THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountants or other professional adviser.

If you have sold or transferred all your shares in **Kader Holdings Company Limited**, you should at once hand this circular and the enclosed proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser and transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

KADER

Manufacturing Trust

KADER HOLDINGS COMPANY LIMITED
開達集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 180)

VERY SUBSTANTIAL ACQUISITION

A notice convening the Special General Meeting of Kader Holdings Company Limited to be held at 12th Floor, 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong on Thursday, 8 January 2009 at 10:30 a.m., is set out on page 175 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the principal place of business of Kader Holdings Company Limited at 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the Special General Meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the Special General Meeting or any adjournment thereof should you so desire.

23 December 2008

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In this circular, the following expressions have the following meanings unless the context otherwise requires:

"Acquisition"	the sale and purchase of the Sale Shares contemplated under the Agreement
"Agreement"	the sale and purchase agreement dated 12 November 2008 entered into between the Company, the Vendor and the Receivers for the acquisition of the Sale Shares by the Company at the total consideration of US$8,500,000 to be satisfied by cash by the Company to the Receivers
"Announcement"	the announcement of the Company dated 17 November 2008 in respect of the Acquisition
"Board"	the board of Directors
"Company"	Kader Holdings Company Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the sale and purchase of the Sale Shares in accordance with the Agreement
"Creditors"	creditors of the Target Company
"Debt"	a debt of US$79,662,000 owed by the Target Company to the Creditors as at the Latest Practicable Date as shown in the audited financial statements of the Target Company for the year ended 31 December 2007, and representing the full Indebtedness as at the Latest Practicable Date
"Deed of Appointment"	the deed of appointment entered into between the Security Trustee and the Receivers dated 10 September 2008 pursuant to which the Receivers are appointed as receivers and managers of, inter alia, all present and future shares in the Target Company
"Deed of Share Charge"	the deed of share charge entered into between the Vendor and the Security Trustee dated 28 February 2007 pursuant to which the Vendor as legal and beneficial owner of the Sale Shares charged in favour of the Security Trustee, inter alia, the Sale Shares
"Director(s)"	director(s) of the Company

"Enlarged Group"	the Group and the Target Group
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"HKFRS"	the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Indebtedness"	the amount outstanding and owed by the Target Company under the Loan Agreement
"Latest Practicable Date"	19 December 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Loan"	a loan of US$92,000,000 made available by the Creditors to the Target Company pursuant to the Loan Agreement
"Loan Agreement"	a loan agreement entered into between, inter alia, the Creditors and the Target Company dated 23 February 2007 for the Loan
"Long Stop Date"	means 12 February 2009
"OEM"	original equipment manufacturing, a type of manufacturing under which products are manufactured, in whole or in part, in accordance with specifications of the customer and are marketed and sold under the customer's brand name
"Percentage Ratios"	the "percentage ratios" as defined in rule 14.04(9) of the Listing Rules
"PRC"	the People's Republic of China
"Receivers"	Messrs John Howard Batchelor, Fok Hei Yu and Roderick John Sutton of Ferrier Hodgson acting as receivers of the Sale Shares

"Sale Shares"	all the issued shares in the capital of the Target Company representing its entire issued share capital to be sold by the Vendor and the Receivers to the Company pursuant to the Agreement
"SGM"	the special general meeting of the Company to be held on 8 January 2009 for the purpose of considering and, if thought fit, approving (inter alia) the terms of the Agreement and the transaction contemplated thereunder by the Shareholders, notice of which is set out on page 175 of this circular, and any adjournment thereof
"Security Trustee"	means Standard Chartered Bank (Hong Kong) Limited as security trustee for the Creditors
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	shares of HK$0.10 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholders"	has the same meaning ascribed to it under the Listing Rules
"Target Company"	Sanda Kan (Cayman III) Holdings Company Limited, a company incorporated in the Cayman Islands with limited liability, and a wholly-owned subsidiary of the Vendor
"Target Group"	the Target Company and its subsidiaries
"USA"	the United States of America
"US$"	the United States dollar(s), the lawful currency of USA
"Vendor"	Sanda Kan (Cayman II) Holdings Company Limited, a company incorporated in the Cayman Islands with limited liability and which has been placed into receivership pursuant to the Deed of Appointment
"Very Substantial Acquisition"	has the same meaning ascribed to it under the Listing Rules
"%"	percentage

KADER HOLDINGS COMPANY LIMITED
開達集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 180)

Executive Directors:
Mr. Kenneth Ting Woo-shou, SBS, JP *(Managing Director)*
Mr. Ivan Ting Tien-li

Non-Executive Directors:
Dr. Dennis Ting Hok-shou, OBE, JP *(Chairman)*
Mr. Moses Cheng Mo-chi, GBS, OBE, JP
Mrs. Nancy Ting Wang Wan-sun

Independent Non-Executive Directors:
Mr. Liu Chee-ming
Mr. Floyd Chan Tsoi-yin
Mr. Andrew Yao Cho-fai

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal Place of Business in Hong Kong:
22 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

23 December 2008

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

Reference is made to the Announcement, in which the Board announced that on 12 November 2008, the Company entered into the Agreement with the Vendor and the Receivers pursuant to which the Company conditionally agreed to acquire from the Vendor and the Receivers the Sale Shares at the total consideration of US$8,500,000 to be paid to the Receivers in cash.

The transaction contemplated by the Agreement constitutes a Very Substantial Acquisition for the Company under Rule 14.06(5) of the Listing Rules, on the basis that the calculation of the relevant Percentage Ratios is 100% or more.

The purpose of this circular is to provide, among other things, further information in relation to the Acquisition together with the notice of SGM for considering and, if thought fit, to approve at the SGM, the Acquisition.

THE AGREEMENT

Date:	12 November 2008
Parties:	
Vendor and Receivers:	Sanda Kan (Cayman II) Holdings Company Limited. On 10 September 2008, the Receivers were appointed as receivers to the Sale Shares pursuant to a Deed of Appointment. The Receivers, in their capacity as receivers of the Sale Shares, have the power to sell the Sale Shares pursuant to a Deed of Share Charge
Purchaser:	the Company
	To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Receivers, the Vendor and the Vendor's ultimate beneficial owners, are independent third parties not connected with the Company nor with the connected persons of the Company. Save for the Acquisition, there is no other business relationship between the Company and the Vendor.

Assets to be acquired

The Sale Shares represent the entire existing issued share capital of the Target Company. Upon Completion, the Company will be the beneficial owner of 100% of the issued share capital of the Target Company.

The Target Company is the beneficial owner of:

(i) NC Train Acquisition LLC, a company incorporated in the USA and is principally engaged in patent licensing;

(ii) Sanda Kan Industrial Company Limited, a company incorporated in the Cayman Islands and is principally engaged in the trading of toys;

(iii) Sanda Kan Industrial (2000) Limited, a company incorporated in Hong Kong and is principally engaged in investment holding. The direct wholly-owned subsidiary of Sanda Kan Industrial (2000) Limited is Sanda Kan Industrial (1981) Limited, a company incorporated in Hong Kong and is principally engaged in the manufacturing and marketing of toys;

(iv) Sanda Kan (Mauritius) Holdings Company Limited, a company incorporated in Mauritius and is principally engaged in investment holding. The direct wholly-owned subsidiaries of Sanda Kan (Mauritius) Holdings Company Limited are (1) Sanda Kan Industrial (Dongguan) Company Limited, a company incorporated in the PRC and is principally engaged in the manufacturing of toys; and (2) Sanda Kan Technology (Shenzhen) Company Limited, a company incorporated in the PRC and is principally engaged in the manufacturing of toys;

(v) SDK Services Limited, a company incorporated in Hong Kong and is principally engaged in the provision of administrative services;

(vi) Sanda Kan Industrial Hong Kong Limited, a company incorporated in Hong Kong and is principally engaged in the trading of toys; and

(vii) Plants and machineries for the manufacturing of model trains, model race cars and other toys.

The Sale Shares were acquired by way of a private tender.

As at the Latest Practicable Date, financial due diligence is being conducted by a professional auditor engaged by the Company. The Company has conducted site visits and have checked the physical existence of, inter alia, the plants and machineries, inventories and finished products of the Target Group. Furthermore, the assets of the Target Group have been shown in the audited accounts of the Target Company for the year ended 31 December 2007.

Since the Target Company is an investment holding company, the Company will acquire the Target Group following the Completion, and there are no restrictions on the subsequent sale of the Sale Shares by the Company.

Consideration

The total consideration for the Sale Shares under the Agreement is US$8,500,000. The consideration was determined with reference to the information and past financial records provided by the Receivers as detailed below. In particular, the Board has also taken into consideration of various factors which include, inter alia, the net asset value of the Target Company for the year ended 31 December 2006 and 31 December 2007 and the net loss for the year ended 31 December 2007 in determining the consideration. The Directors confirm that the Acquisition is on normal commercial terms.

The total consideration will be satisfied by borrowings. An initial non-refundable deposit of US$25,000 has been paid by the Purchaser to the Receivers upon submission of its initial bid, and a further non-refundable payment of US$1,475,000 has been paid by the Company to the Receivers on execution and delivery of the Agreement. The balance of the total consideration in the sum of US$7,000,000 will be paid by the Company to the Receivers upon Completion.

If Completion does not take place by the Long Stop Date, the Company is not entitled to the refund of US$1,500,000, representing the non-refundable deposit of US$25,000 and the non-refundable payment of US$1,475,000, which have been paid by the Company to the Receivers.

