried at fair value.

11. Inventories

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Carrying amount of inventories sold	185,733	187,678
Write-down of inventories	2,528	1,110
Reversal of write-down of inventories	(2,123)	(2,921)
	<u>186,138</u>	<u>185,867</u>

The reversal of write-down of inventories made in current and prior periods arose upon sale of these inventories.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(Continued)*

12. Trade and other receivables

Included in trade and other receivables are trade debtors, based on the invoice date and net of allowance for doubtful debts, with the following ageing analysis as at end of the reporting period:

	At 30 June 2017 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>
Within 1 month	65,545	78,302
1 to 3 months	43,232	32,439
3 to 12 months	3,473	3,240
Over 12 months	1,614	1,612
	<hr/>	<hr/>
Total trade debtors, net of allowance for doubtful debts	113,864	115,593
Amount due from an associate	–	1,399
Amounts due from related companies	1,641	1,515
Other debtors and prepayments	31,480	24,965
	<hr/>	<hr/>
	146,985	143,472
	<hr/> <hr/>	<hr/> <hr/>

Credit evaluations are performed on all customers requiring credit over a certain amount. Most of the trade debtors are due within ninety days from the date of billing.

13. Cash and cash equivalents

	At 30 June 2017 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>
Cash at bank and on hand	81,457	62,157
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NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(Continued)*

14. Trade and other payables

Included in trade and other payables are trade creditors with the following ageing analysis as at the end of the reporting period:

	At 30 June 2017 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>
Within 1 month	52,994	20,658
Over 1 month but within 3 months	5,728	14,896
Over 3 months but within 6 months	749	1,011
Over 6 months	954	1,467
	<hr/>	<hr/>
Total trade creditors	60,425	38,032
Other creditors and accrued charges	95,830	93,021
Rental deposits	8,537	8,422
Amount due to a related company	689	689
	<hr/>	<hr/>
	165,481	140,164
	<hr/> <hr/>	<hr/> <hr/>

15. Capital, reserves and dividends

(a) Dividends

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

	Six months ended 30 June 2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK1.5 cents per ordinary share (six months ended 30 June 2016: HK1.5 cents per ordinary share)	14,259	14,259
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

15. Capital, reserves and dividends (Continued)

(b) Share capital

	2017		2016	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Ordinary shares, issued and fully paid				
At 1 January and 30 June	<u>950,588</u>	<u>95,059</u>	<u>950,588</u>	<u>95,059</u>

(c) Share premium

The application of the share premium account is governed by section 40 of the Companies Act 1981 of Bermuda. The addition in share premium represents the difference between the total amount of the par value of shares issue.

16. Fair value measurement of financial instruments

(a) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

16. Fair value measurement of financial instruments (Continued)

(a) Financial assets measured at fair value (Continued)

Fair value hierarchy (Continued)

	Fair value as at 30 June 2017 <i>HK\$'000</i>	Fair value measurements as at 30 June 2017 categorised into		
		Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>
Recurring fair value measurements				
Assets:				
Listed available-for-sale securities:				
– equity	6,873	6,873	–	–
– debt	1,993	1,993	–	–
Unlisted available-for-sale securities:				
– equity	4,448	–	4,448	–

	Fair value as at 31 December 2016 <i>HK\$'000</i>	Fair value measurements as at 31 December 2016 categorised into		
		Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>
Recurring fair value measurements				
Assets:				
Listed available-for-sale securities:				
– equity	3,972	3,972	–	–
– debt	829	829	–	–
Unlisted available-for-sale securities:				
– equity	3,807	–	3,807	–

During the six months ended 30 June 2017, there were no transfers between Level 1 and Level 2, nor transfers into or out of Level 3 (2016: HK\$Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016 and 30 June 2017.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

17. Capital commitments outstanding not provided for in the interim financial report

	At 30 June 2017 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>
Contracted for	<u>988</u>	<u>1,844</u>

18. Contingent liabilities

As at 30 June 2017, the Group did not have any significant contingent liabilities.

19. Material related party transactions

As at 30 June 2017, the Group advanced funds totalling HK\$40,157,000 (31 December 2016: HK\$39,776,000) to certain associates in which some of the directors of the Company have beneficial interests.

INTERIM DIVIDEND

The Board of Directors has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2017 (2016: HK\$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

During the period under review, the Group recorded a consolidated revenue of approximately HK\$323.22 million, which increased by approximately 1.32% as compared to approximately HK\$319.01 million reported for the corresponding period last year. The Group achieved the profit before tax of approximately HK\$52.84 million, representing an increase of approximately 94.77% as compared to approximately HK\$27.13 million reported for the corresponding period last year. It was mainly attributable to the increase in production efficiency, effective cost control and the increase in other income. The profit attributable to equity shareholders amounted to approximately HK\$39.58 million.