CONDITIONS PRECEDENT

Completion is conditional upon, inter alia, the approval by the Shareholders of the Agreement and all transactions contemplated thereunder at the SGM in accordance with the Listing Rules.

COMPLETION

All reasonable steps shall be taken to procure the Completion on or before the Long Stop Date.

Under the Agreement, the Company has not assumed the Indebtedness and has not given any guarantee on the repayment of the Indebtedness. Moreover, upon Completion, the Vendor shall procure from the Security Trustee the release of the Target Group from the Indebtedness and all claims, demands and liabilities and security provided by the Target Group in connection with the Indebtedness. Hence, the Company shall not be obliged to proceed to Completion should the Vendor fail to procure from the Security Trustee the release of the Target Group from the Indebtedness and all claims, demands and liabilities and security provided by the Target Group in connection with the Indebtedness.

Based on the understanding from the negotiations between the Company and the representatives of the Receivers, the Directors consider that the Indebtedness is likely to be released and such release is procedural in nature.

INFORMATION RELATING TO THE COMPANY

The Company is a company incorporated in Bermuda with limited liability. Its shares are listed on the Main Board of the Stock Exchange.

The principal business activity of the Company is investment holding. The principal business activities of its major subsidiaries are the manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment, and investment holding and trading.

INFORMATION RELATING TO THE VENDOR AND THE RECEIVERS

The Vendor

The Vendor is a company incorporated in the Cayman Islands with limited liability.

The principal business activity of the Vendor is investment holding. The principal business activities of its major subsidiaries are patent licensing, trading, manufacturing and marketing of toys.

The Receivers

The Receivers were appointed as receivers to the Sale Shares by a Deed of Appointment. The Receivers, in their capacity as receivers of the Sale Shares, have the power to sell the Sale Shares pursuant to the Deed of Share Charge.

INFORMATION RELATING TO THE TARGET COMPANY

The Target Company is a company incorporated in the Cayman Islands with limited liability, and is a wholly-owned subsidiary of the Vendor.

The principal business activity of the Target Company is investment holding. The principal business activities of its major subsidiaries are patent licensing, trading, manufacturing and marketing of toys and in particular, manufacturing of model trains and race cars on OEM basis.

On 23 February 2007, the Loan Agreement was entered into between, inter alia, the Target Company, as borrower, and the Creditors, as lenders, for a loan of US$92,000,000 for the acquisition of subsidiaries by the Target Company. As of 31 December 2007, certain loan covenants were breached and in accordance with the Loan Agreement, the Creditors have the right to demand for immediate repayment of the Indebtedness. The Target Group also failed to repay the Indebtedness in accordance with its repayment schedule in February, May and August 2008 respectively. However, the Target Group had fully repaid all due interests and outstanding principal for February's instalment and repaid all due interests and partially repaid the outstanding principal for May's instalment in May 2008. On 10 September 2008, the Creditors appointed the Receivers to the Sale Shares pursuant to the Deed of Appointment.

SUMMARY OF FINANCIAL RESULTS OF THE TARGET COMPANY

A summary of the audited results of the Target Company for the two financial years ended 31 December 2007 are as follows:

	Year ended 31 December	
	2006	**2007**
	US$'000	*US$'000*
Revenue	102,948	104,261
(Loss) Profit before tax	13,317	(186,464)
(Loss) Profit after tax	11,534	(186,804)

The audited consolidated net liabilities of the Target Company as at 31 December 2007 was approximately US$46,570,000. The audited consolidated net asset value of the Target Company as at 31 December 2006 was approximately US$141,032,000.

Based on the audited financial statements of the Target Company as at 31 December 2007, the substantial loss for the same year is attributable to the impairment loss recognized on goodwill in the amount of approximately US$170,225,000 due to adverse market change in the industries, and the amount due from immediate and intermediate holding company of approximately US$10,077,000 due to the full provision of the same made by the Target Group.

Upon Completion and release of the Target Group from the Debt, the Debt will be removed from the books of the Target Company. If the books of the Target Company exclude the Debt, the audited consolidated net asset of the Target Company as at 31 December 2007 would be approximately US$33,092,000.

The accounts summarised above have been prepared in accordance with the HKFRS.

REASONS FOR THE ACQUISITION

The principal business of the Target Group is model train and model race cars manufacturing on OEM basis. The Directors believe that the Acquisition will (i) increase the production capacity of the Group in model train and other plastic, electronic and stuffed toys; (ii) expand the Group's sources of revenue through the manufacturing of model trains and race cars on OEM basis, and (iii) mutually enhance the manufacturing capability of both the Group and the Target Group.

Furthermore, based on the audited financial statements of the Target Company for the two years ended 31 December 2006 and 2005, the audited net profit before and after taxation of the Target Company for the year ended 31 December 2006 were approximately US$13,317,000 and US$11,534,000 respectively and the audited net profit before and after taxation of the Target Company for the year ended 31 December 2005 were approximately US$16,873,000 and US$14,512,000. Based on the audited financial statements of the Target Company for the year ended 31 December 2007, the revenue and/or turnover was approximately US$104,261,000 and the net asset value of the Target Company was approximately US$33,092,000 upon Completion and release of the Target Group from the Debt. Based on the past records of the Target Company, the Directors believe that the Acquisition is a valuable investment with potential return from the synergy as a result of the Acquisition.

In view of the above, the Directors are of the view that the Acquisition and the terms of the Agreement are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

EFFECT OF THE TRANSACTION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

Upon Completion, the Company would hold 100% of the issued share capital of the Target Company and the Target Company would become a wholly owned subsidiary of the Company. Accordingly, the financial information of the Target Group would be consolidated into the consolidated financial statements of the Group.

Set out in Appendix III to this circular is the unaudited pro forma financial information of the Enlarged Group. The unaudited pro forma financial information of the Enlarged Group has been prepared by the Directors to illustrate the effect of the Acquisition. It is prepared for illustrative purposes only, and, because of its nature, it may not give a true picture of the Group's financial position or results.

According to the unaudited pro forma consolidated income statement of the Enlarged Group, assuming that the Acquisition had been completed at the commencement of the period reported on (i.e. 1 January 2007), the consolidated results of the Enlarged Group would change from a net profit of approximately HK$127,044,000 to a net loss of approximately HK$3,639,000.

According to the unaudited pro forma consolidated balance sheet of the Enlarged Group, assuming that the Acquisition had been completed at the date reported on (i.e. 31 December 2007), the consolidated total assets of the Enlarged Group would increase by approximately HK$465,893,000 from approximately HK$1,234,826,000 to approximately HK$1,700,719,000, and the consolidated total liabilities of the Enlarged Group would increase by approximately HK$277,075,000 from approximately HK$459,057,000 to approximately HK$736,132,000.

QUALIFICATION IN THE ACCOUNTANTS' REPORT ON THE TARGET GROUP

The Board noted that a qualified opinion has been issued by the reporting accountants, HLB Hodgson Impey Cheng, with respect to (i) scope limitation on the quantities and condition of inventories of the Target Group as at 31 December 2005, 2006 and 2007 and 30 June 2008; and (ii) the material uncertainties relating to the going concern basis of the Target Group. Details of this qualified opinion are set out in the Accountants' Report on the Target Group included in Appendix II to this circular.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

The Target Company is an investment holding company. The principal activities of its subsidiaries are the manufacturing and marketing of toys, mainly model trains and race cars.

Results

The results of operations of the Target Group for each of the three years ended 31 December 2007, 31 December 2006 and 31 December 2005 and the six months ended 30 June 2008 (the "Relevant Periods") are contained in the Accountants' Report on the Target Group in Appendix II, from page 115 to page 156 of this circular.

Capital Structure, Liquidity and Financial Resources

At 31 December 2006 and 31 December 2005, the net assets of the Target Group were approximately US$141,032,000 and US$129,939,000 respectively. At 31 December 2007 and 30 June 2008, the net liabilities of the Target Group were approximately US$46,570,000 and US$55,326,000 respectively. The sudden change from a net assets position to a net liabilities position was caused by the substantial loss during the year ended 31 December 2007, which is attributable to the impairment loss recognized on good will in the amount of approximately US$170,225,000 due to adverse market change in the industries, and the amount due from immediate and intermediate holding company of approximately US$10,077,000 due to the full provision of the same made by the Target Group.

As at 30 June 2008, 31 December 2007, 31 December 2006 and 31 December 2005, the total bank balances and cash were approximately US$5,997,000, US$7,117,000, US$11,467,000 and US$9,177,000, respectively.

The cash and cash equivalents held by the Target Group as at 30 June 2008, 31 December 2007, 31 December 2006 and 31 December 2005 are denominated in the following currencies:

	As at 31 December 2005	As at 31 December 2006	As at 31 December 2007	As at 30 June 2008
	'000	*'000*	*'000*	*'000*
Hong Kong dollar	3,628	8,800	24,818	10,617
Renminbi	1,236	4,669	2,955	4,432
United States dollar	8,531	9,639	3,514	3,985
Euro	30	84	6	2
Macau Pataca	–	1	72	10

As at 30 June 2008, 31 December 2007, 31 December 2006 and 31 December 2005 the bank borrowings were approximately US$77,561,000, US$79,662,000, US$69,278,000 and US$81,053,000, respectively and none of the bank borrowings were at fixed rates.

The bank borrowings of the Target Group were denominated in United States dollars and the maturity profile as at 30 June 2008, 31 December 2007, 31 December 2006 and 31 December 2005 are as follows:

	As at 31 December 2005	As at 31 December 2006	As at 31 December 2007	As at 30 June 2008
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within one year	18,158	27,610	18,419	77,561
More than one year, but not exceeding two years	20,814	25,986	7,000	–
More than two years, but not more than five years	42,081	15,682	48,125	–
More than five years	–	–	6,118	–
	81,053	69,278	79,662	77,561

The Target Group did not use financial instruments for hedging purposes for the year ended 31 December 2005. For the two years ended 31 December 2006 and 31 December 2007, the Target Group used interest rate swaps to minimize its exposure to fair value changes of its floating rate US$ bank borrowings by swapping the floating-rate borrowings from floating rates to fixed rates.

Treasury Policy

The Target Company had no formal treasury policy during the Relevant Periods.

Significant Investments

There were no significant investments held by the Target Group during the Relevant Periods.

Employees and Retirement Benefit Obligations

The number of employees (including the production work force in the PRC) for the Relevant Periods were as follows:

Period	**No. of Employees**
As at December 31, 2005	approximately 10,500
As at December 31, 2006	approximately 10,500
As at December 31, 2007	approximately 11,000
As at June 30, 2008	approximately 10,000

The directors of the Target Company consider that they are the only key management personnel of the Target Group. No emoluments were paid to the directors of the Target Company during the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the Target Group to the directors as an inducement to join or upon joining the Target Group or as compensation for loss of office.

For the year ended 31 December 2005, 31 December 2006, 31 December 2007 and for the six months ended 30 June 2008, the balance of the Target Group's retirement benefit obligations were approximately US$1,037,000, US$999,000, US$499,000 and US$276,000 respectively.

Charges on Target Group's Assets

During the Relevant Periods, the Target Group issued corporate guarantee to certain banks and pledged floating charge over the assets of the Target Group for banking facilities granted to the Target Company and its immediate holding company.

Pledged Assets

The value of the pledged assets of the Target Group with respect to the respective amounts of the banking facilities granted to the Target Group were approximately US$81,053,000, US$69,278,000, US$79,662,000 and US$77,561,000 for the three years ended 31 December 2007 and for the six months ended 30 June 2008.

Future Plans for Material Investments and Expected Source of Funding of Target Group

As at the Latest Practicable Date, there were no future plans for material investments for the Target Group. The expected source of funding for the Target Group in the coming year will be generated by internal resources of the Group.

Material Acquisitions and Disposals

The Target Company had not engaged in material acquisitions and disposals of subsidiaries and associated companies for the Relevant Periods.

Gearing Ratio

Gearing ratio, being defined as the ratio of total bank borrowings to total equity, as at 31 December 2006 and 31 December 2005 were approximately 49% and 62% respectively. As at 30 June 2008 and 31 December 2007, the Target Group recorded a deficit in equity.

Foreign Exchange Exposure

During each of the Relevant Periods, the Target Group's foreign exchange exposures arose mainly from the exchange rate movements of US Dollars and Renminbi. The Target Group did not have a foreign exchange hedging policy.

Contingent Liabilities

In accordance with the audited financial statements of the Target Group for the Relevant Periods, it is not shown that the Target Group had any contingent liabilities during the Relevant Periods.

Prospect

Looking ahead, the Directors expect that the Acquisition will (i) increase the production capacity of the Enlarged Group in model train and other plastic, electronic and stuffed toys; (ii) expand the Enlarged Group's sources of revenue through the manufacturing of model trains and race cars on OEM basis; and (iii) mutually enhance the manufacturing capacity of the Enlarged Group. There are no special trade factors or risk which are not mentioned in this circular and which are unlikely to be known or anticipated by the general public, and which could materially affect the profits.

LISTING RULES IMPLICATIONS

The transaction contemplated by the Agreement constitutes a Very Substantial Acquisition for the Company under Rule 14.06(5) of the Listing Rules, on the basis that the calculation of the relevant Percentage Ratios is 100% or more.

So far as is known to the Directors, there are no prior transactions between the Company and the Vendor and the Receivers which would require to be aggregated to the transaction under the Acquisition under Rule 14.22 of the Listing Rules.

SGM

Notice of the SGM to be held at 12th Floor, 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong on Thursday, 8 January 2009 at 10:30 a.m. is set out on page 175 of this circular. The SGM will be held for the purpose of approving (inter alia) the terms of the Agreement and the transactions contemplated thereunder by the Shareholders.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the principal place of business of the Company at 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude one from attending and voting in person at the SGM or any adjournment thereof should one so desire.

As at the Latest Practicable Date, and to the best knowledge, belief and information of the Directors, and having made all reasonable enquiries, no Shareholders or their associates have material interests in the transaction contemplated under the Agreement nor are they required, under Rule 14A.18 of the Listing Rules, to abstain from voting on the resolutions regarding the Agreement at the SGM.

RIGHT TO DEMAND POLL

Bye-law 78 of the Bye-laws of the Company set out the procedure by which a poll may be demanded at the general meetings of the Company which is as follows:

At any general meeting a resolution put to vote of the meeting shall be decided on a show of hands unless a poll is (before or on declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(i) by the chairman of the meeting; or

(ii) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorized corporate representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorized corporate representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) by a member or members present in person (or, in the case of a member being a corporation, by its duly authorized corporate representative) or by proxy and holding shares in the Company conferred a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

RECOMMENDATION

The Directors consider that the Acquisition and the terms of the Agreement are fair and reasonable and that the proposed ordinary resolutions in connection with the Acquisition are in the best interest of the Company and the Shareholders as a whole, and accordingly, recommend all Shareholders to vote in favour of all the ordinary resolutions to be proposed at the SGM.

GENERAL INFORMATION

Your attention is drawn to the additional information set out in the Appendixes to this circular. The English text of this circular shall prevail over the Chinese text.

By order of the Board
Kader Holdings Company Limited
Ivan Ting Tien-li
Executive Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

An unqualified opinion in respect of the audit of the financial statements of the Group has been issued for each of the three years ended 31 December 2007. A summary of the results, assets and liabilities of the Group as extracted from the Company's annual reports for each of the three years ended 31 December 2007 and the Company's interim report for the six months ended 30 June 2008 is set out below.

Consolidated income statements

	Year ended 31 December 2005 (Audited) *HK$'000*	Year ended 31 December 2006 (Audited) *HK$'000*	Year ended 31 December 2007 (Audited) *HK$'000*	Period ended 30 June 2008 (Unaudited) *HK$'000*
Turnover	539,814	643,216	721,709	290,793
Valuation gains on investment properties	58,279	36,341	104,288	–
Net gain on disposal of investment property	216	–	–	–
Other revenue	9,480	13,412	9,522	6,977
Other net (loss)/income	(3,133)	(1,526)	2,459	4,738
Cost of listed investments	–	–	–	–
Changes in inventories of finished goods and work in progress	(3,273)	12,892	27,568	40,888
Cost of purchase of finished goods	(23,206)	(25,928)	(35,058)	(29,486)
Raw materials and consumables used	(150,828)	(216,982)	(211,319)	(113,030)
Staff costs	(165,005)	(180,988)	(211,554)	(109,018)
Depreciation expenses	(32,165)	(22,795)	(21,726)	(11,914)
Amortisation of interest in leasehold land held for own use	(53)	(22)	(22)	(11)
Other operating expenses	(127,703)	(152,235)	(190,683)	(73,046)
Profit from operations	102,423	105,385	195,184	6,891
Finance costs	(17,062)	(12,582)	(11,599)	(4,313)
Share of profits less losses of associates	10,891	(34,908)	(12,596)	(455)
Share of profits of a jointly controlled entity	–	597	–	–
Profit before taxation	96,252	58,492	170,989	2,123
Income tax	(15,905)	(28,520)	(43,945)	6,501
Profit for the year	80,347	29,972	127,044	–
Profit for the period	–	–	–	8,624
Attributable to:–				
Equity shareholders of the Company	80,347	29,972	126,599	8,612
Minority interests	–	–	445	12
Profit for the year	80,347	29,972	127,044	–
Profit after taxation	–	–	–	8,624
Dividend payable to equity shareholders of the Company attributable to the year:				
Final dividend proposed after the balance sheet date	–	9,981	9,981	9,981
Earnings per share				
Basic	12.07¢	4.50¢	19.03¢	1.29¢
Diluted	N/A	N/A	N/A	N/A