BUSINESS REVIEW

Toys and Model Trains

During the first half year of 2017, the revenue was approximately HK\$296.37 million, representing an increase of approximately 0.82% as compared to the corresponding period last year.

The Group will continue to manufacture high quality products with competitive prices to increase the revenue and profit.

Property Investment

During the period under review, the Group's rental income amounted to approximately HK\$26.85 million, representing an increase of approximately 7.23% as compared to the corresponding period last year and the occupancy rate of its investment properties was approximately 91%.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 June 2017, the Group's net asset value per share was approximately HK\$1.94 (31 December 2016: approximately HK\$1.90). The Group had net current assets of approximately HK\$49.47 million (31 December 2016: approximately HK\$9.67 million). Total bank borrowings were approximately HK\$318.72 million (31 December 2016: approximately HK\$329.59 million) while the secured total banking facilities were approximately HK\$918.76 million (31 December 2016: approximately HK\$795.89 million). Included in total bank borrowings were revolving loans of approximately HK\$187.80 million (31 December 2016: approximately HK\$210.89 million) which are intended to be rolled over upon maturity. The Group's financial gearing, based on the total bank borrowings compared to the total equity, was approximately 17.32% (31 December 2016: approximately 18.29%). 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 period under review, there were no changes in the Company's share capital.

Charges on Group Assets

As at 30 June 2017, investment properties, certain leasehold land and buildings, inventories and other assets of the Group with a net book value of approximately HK\$1,842.31 million (31 December 2016: approximately HK\$1,862.90 million) were mortgaged to various banks to secure the banking facilities granted to the Group.

Material Acquisitions and Disposals

There were no material acquisitions and disposals during the six months ended 30 June 2017.

RISKS AND UNCERTAINTIES

The Group's financial position and results of operations may be affected by a number of risks and uncertainties pertaining to the Group's businesses. The following are the key risks and uncertainties identified by the Group:

Business Risk

Performance of the Group's core business will be affected by various factors, including but not limited to economic conditions which would not be mitigated even with strict operational procedures.

Interest Rate Risk

The Group's interest rate risk arises primarily from bank borrowings. The Group analyses its interest rate exposure on a dynamic basis and manages this risk in a cost-effective manner.

Liquidity risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding. In managing the liquidity risk, the Group monitors the cash flows and will negotiate with banks to increase the banking facilities, if necessary.

Customer risk

The sales to one of the Group's customers represented approximately 54% of the Group's sales during the six months ended 30 June 2017. The Group has endeavoured to diversify its customer base and provided quality products and services to the customers to maintain good relationship with them so as to mitigate the customer risk.

Foreign Exchange Rate Risk

Major assets, liabilities and transactions of the Group are denominated in Hong Kong dollars ("HKD"), United States dollars ("USD"), Sterling Pounds ("GBP") and Renminbi Yuan ("RMB"). As such, the Group faces a certain degree of exchange rate risk mainly arising from GBP and RMB denominated transactions for which the exchange rate volatility is relatively high.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group employed 2,552 (31 December 2016: 2,079) full time management, administrative and production staff in Hong Kong Special Administrative Region ("HKSAR"), Mainland China, the United States ("US") and Europe. The Group has seasonal fluctuations in the number of workers employed in its production plants while the number of management and administrative staff remains stable. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In the area of staff training, the Group encourages staff to participate in courses on technical skills improvement and personal development.

PROSPECTS

It is expected that the economic growth in the US market will be sustained which is beneficial to our toys and model trains business. The Group will continue to enhance production efficiency and strengthen the cost control measures in order to maintain its competitive position. With the robust cost control measures and experienced management team, the Group remains cautiously optimistic about its future development. Furthermore, the Group has the intention to revitalize the investment properties, and has commenced initial procedures and submitted the relevant documents to the Government of the HKSAR. The revitalization will increase the value of the investment properties and the rental income in the future.

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 30 June 2017, 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 corporations (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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") 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	290,715,941	2,075,183 ⁽ⁱ⁾	258,963,571 ⁽ⁱⁱ⁾	551,754,695	58.04%
Nancy Ting Wang Wan-sun	2,075,183	-	-	2,075,183	0.22%
Ivan Ting Tien-li	20,480,432	-	-	20,480,432	2.15%
Moses Cheng Mo-chi	15,714	-	-	15,714	0.00%
Bernie Ting Wai-cheung	-	-	-	-	-
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 through Border Shipping Limited; and 49,292,571 shares of the Company held by Glory Town Limited, in which Mr. Kenneth Ting Woo-shou has a controlling interest through Tyrol Investments Limited.