Consolidated balance sheets

	As at 31 December 2005 (Audited) *HK$'000*	As at 31 December 2006 (Audited) *HK$'000*	As at 31 December 2007 (Audited) *HK$'000*	As at 30 June 2008 (Unaudited) *HK$'000*
Non-current assets				
Fixed assets				
– Investment properties	504,871	541,212	646,307	646,307
– Other property, plant and equipment	127,005	124,255	137,976	142,701
– Interest in leasehold land held for own use under operating lease	920	898	876	865
	632,796	666,365	785,159	789,873
Intangible assets	637	603	570	552
Goodwill	–	–	31,200	31,200
Interests in associates	161,205	51,040	48,760	48,462
Interest in a jointly controlled entity	2,536	3,554	–	–
Other non-current financial assets	100	8,349	26,249	23,829
Deferred tax assets	18,202	22,768	24,551	31,193
	815,476	752,679	916,489	925,109
Current assets				
Inventories	116,799	135,203	177,624	232,122
Properties held for resale	4,509	–	–	–
Current tax recoverable	1,386	1,317	–	2,728
Trade and other receivables	86,122	104,326	114,121	99,218
Cash and cash equivalents	36,491	24,440	26,592	35,260
	245,307	265,286	318,337	369,328
Current liabilities				
Trade and other payables	(95,775)	(140,819)	(193,120)	(219,015)
Bank loans and overdrafts	(140,485)	(106,841)	(83,180)	(68,261)
Obligations under finance leases	(1,318)	(1,380)	(582)	(465)
Current tax payable	(4,123)	(9,973)	(6,135)	(9,363)
	(241,701)	(259,013)	(283,017)	(297,104)
Net current assets	3,606	6,273	35,320	72,224
Total assets less current liabilities carried forward	819,082	758,952	951,809	997,333

	As at 31 December 2005 (Audited) *HK$'000*	As at 31 December 2006 (Audited) *HK$'000*	As at 31 December 2007 (Audited) *HK$'000*	As at 30 June 2008 (Unaudited) *HK$'000*
Total assets less current liabilities brought forward	819,082	758,952	951,809	997,333
Non-current liabilities				
Bank loans	(147,700)	(34,283)	(86,332)	(140,644)
Rental deposits	(4,738)	(3,516)	(3,661)	(2,797)
Obligations under finance leases	(2,460)	(1,080)	(498)	(276)
Deferred tax liabilities	(51,667)	(65,432)	(84,228)	(80,003)
Accrued employee benefits	(1,498)	(1,273)	(1,321)	(1,412)
	(208,063)	(105,584)	(176,040)	(225,132)
NET ASSETS	611,019	653,368	775,769	772,201
CAPITAL AND RESERVES				
Share capital	66,541	66,541	66,541	66,541
Reserves	544,478	586,827	706,172	702,399
Total equity attributable to equity shareholders of the Company	611,019	653,368	772,713	768,940
Minority interests	–	–	3,056	3,261
TOTAL EQUITY	611,019	653,368	775,769	772,201

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The following is the audited financial statements of the Group for the year ended 31 December 2007 as extracted from the annual report of the Company for the year ended 31 December 2007.

Consolidated Income Statement
For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	3,12	721,709	643,216
Other revenue	4(a)	9,522	13,412
Other net income/(loss)	4(b)	2,459	(1,526)
Changes in inventories of finished goods and work in progress		27,568	12,892
Cost of purchase of finished goods		(35,058)	(25,928)
Raw materials and consumables used		(211,319)	(216,982)
Staff costs	5(b)	(211,554)	(180,988)
Depreciation expenses	13	(21,726)	(22,795)
Amortisation of interest in leasehold land held for own use	13	(22)	(22)
Other operating expenses		(190,683)	(152,235)
Profit from operations		90,896	69,044
Finance costs	5(a)	(11,599)	(12,582)
Share of losses of associates	17	(12,596)	(34,908)
Share of profits of a jointly controlled entity		–	597
Valuation gains on investment properties	13	104,288	36,341
Profit before taxation	5	170,989	58,492
Income tax	6	(43,945)	(28,520)
Profit for the year		127,044	29,972
Attributable to:–			
Equity shareholders of the Company	27(a)	126,599	29,972
Minority interests	27(a)	445	–
Profit for the year	27(a)	127,044	29,972
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	10(a)	9,981	9,981
Earnings per share			
Basic	11(a)	19.03¢	4.50¢
Diluted	11(b)	N/A	N/A

Consolidated Balance Sheet
At 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Fixed assets			
– Investment properties	13	646,307	541,212
– Other property, plant and equipment	13	137,976	124,255
– Interest in leasehold land held for own use under operating lease	13	876	898
		785,159	666,365
Intangible assets	14	570	603
Goodwill	15	31,200	–
Interests in associates	17	48,760	51,040
Interest in a jointly controlled entity	18	–	3,554
Other non-current financial assets	19	26,249	8,349
Deferred tax assets	26(b)	24,551	22,768
		916,489	752,679
Current assets			
Inventories	20	177,624	135,203
Current tax recoverable	26(a)	–	1,317
Trade and other receivables	21	114,121	104,326
Cash and cash equivalents	22	26,592	24,440
		318,337	265,286
Current liabilities			
Trade and other payables	23	(193,120)	(140,819)
Bank loans and overdrafts	24	(83,180)	(106,841)
Obligations under finance leases	25	(582)	(1,380)
Current tax payable	26(a)	(6,135)	(9,973)
		(283,017)	(259,013)
Net current assets		35,320	6,273
Total assets less current liabilities carried forward		951,809	758,952

	Note	2007 HK$'000	2006 HK$'000
Total assets less current liabilities brought forward		951,809	758,952
Non-current liabilities			
Bank loans	*24*	(86,332)	(34,283)
Rental deposits		(3,661)	(3,516)
Obligations under finance leases	*25*	(498)	(1,080)
Deferred tax liabilities	*26(b)*	(84,228)	(65,432)
Accrued employee benefits		(1,321)	(1,273)
		(176,040)	(105,584)
NET ASSETS		775,769	653,368
CAPITAL AND RESERVES	*27(a)*		
Share capital		66,541	66,541
Reserves		706,172	586,827
Total equity attributable to equity shareholders of the Company		772,713	653,368
Minority interests		3,056	–
TOTAL EQUITY		775,769	653,368

Consolidated Statement of Changes in Equity
For the year ended 31 December 2007

	Note	2007 HK$'000	2007 HK$'000	2006 HK$'000	2006 HK$'000
Total equity at 1 January	*27(a)*		653,368		611,019
Net income/(expenses) recognised directly in equity:					
Exchange differences on translation of the financial statements of overseas subsidiaries	*27(a)*		1,170		12,169
Share of exchange reserve of associates	*27(a)*		(755)		(351)
Share of exchange reserve of a jointly controlled entity	*27(a)*		–		110
Changes in fair value of available-for-sale securities	*27(a)*		2,400		449
Surplus on revaluation of land and building held for own use, net of deferred tax	*27(a)*		162		–
Net income for the year recognised directly in equity			2,977		12,377
Net profit for the year	*27(a)*		127,044		29,972
Total recognised income and expense for the year			130,021		42,349
Attributable to:					
Equity shareholders of the Company		129,326		42,349	
Minority interests		695		–	
		130,021		42,349	
Dividends declared or approved during the year	*27(a)*		(9,981)		–
Capital injection from minority interests	*27(a)*		447		–
Acquisition of control over a jointly controlled entity	*18, 27(a)*		1,914		–
Total equity at 31 December	*27(a)*		775,769		653,368

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Operating activities			
Profit before taxation		170,989	58,492
Adjustments for:			
Valuation gain on investment properties	13	(104,288)	(36,341)
Depreciation of fixed assets	13	21,726	22,795
Amortisation of interest in leasehold land held for own use	13	22	22
Amortisation of intangible assets	14	33	34
Impairment of fixed assets	13	672	4,834
Finance costs	5(a)	11,599	12,582
Dividends from unlisted investments	3	–	(5)
Waiver of amounts due from related party and related companies	4(a)	–	(2,960)
Interest income	4(a)	(883)	(586)
Share of losses of associates		12,596	34,908
Share of profits of a jointly controlled entity		–	(597)
Gain on disposal of unlisted equity security	4(b)	(12)	–
Net gain on disposal of properties held for resale	4(b)	–	(80)
Net gain on disposal of fixed assets	4(b)	(464)	(220)
Foreign exchange loss		119	8,459
Operating profit before changes in working capital		112,109	101,337
Increase in inventories		(41,790)	(18,404)
Increase in trade and other receivables		(88)	(18,026)
Increase in creditors and accrued charges		78,495	31,073
Increase in rental deposits received		863	455
Increase/(decrease) in accrued employee benefits		48	(225)
Cash generated from operations		149,637	96,210
Tax paid			
Hong Kong Profits Tax paid		(16,741)	(43)
Hong Kong Profits Tax refunded		22	482
Overseas tax refunded		613	–
Overseas tax paid		(13,396)	(14,375)
Net cash generated from operating activities		120,135	82,274

	Note	2007 *HK$'000*	2006 *HK$'000*
Investing activities			
Payment for investment in jointly controlled entity		–	(311)
Payment for the purchase of fixed assets		(32,209)	(21,973)
Payment for the purchase of available-for-sale securities		–	(7,800)
Payment for the purchase of other financial assets		(46,800)	–
Proceeds from disposal of fixed assets		506	573
Proceeds from sale of properties held for resale		–	4,589
Proceeds from sale of unlisted equity security		112	–
Interest received		342	588
Dividend received		–	5
Decrease in investments in associates		–	21,956
(Increase)/decrease in amounts due from associates		(11,071)	52,950
Acquisition of control over a jointly controlled entity	*18*	482	–
Capital injection by minority interests		447	–
Loan advanced		(7,760)	–
Net cash (used in)/generated from investing activities		(95,951)	50,577
Financing activities			
Proceeds from new bank loans		267,353	141,566
Repayment of bank loans		(252,042)	(179,784)
Capital element of finance lease rentals paid		(1,380)	(1,318)
Repayment of loans from shareholders and directors		(16,312)	(93,814)
(Decrease)/increase in amounts due to related companies		(11,616)	13,286
Proceeds from new advances from directors		–	312
Dividend paid		(9,981)	–
Interest paid		(11,276)	(14,184)
Interest element of finance lease rentals paid		(85)	(148)
Net cash used in financing activities		(35,339)	(134,084)
Net decrease in cash and cash equivalents		(11,155)	(1,233)
Cash and cash equivalents at 1 January		(12,700)	(12,650)
Effect of foreign exchange rate changes		327	1,183
Cash and cash equivalents at 31 December	*22*	(23,528)	(12,700)

Notes to the Financial Statements

For the year ended 31 December 2007

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a jointly controlled entity.

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

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

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

(c) Subsidiaries and minority interests

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

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

(d) Associates and jointly controlled entities

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment of goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see notes 1(e) and (k)).

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

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

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(k)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

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

(f) Other investments in securities

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

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

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

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

(g) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(t)(ii).

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

(h) Other property, plant and equipment

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

– land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease;

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(j)); and

– other items of plant and equipment.

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

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

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

(i) Leasehold land and buildings situated thereon over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

(ii) Freehold land is not depreciated.

(iii) Other fixed assets at the following rates:

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

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

(i) Intangible assets (other than goodwill)

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

(j) Leased assets

(i) Classification of assets leased to the Group

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

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

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

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

(k) Impairment of assets

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

Investments in debt and equity securities (other than investments in subsidiaries, associates and jointly controlled entities: see note 1(k)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Impairment of other assets

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

– property, plant and equipment (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets;

– investments in subsidiaries, associates and jointly controlled entities; and

– goodwill.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Inventories

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

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

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

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

(m) Trade and other receivables

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

(n) Interest-bearing borrowings

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

(o) Trade and other payables

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

(p) Cash and cash equivalents

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

(q) Employee benefits

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

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

(ii) Termination benefits

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

(r) Income tax

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

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

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

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

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

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

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

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

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

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

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

  - the same taxable entity; or

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

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Other provisions and contingent liabilities

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

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

(t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

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

(ii) Rental income from operating leases

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

(iii) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

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

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

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

(u) Translation of foreign currencies

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

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(v) Borrowing costs

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

(w) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if:

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

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

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

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

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

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

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

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout the financial statements, in particular in note 28.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 27(f).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

3. TURNOVER

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

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

	2007	**2006**
	HK$'000	*HK$'000*
Sale of goods	691,426	617,833
Gross rentals from investment properties	30,283	25,378
Investment income – dividends from unlisted investments	–	5
	721,709	643,216

4. OTHER REVENUE AND NET INCOME/(LOSS)

	2007	2006
	HK$'000	*HK$'000*
(a) Other revenue		
Interest income	883	586
Air conditioning, management and maintenance service charges from tenants	5,150	5,339
Waiver of amounts due to related party and related companies	–	2,960
Others	3,489	4,527
	9,522	13,412
(b) Other net income/(loss)		
Net gain on disposal of properties held for resale	–	80
Net gain on disposal of fixed assets	464	220
Gain on disposal of unlisted equity security	12	–
Net exchange gain/(loss)	1,983	(1,826)
	2,459	(1,526)

5. PROFIT BEFORE TAXATION

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

		2007	2006
		HK$'000	*HK$'000*
(a)	**Finance costs**		
	Interest on bank borrowings repayable within 5 years	11,103	9,100
	Interest on advances from directors	113	1,808
	Interest on advances from shareholders	–	1,325
	Interest on amounts due to related companies	–	55
	Interest on other loans	298	146
	Finance charges on obligations under finance leases	85	148
		11,599	12,582
(b)	**Other items**		
	Salaries, wages and other benefits	192,902	176,006
	Employer's contributions to defined contribution retirement plans, net of forfeited contributions of HK$47,000 (2006: HK$115,000) *(note 31)*	18,652	4,982
		211,554	180,988
	Cost of inventories	426,756	409,865
	Amortisation of intangible assets	33	34
	Amortisation of interest in leasehold land held for own use	22	22
	Depreciation		
	– owned assets	20,469	21,787
	– assets held under finance leases	1,257	1,008
	Impairment:		
	– fixed assets	672	4,834
	– trade and other receivables	635	286
	Auditors' remuneration	2,045	1,856
	Operating lease charges		
	– rental of land and buildings	11,504	11,251
	– other rentals	112	157
	Rentals receivable from investment properties less direct outgoings of HK$2,338,000 (2006: HK$2,131,000)	(27,945)	(23,247)

Cost of inventories includes HK$136,877,000 (2006: HK$129,822,000) relating to staff costs, depreciation charges, impairment loss in respect of fixed assets and operating lease charges, which amount is also included in the respective total amounts disclosed separately above and in the income statement for each of these types of expenses.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2007 *HK$'000*	2006 *HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	17,801	–
Under-provision in respect of prior years	900	4
	18,701	4
Current tax – Overseas including the PRC		
Provision for the year	7,698	19,033
Under-provision in respect of prior years	561	249
	8,259	19,282
Deferred tax		
Origination and reversal of temporary differences	16,960	9,234
Effect of decrease in tax rate on opening deferred tax balance	25	–
	16,985	9,234
	43,945	28,520

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

During the year, the British Government announced a decrease in the corporation tax rate applicable to the Group's operations in the United Kingdom from 30% to 28% for 2008. This decrease is taken into account in respect of deferred tax balances in the preparation of the Group's 2007 financial statements. Accordingly, deferred tax balances relevant to the Group's operations in the United Kingdom are calculated using a corporation tax rate of 28% (2006: 30%).

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

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation	170,989	58,492
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	33,089	14,220
Tax effect of non-deductible expenses	15,643	14,957
Tax effect of non-taxable income	(4,441)	(1,970)
Tax effect of tax losses utilised	(1,877)	–
Tax effect of unused tax losses not recognised	375	662
Under-provision in prior years	1,461	253
Effect on opening deferred tax balances resulting from a decrease in tax rate during the year	25	–
Others	(330)	398
Actual tax expense	43,945	28,520

(c) Post balance sheet changes in applicable tax rules

On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual Budget which proposes a cut in the Profits Tax rate from 17.5% to 16.5% with effect from the fiscal year 2008-09 and a one-off reduction of 75% of the tax payable for the 2007-08 year of assessment subject to a ceiling of HK$25,000. In accordance with the Group's accounting policy set out in note 1(r), no adjustments have been made to these financial statements as a result of this announcement.

The directors estimate that these proposed changes will result in the opening balances of the Group and the Company as at 1 January 2008 being remeasured as follows:

(a) current tax payable by the Group and the Company will decrease by HK$30,000 and HK$Nil respectively; and

(b) the Group's deferred tax liabilities and deferred tax assets will decrease by HK$4,459,000 and HK$Nil, respectively.

These opening balance adjustments to current and deferred tax balances at 1 January 2008 will be recognised as a reduction in the Group's and the Company's income tax expense of HK$4,055,000 and HK$Nil, respectively and an increase in the Group's land and building revaluation reserve of HK$433,000. It is impracticable to further estimate the impact on future financial statements of the change in tax rate.

7. DIRECTORS' REMUNERATION

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

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2007 Total HK$'000
Executive Directors:					
Kenneth Ting Woo-shou	80	588	49	59	776
Ivan Ting Tien-li	60	618	50	58	786
Non-executive Directors:					
Dennis Ting Hok-shou	70	334	–	33	437
Moses Cheng Mo-chi	60	–	–	–	60
Independent Non-executive Directors:					
Liu Chee-ming	100	–	–	–	100
Floyd Chan Tsoi-yin	100	–	–	–	100
Andrew Yao Cho-fai	100	–	–	–	100
	570	1,540	99	150	2,359

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2006 Total HK$'000
Executive Directors:					
Kenneth Ting Woo-shou	70	588	–	59	717
Ivan Ting Tien-li (appointed on 4 April 2006)	40	437	–	33	510
Patrick Leung Shing-cheung (resigned on 4 April 2006)	15	413	200	16	644
Non-executive Directors:					
Dennis Ting Hok-shou	60	334	–	33	427
Moses Cheng Mo-chi	50	–	–	–	50
Independent Non-executive Directors:					
Liu Chee-ming	100	–	–	–	100
Floyd Chan Tsoi-yin	100	–	–	–	100
Andrew Yao Cho-fai	100	–	–	–	100
	535	1,772	200	141	2,648

8. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none (2006: none) is a Director whose emoluments are set out in note 7. The aggregate of the emoluments in respect of the five (2006: five) individuals with highest emoluments are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other emoluments	6,421	6,175
Discretionary bonuses	2,200	1,044
Pension scheme contributions	414	821
	9,035	8,040

The emoluments of the five (2006: five) individuals with the highest emoluments are within the following bands:

	2007 Number of employees	**2006 Number of employees**
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$1,500,000	–	2
HK$1,500,001 to HK$2,000,000	4	3
HK$2,000,001 to HK$2,500,000	1	–

9. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$5,047,000 (2006: HK$85,130,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

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

	2007	**2006**
	HK$'000	*HK$'000*
Final dividend proposed after the balance sheet date of HK1.5 cents per ordinary share (2006: HK1.5 cents per ordinary share)	9,981	9,981

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

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

Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.5 cents per ordinary share (2006: HK Nil cents per ordinary share)	9,981	–

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$126,599,000 (2006: HK$29,972,000) and the weighted average of 665,412,000 ordinary shares (2006: 665,412,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share is not presented as the Company did not have dilutive potential ordinary shares outstanding during both 2006 and 2007.

12. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business 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 and trading:	The investment in and trading of listed securities.

	Toys and model trains		Property investment		Investment holding and trading		Unallocated		Inter-segment elimination		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	691,426	617,833	30,283	25,378	–	5	–	–	–	–	721,709	643,216
Inter-segment revenue	–	–	979	979	–	–	–	–	(979)	(979)	–	–
Other revenue from external customers	2,131	3,304	5,699	5,908	809	481	–	173	–	–	8,639	9,866
Total	693,557	621,137	36,961	32,265	809	486	–	173	(979)	(979)	730,348	653,082
Segment result	116,703	64,544	33,107	27,581	(61,089)	(21,934)	598	(1,953)			89,319	68,238
Unallocated operating income and expenses											1,577	806
Profit from operations											90,896	69,044
Finance costs											(11,599)	(12,582)
Share of losses of associates							(12,596)	(34,908)			(12,596)	(34,908)
Share of profits of a jointly controlled entity							–	597			–	597
Valuation gains on investment properties			104,288	36,341							104,288	36,341
Income tax											(43,945)	(28,520)
Profit after taxation											127,044	29,972
Depreciation and amortisation for the year	21,748	22,817	–	–	33	34	–	–	–	–	21,781	22,851
Impairment of fixed assets	672	4,834	–	–	–	–	–	–	–	–	672	4,834

	Toys and model trains		Property investment		Investment holding and trading		Unallocated inter-company and other balances		Inter-segment elimination		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	448,185	368,672	661,716	555,244	19,256	8,960	359,384	314,978	(327,026)	(308,568)	1,161,515	939,286
Interests in associates and jointly controlled entity											48,760	54,594
Unallocated assets											24,551	24,085
Total assets											1,234,826	1,017,965
Segment liabilities	431,312	361,475	38,860	42,079	144,999	77,418	80,549	116,788	(327,026)	(308,568)	368,694	289,192
Unallocated liabilities											90,363	75,405
Total liabilities											459,057	364,597
Capital expenditure incurred during the year	35,962	21,973	–	–	–	–	–	–	–	–	35,962	21,973

Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments. Hong Kong and China is a major market for the Group's toys and model trains and property investment, and it is the location of most of its toys and model trains manufacturing. Toys and model trains are also sold to North America, Europe and other locations. The Group also has investments and investment properties in North America.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	Hong Kong and China		North America		Europe		Others		Total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	83,684	75,408	376,609	355,454	214,774	172,440	46,642	39,914	721,709	643,216
Segment assets	1,165,795	999,749	194,061	137,718	128,685	110,387	–	–	1,488,541	1,247,854
Capital expenditure incurred during the year	26,765	18,816	8,380	695	817	2,462	–	–	35,962	21,973

13. FIXED ASSETS

The Group

	Land and buildings held for own use carried at cost				Investment property				
	In Hong Kong	Outside Hong Kong	Equipment	Sub-total	In Hong Kong	Outside Hong Kong	Sub-total	Interest in leasehold land held for own use under operating lease	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:									
At 1 January 2006	31,727	31,379	439,153	502,259	466,871	38,000	504,871	1,341	1,008,471
Exchange adjustments	–	2,668	3,643	6,311	–	–	–	–	6,311
Additions	–	390	21,583	21,973	–	–	–	–	21,973
Disposals	–	–	(4,688)	(4,688)	–	–	–	–	(4,688)
Surplus on revaluation	–	–	–	–	34,341	2,000	36,341	–	36,341
At 31 December 2006	31,727	34,437	459,691	525,855	501,212	40,000	541,212	1,341	1,068,408
Representing									
Cost	31,727	34,437	459,691	525,855	–	–	–	1,341	527,196
Valuation – 2006	–	–	–	–	501,212	40,000	541,212	–	541,212
	31,727	34,437	459,691	525,855	501,212	40,000	541,212	1,341	1,068,408
At 1 January 2007	31,727	34,437	459,691	525,855	501,212	40,000	541,212	1,341	1,068,408
Exchange adjustments	–	430	1,049	1,479	–	–	–	–	1,479
Additions	–	298	31,911	32,209	–	–	–	–	32,209
Acquisition through jointly controlled entity	–	–	3,753	3,753	–	–	–	–	3,753
Disposals	–	–	(271)	(271)	–	–	–	–	(271)
Transfer	(636)	–	–	(636)	807	–	807	–	171
Surplus on revaluation	–	–	–	–	99,288	5,000	104,288	–	104,288
At 31 December 2007	31,091	35,165	496,133	562,389	601,307	45,000	646,307	1,341	1,210,037
Representing									
Cost	31,091	35,165	496,133	562,389	–	–	–	1,341	563,730
Valuation – 2007	–	–	–	–	601,307	45,000	646,307	–	646,307
	31,091	35,165	496,133	562,389	601,307	45,000	646,307	1,341	1,210,037
Accumulated amortisation and depreciation:									
At 1 January 2006	1,136	10,149	363,969	375,254	–	–	–	421	375,675
Exchange adjustments	–	333	2,719	3,052	–	–	–	–	3,052
Charge for the year	762	702	21,331	22,795	–	–	–	22	22,817
Impairment loss	–	–	4,834	4,834	–	–	–	–	4,834
Written back on disposal	–	–	(4,335)	(4,335)	–	–	–	–	(4,335)
At 31 December 2006	1,898	11,184	388,518	401,600	–	–	–	443	402,043
At 1 January 2007	1,898	11,184	388,518	401,600	–	–	–	443	402,043
Exchange adjustments	–	54	616	670	–	–	–	–	670
Charge for the year	748	911	20,067	21,726	–	–	–	22	21,748
Impairment loss	–	–	672	672	–	–	–	–	672
Written back on disposal	–	–	(229)	(229)	–	–	–	–	(229)
Written back on transfer	(26)	–	–	(26)	–	–	–	–	(26)
At 31 December 2007	2,620	12,149	409,644	424,413	–	–	–	465	424,878
Net book value:									
At 31 December 2007	28,471	23,016	86,489	137,976	601,307	45,000	646,307	876	785,159
At 31 December 2006	29,829	23,253	71,173	124,255	501,212	40,000	541,212	898	666,365

(a) The analysis of net carrying value of investment properties is as follows:

	2007	2006
	HK$'000	*HK$'000*
At valuation:		
In Hong Kong		
Medium-term leases	601,307	501,212
Outside Hong Kong		
Medium-term leases	45,000	40,000

All investment properties of the Group were revalued as at 31 December 2007 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 passing derived from the existing tenancies with the provision for any reversionary income potential. The valuations were carried out by an independent firm of surveyors, DTZ Debenham Tie Leung, who have among their staff, Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being revalued.

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

	2007	2006
	HK$'000	*HK$'000*
Medium-term leases in Hong Kong	29,347	30,727
Freehold outside Hong Kong	23,016	23,253
	52,363	53,980
Representing:		
Land and buildings carried at cost	51,487	53,082
Interest in leasehold land held for own use under operating lease	876	898
	52,363	53,980

During the year ended 31 December 2007, certain land and buildings held for own use by the Group were leased out to third parties for rental income. In accordance with HKAS 16 and HKAS 40, the property was transferred from land and buildings to investment property at fair value with the surplus on revaluation net of deferred tax of HK$162,000 being recognised in the land and buildings revaluation reserve, see note 27.

(c) Impairment loss

During the year, the Group assessed the recoverable amount of the Group's moulds and equipment. Based on this assessment, the carrying amount of certain moulds and equipment was written down by HK$672,000 (2006: HK$4,834,000) (included in "Other operating expenses"). The estimates of recoverable amount were based on the moulds' and equipments' fair value less costs to sell, determined by reference to anticipated future use.

(d) Secured assets

Certain fixed assets of the Group were mortgaged to various banks to secure banking facilities granted to the Group. Details are disclosed in note 24.

(e) Fixed assets held under finance leases

The Group leases production plant and machinery under finance leases expiring in four to five years. At the end of the lease term the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. During the year, there were no new finance leases (2006: HK$Nil). At the balance sheet date, the net book value of plant and machinery held under finance leases of the Group was HK$1,670,000 (2006: HK$3,177,000).

(f) Fixed assets leased out under operating leases

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

The carrying amount of the investment properties of the Group held for use in operating leases was HK$646,307,000 (2006: HK$541,212,000). All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

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

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Within 1 year	25,309	19,930
After 1 year but within 5 years	11,903	12,144
	37,212	32,074

14. INTANGIBLE ASSETS

	Club memberships
	HK$'000
Cost:	
At 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007	670
Accumulated amortisation:	
At 1 January 2006	33
Charge for the year	34
At 31 December 2006	67
At 1 January 2007	67
Charge for the year	33
At 31 December 2007	100
Net book value:	
At 31 December 2007	570
At 31 December 2006	603

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

15. GOODWILL

On 16 October 2007, a subsidiary based in the United States acquired the business and certain assets of Williams Reproductions Limited, a distributor of toy trains in the United States. The purchase price paid of HK$39,000,000 (equivalent to US$5,000,000) comprised primarily moulds and dies valued at HK$7,800,000 (equivalent to US$1,000,000) and goodwill of HK$31,200,000 (equivalent to US$4,000,000).