(2) **Interests in Associated Corporations**

Name of associated corporations	Beneficial interests	Class of shares	Number of shares held			% of interests in associated corporations
			Personal interests	Family interests	Corporate interests	
Allman Holdings Limited	Ivan Ting Tien-li	Ordinary shares of US\$1.00 each	920 ⁽ⁱ⁾	-	-	63.89%
Pacific Squaw Creek, Inc.	Ivan Ting Tien-li	Ordinary shares of US\$1.00 each	-	-	1,000 ⁽ⁱⁱ⁾	100.00%
Squaw Creek Associates, LLC	Ivan Ting Tien-li	Not applicable ⁽ⁱⁱⁱ⁾	-	-	-	62.00% ^(iv)
Squaw Creek Associates, LLC	Kenneth Ting Woo-shou	Not applicable ⁽ⁱⁱⁱ⁾	-	-	-	13.00% ^(v)

Notes:

- (i) These interests are held by Mr. Ivan Ting Tien-li.
- (ii) These interests are held by Allman Holdings Limited (“Allman”). Mr. Ivan Ting Tien-li’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. Ivan Ting Tien-li’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 30 June 2017, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Save as disclosed above, as at 30 June 2017, 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 30 June 2017, substantial shareholders and other persons (other than directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which were recorded in the register kept by the Company under section 336 of the SFO were as follows:

Substantial shareholders and other persons	Number of ordinary shares of HK\$0.10 each				% of total issued share capital
	Personal interests	Family interests	Corporate interests	Total interests	
Forest Crimson Limited	-	-	209,671,000 ⁽ⁱ⁾	209,671,000	22.06%
Ting Hok-shou	13,800,238	571,429 ⁽ⁱⁱ⁾	39,098,281 ⁽ⁱⁱⁱ⁾	53,469,948	5.62%
Emily Tsang Wing-hin	571,429	13,800,238 ⁽ⁱⁱⁱ⁾	39,098,281 ⁽ⁱⁱⁱ⁾	53,469,948	5.62%

Notes:

- (i) 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 Forest Crimson Limited has a controlling interest through Border Shipping Limited.
- (ii) The spouse of Mr. Ting Hok-shou, Ms. Emily Tsang Wing-hin, is the beneficial shareholder.
- (iii) Included in the "Corporate Interests" above were 3,913,997 shares of the Company held by Golden Tree Investment Company Limited, in which Mr. Ting Hok-shou and Ms. Emily Tsang Wing-hin together have controlling interest; and 35,184,284 shares of the Company held by Kimpont Limited, in which Mr. Ting Hok-shou and Ms. Emily Tsang Wing-hin together have controlling interest through Golden Tree Investment Company Limited and Yale Investment Corporation.
- (iv) The spouse of Ms. Emily Tsang Win-hin is the beneficial shareholder.

Save as disclosed above, as at 30 June 2017, the Company was not notified by any persons (other than directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which were recorded in the register kept by the Company under section 336 of the SFO.

Directors' Rights to Acquire Shares or Debentures

At no time during the period 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2017. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period under review.

CORPORATE GOVERNANCE

The Board of Directors regularly reviews its corporate governance practices to ensure its continuous compliance with the Corporate Governance Code (“CG Code”) as set out in Appendix 14 to the Listing Rules. Throughout the period under review, the Group has complied with all code provisions in CG Code, except for the deviation from CG Code A.2.1 as described below:

Under CG Code A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Kenneth Ting Woo-shou has the combined role of Chairman and Managing Director. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as non-executive directors and independent non-executive directors (“INEDs”) form the majority of the Board, with seven out of nine of the directors of the Company being non-executive directors and INEDs. The Board believes the appointment of Mr. Kenneth Ting Woo-shou to the posts of Chairman and Managing Director is beneficial to the Group as he has considerable industry experience.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the key accounting policies and discussed auditing, internal controls and financial reporting matters, including a review of the interim results for the six months ended 30 June 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its model code for securities transactions by the Company’s directors and relevant employees who are or may be in possession of unpublished inside information. Based on specific enquiries made, all directors have confirmed that they have complied with the Model Code.

By order of the Board
Kenneth Ting Woo-shou
Chairman

Hong Kong, 30 August 2017

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