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

Key assumptions used for value-in-use calculations:

	2007
Gross margin	50%
Growth rate	10%
Discount rate	6%

Management determined the budgeted gross margin based on its expectation for market growth. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	**2006**
	HK$'000	*HK$'000*
Unlisted shares, at cost	244,285	244,285
Add: amounts due from subsidiaries	652,017	657,464
Less: impairment losses	(126,152)	(182,788)
	770,150	718,961

Details of the major subsidiaries at 31 December 2007 which principally affected the results, assets or liabilities of the Group are listed on pages 94 and 95.

17. INTERESTS IN ASSOCIATES

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Share of net assets	12,393	25,744
Amounts due from associates	36,367	25,296
	48,760	51,040

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

Name of associate	**Form of business structure**	**Place of incorporation and operation**	**Proportion of ownership interest held by a subsidiary**	**Principal activity**
Allman Holdings Limited ("Allman")	Incorporated	British Virgin Islands	36.1%	Investment holding
Melville Street Trust	Incorporated	Canada	27.3%	Property investment
Squaw Creek Associates, LLC ("SCA")	Limited liability company	USA	10.0% *(see below)*	Resort operation, and the sale and management of condominium apartments

The Group's effective interest in SCA as at 31 December 2007 was approximately 32% (2006: 32%).

Summary financial information on associates

	Assets *HK$'000*	**Liabilities** *HK$'000*	**Equity** *HK$'000*	**Revenue** *HK$'000*	**Loss** *HK$'000*
2007					
100 per cent	612,311	(514,674)	97,637	229,138	(39,160)
Group's effective interest	193,299	(180,906)	12,393	100,651	(12,596)
2006					
100 per cent	560,111	(428,741)	131,370	710,460	(63,808)
Group's effective interest	184,869	(159,125)	25,744	304,531	(34,908)

18. ACQUISITION OF CONTROL OVER A JOINTLY CONTROLLED ENTITY

During the prior year, the Group invested in a company in The People's Republic of China attaining a 64.69% interest. The Group considered that no control was exercised over this company and that it was appropriate to account for the company as a jointly controlled entity using the equity method.

During the current year, the Group obtained control over the company through the appointment of two out of three of the directors of the company and from that date the company was consolidated as a subsidiary. Given that there was no change in the Group's effective interest in the company, there has been no impact on the Group's net assets or profit for the year as a result of the acquisition of control.

The acquisition of control had the following effect on the Group's assets and liabilities on acquisition date:

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition of control
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	3,753	–	3,753
Inventories	628	–	628
Trade and other receivables	1,171	–	1,171
Cash and cash equivalents	482	–	482
Trade and other payables	(566)	–	(566)
Net identifiable assets and liabilities	5,468	–	5,468
Minority interests			(1,914)
Interest in a jointly controlled entity			3,554

19. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Available-for-sale equity securities:		
– Listed outside Hong Kong	10,649	8,249
– Unlisted equity security	7,800	100
Convertible note	7,800	–
	26,249	8,349

On 7 December 2007, the Group disposed on its interest in an unlisted equity investment with a carrying value of HK$100,000 for total proceeds of HK$112,000 realising a net gain of HK$12,000 (note 4(b)).

On 12 March 2007, the Group invested HK$7,800,000 for a 16.5% interest in a newly established limited liability company ("LLC") in the United States. An additional HK$7,800,000 was advanced to LLC through a convertible note receivable which matures on 12 March 2012 and accrues interest at a rate of 6% through to the maturity date. As defined in the agreement and under certain circumstances through the maturity date, the Group may convert the note and any accrued interest into shares of LLC at a price based on the share price at the time of conversion. Given that LLC is at a very early stage in its development and no significant activity had occurred as at the year end date, the Group considered that there was no beneficial conversion feature. Accordingly, the cost of HK$7,800,000 represents the fair value of the convertible note as at 31 December 2007.

Since acquisition a further HK$7,760,000 was advanced to LLC, see note 21.

20. INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	35,414	22,874
Work in progress	10,869	5,867
Finished goods	131,341	106,462
	177,624	135,203

Finished goods amounting to HK$116,930,000 (2006: HK$97,832,000) were pledged to banks to secure banking facilities granted to the Group, see note 24.

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount of inventories sold	424,903	411,161
Write down of inventories	3,149	–
Reversal of write-down of inventories	(1,296)	(1,296)
	426,756	409,865

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade debtors	91,423	95,686	–	–
Less: allowance for doubtful debts	(3,677)	(4,056)	–	–
	87,746	91,630	–	–
Loan receivable *(note 19)*	7,760	–	–	–
Deposit and prepayments	18,140	12,696	174	169
Amounts due from related companies	475	–	–	–
	114,121	104,326	174	169

All trade and other receivables are expected to be recovered within one year.

Loan receivable is unsecured, interest-bearing at 8.04% per annum and repayable on 31 March 2008.

Amounts due from related companies of HK$475,000 (2006: HK$ Nil) is unsecured, interest free and has no fixed term of repayment.

(a) Ageing analysis

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

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Current	85,429	89,019
1 to 3 months past due	1,551	2,064
More than 3 months past due but less than 12 months past due	751	547
More than 12 months past due	15	–
	87,746	91,630

Trade debtors are due within 30 to 60 days from the date of billing. Further details on the Group's credit policy are set out in note 28(a).

(b) Impairment of trade debtors

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

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

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
At 1 January	4,056	4,853
Exchange adjustments	14	–
Reversal of impairment loss	(171)	(104)
Impairment loss recognised	635	286
Uncollectible amounts written off	(857)	(979)
At 31 December	3,677	4,056

At 31 December 2007, certain of the Group's trade debtors totalling HK$729,000 (2006: HK$937,000) were individually determined to be impaired. The individually impaired receivables related to customers with which the Group no longer trades and management assessed that the receivables are not expected to be recovered. The Group does not hold collateral over these balances.

(c) Trade debtors that are not impaired

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

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Neither past due nor impaired	77,271	83,829
Less than 1 month past due	7,825	5,515
1 to 3 months past due	870	1,515
More than 3 months past due but less than 12 months past due	597	289
	9,292	7,319
	86,563	91,148

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

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

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and cash equivalents in the balance sheet	26,592	24,440	133	5,457
Bank overdrafts *(note 24)*	(50,120)	(37,140)		
Cash and cash equivalents in the consolidated cash flow statement	(23,528)	(12,700)		

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due to directors	–	16,312	–	–
Amounts due to related companies	4,415	15,733	–	–
Creditors and accrued charges	183,706	104,493	78,945	28,143
Rental deposits	4,999	4,281	–	–
	193,120	140,819	78,945	28,143

All trade and other payables except for rental deposits of HK$4,999,000 (2006: HK$4,281,000) are expected to be settled within one year.

Amounts due to related companies of HK$4,415,000 (2006: HK$15,733,000) is unsecured, interest free and have no fixed terms of repayment.

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

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Due within 1 month or on demand	31,574	20,695
Due after 1 month but within 3 months	273	2,630
Due after 3 months but within 6 months	41	109
Due after 6 months	178	885
	32,066	24,319

24. BANK LOANS AND OVERDRAFTS

At 31 December 2007 bank loans and overdrafts were repayable as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Within 1 year or on demand	83,180	106,841
After 1 year but within 2 years	36,601	8,178
After 2 years but within 5 years	41,931	25,709
After 5 years	7,800	396
	86,332	34,283
	169,512	141,124

At 31 December 2007 bank loans and overdrafts were secured as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Bank overdrafts *(note 22)*		
– secured	50,120	35,730
– unsecured	–	1,410
	50,120	37,140
Bank loans – secured	119,392	103,984
	169,512	141,124

At 31 December 2007, certain investment properties, leasehold land and buildings and other assets of the Group with net book value of HK$884,303,000 (2006: HK$746,205,000) were mortgaged to various banks to secure the bank loan and overdraft granted to the Group. Details of the secured assets are as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Investment properties	598,857	501,212
Land and buildings *(note 13(b))*	52,363	53,980
Inventories *(note 20(a))*	116,930	97,832
Other assets	116,153	93,181
	884,303	746,205

All of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 28(b). As at 31 December 2007 none of the covenants relating to drawn down facilities had been breached (2006: Nil).

25. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2007, the Group had obligations under finance leases repayable as follows:

	2007		2006	
	Present value of minimum lease payments *HK$'000*	Total minimum lease payments *HK$'000*	Present value of minimum lease payments *HK$'000*	Total minimum lease payments *HK$'000*
Within 1 year	582	618	1,380	1,465
After 1 year but within 2 years	404	418	582	618
After 2 years but within 5 years	94	95	498	513
	498	513	1,080	1,131
	1,080	1,131	2,460	2,596
Less: total future interest expenses		(51)		(136)
Present value of lease obligations		1,080		2,460

26. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group 2007 *HK$'000*	2006 *HK$'000*
Provision for Hong Kong Profits Tax for the year	17,801	–
Provisional Profits Tax paid	(15,841)	(22)
	1,960	(22)
Overseas taxation payable	4,175	8,678
	6,135	8,656
Representing:		
Tax recoverable	–	(1,317)
Tax payable	6,135	9,973
	6,135	8,656

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Depreciation allowances in excess of the related depreciation	Revaluation of investment properties	Revaluation of land and buildings	Interests in associates	Provisions and allowances	Future benefit of tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	17,772	31,629	7,549	13,877	(17,488)	(19,874)	33,465
Charged/(credited) to profit or loss *(note 6(a))*	408	6,988	–	(13,645)	(4,157)	19,640	9,234
Exchange difference	(35)	–	–	–	–	–	(35)
At 31 December 2006	18,145	38,617	7,549	232	(21,645)	(234)	42,664
At 1 January 2007	18,145	38,617	7,549	232	(21,645)	(234)	42,664
(Credited)/charged to profit or loss *(note 6(a))*	(1,004)	19,465	–	–	(1,710)	234	16,985
Charged to reserves	–	–	35	–	–	–	35
Exchange difference	(7)	–	–	–	–	–	(7)
At 31 December 2007	17,134	58,082	7,584	232	(23,355)	–	59,677

Representing:

	The Group 2007	2006
	HK$'000	*HK$'000*
Net deferred tax assets recognised on the balance sheet	(24,551)	(22,768)
Net deferred tax liabilities recognised on the balance sheet	84,228	65,432
	59,677	42,664

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(r), the Group and the Company have not recognised deferred tax assets in respect of respective cumulative tax losses of HK$45,267,000 (2006: HK$53,848,000) and HK$10,085,000 (2006: HK$8,243,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

27. CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Land and buildings revaluation reserve HK$'000	Fair value reserve HK$'000	Revenue reserves HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006	66,541	109,942	10,815	173,397	522	35,591	–	214,211	611,019	–	611,019
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	–	12,169	–	–	–	12,169	–	12,169
Share of exchange reserve of associates	–	–	–	–	(351)	–	–	–	(351)	–	(351)
Share of exchange reserve of a jointly controlled entity	–	–	–	–	110	–	–	–	110	–	110
Changes in fair value of available-for-sale securities	–	–	–	–	–	–	449	–	449	–	449
Profit for the year	–	–	–	–	–	–	–	29,972	29,972	–	29,972
At 31 December 2006	66,541	109,942	10,815	173,397	12,450	35,591	449	244,183	653,368	–	653,368
At 1 January 2007	66,541	109,942	10,815	173,397	12,450	35,591	449	244,183	653,368	–	653,368
Revaluation surplus, net of deferred tax	–	–	–	–	–	162	–	–	162	–	162
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	–	920	–	–	–	920	250	1,170
Share of exchange reserve of associates	–	–	–	–	(755)	–	–	–	(755)	–	(755)
Acquisition of control over a jointly controlled entity	–	–	–	–	–	–	–	–	–	1,914	1,914
Capital injection	–	–	–	–	–	–	–	–	–	447	447
Changes in fair value of available-for-sale securities	–	–	–	–	–	–	2,400	–	2,400	–	2,400
Profit for the year	–	–	–	–	–	–	–	126,599	126,599	445	127,044
Dividend approved in respect of the previous year	–	–	–	–	–	–	–	(9,981)	(9,981)	–	(9,981)
At 31 December 2007	66,541	109,942	10,815	173,397	12,615	35,753	2,849	360,801	772,713	3,056	775,769

Exchange reserve and revenue reserves of the Group are retained as follows:

	The Group			
	Exchange reserve		Revenue reserves	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
By the Company and its subsidiaries	14,039	13,009	396,142	266,331
By associates	(1,424)	(669)	(35,341)	(22,745)
By a jointly controlled entity	–	110	–	597
Total at 31 December	12,615	12,450	360,801	244,183

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

(b) The Company

	Share capital	Share premium	Capital reserve	Contributed surplus	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	66,541	109,942	9,347	175,594	249,827	611,251
Profit for the year	–	–	–	–	85,130	85,130
At 31 December 2006	66,541	109,942	9,347	175,594	334,957	696,381
At 1 January 2007	66,541	109,942	9,347	175,594	334,957	696,381
Profit for the year	–	–	–	–	5,047	5,047
Dividend approved in respect of the previous year	–	–	–	–	(9,981)	(9,981)
At 31 December 2007	66,541	109,942	9,347	175,594	330,023	691,447

(c) Share capital

	2007		2006	
	Number of shares *('000)*	*HK$'000*	Number of shares *('000)*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	1,000,000	100,000	1,000,000	100,000
Issued and fully paid:				
At 1 January and 31 December	665,412	66,541	665,412	66,541

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

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve and contributed surplus

The capital reserve and contributed surplus have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill, and investments in subsidiaries, associates and jointly controlled entities. The contributed surplus may be utilised in accordance with the Bye-laws and other relevant laws of Bermuda, being the place of incorporation of the Company.

(iii) Exchange reserve

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

(iv) Revaluation reserve

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

(v) Fair value reserve

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

(e) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$505,617,000 (2006: HK$510,551,000). After the balance sheet date the directors proposed a final dividend of HK1.5 cents per ordinary share (2006: HK1.5 cents per ordinary share), amounting to HK$9,981,000 (2006: HK$9,981,000). The dividend has not been recognised as a liability at the balance sheet date.

(f) Capital management

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

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

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

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the net debt-to-equity ratio at the lower end of the range 40% to 50%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-equity ratio at 31 December 2007 and 2006 was as follows:

		The Group		**The Company**	
		2007	**2006**	**2007**	**2006**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities:					
Trade and other payables	*23*	193,120	140,819	78,945	28,143
Bank loans and overdrafts	*24*	83,180	106,841	–	–
Obligations under finance leases	*25*	582	1,380	–	–
		276,882	249,040	78,945	28,143
Non-current liabilities:					
Bank loans	*24*	86,332	34,283	–	–
Rental deposits		3,661	3,516	–	–
Obligations under finance leases	*25*	498	1,080	–	–
Total debt		367,373	287,919	78,945	28,143
Less: Cash and cash equivalents	*22*	(26,592)	(24,440)	(133)	(5,457)
Net debt		340,781	263,479	78,812	22,686
Total equity		775,769	653,368	691,447	696,381
Net debt-to-equity ratio		43.9%	40.3%	11.4%	3.3%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

28. FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. Debtors are due within 30 to 60 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers in its toys and model trains business. In respect of the Group's property investment business, deposits of between two to three months rent are received from lessees.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 13.7% (2006: 9.1%) and 28.6% (2006: 23.4%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively within the toys and model trains segment.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet, after deducting any impairment allowance.

Except for the financial guarantees given by the Group as set out in note 30(a), the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees on the balance sheet date is disclosed in note 30(a).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

(b) Liquidity risk

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

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

The Group

	2007						2006					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 1-2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank overdrafts	50,120	(50,120)	(50,120)	–	–	–	37,140	(37,140)	(37,140)	–	–	–
Bank loans	119,392	(132,811)	(35,744)	(41,647)	(47,234)	(8,186)	103,984	(108,809)	(73,422)	(8,720)	(26,266)	(401)
Advances from directors	–	–	–	–	–	–	16,312	(16,425)	(16,425)	–	–	–
Amounts due to related companies	4,415	(4,415)	(4,415)	–	–	–	15,733	(15,733)	(15,733)	–	–	–
Finance lease liabilities	1,080	(1,131)	(618)	(418)	(95)	–	2,460	(2,596)	(1,465)	(618)	(513)	–
Creditors and accrued charges	183,706	(183,706)	(183,706)	–	–	–	104,493	(104,493)	(104,493)	–	–	–
Rental deposits	8,660	(8,660)	(4,999)	(2,383)	(1,278)	–	7,797	(7,797)	(4,281)	(3,397)	(119)	–
	367,373	(380,843)	(279,602)	(44,448)	(48,607)	(8,186)	287,919	(292,993)	(252,959)	(12,735)	(26,898)	(401)

The Company

Creditors and accrued charges	78,945	(78,945)	(78,945)	–	–	–	28,143	(28,143)	(28,143)	–	–	–

(c) Interest rate risk

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

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

The Group

		2007		2006	
		Effective interest rate	**Total**	**Effective interest rate**	**Total**
	Note	*%*	*HK$'000*	*%*	*HK$'000*
Net fixed rate borrowings:					
Finance lease liabilities	*25*	4.60%	1,080	4.64%	2,460
Less: Convertible note	*19*	6.00%	(7,800)	N/A	–
Loan receivable	*21*	8.04%	(7,760)	N/A	–
			(14,480)		2,460
Variable rate borrowings:					
Bank overdrafts	*24*	6.60%	50,120	7.14%	37,140
Bank loans	*24*	5.17%	119,392	5.33%	103,984
Advances from directors	*23*	N/A	–	5.64%	16,312
			169,512		157,436

The Company

The Company did not have any income-earning financial assets or interest-bearing financial liabilities as at 31 December 2007 and 2006.

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately HK$1,253,000 (2006: HK$1,104,000). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change of interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis has been performed on the same basis for 2006.

(d) Foreign currency risk

(i) Exposure to currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars ("US$"), Sterling Pounds ("GBP"), Euros and Renminbi Yuan ("RMB").

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

The Group's foreign operations do not undertake significant transactions in a currency other than their respective functional currencies. Funds are retained by the foreign operations for use within the respective operations. Based on this, management considers the foreign exchange exposure to be low.

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

	2007				2006			
	United States Dollars	Sterling Pounds	Renminbi Yuan	Euros	United States Dollars	Sterling Pounds	Renminbi Yuan	Euros
	'000	'000	'000	'000	'000	'000	'000	'000
Trade and other receivables	720	14	2,028	346	1,201	21	1,164	259
Cash and cash equivalents	727	–	2,146	1	703	297	2,038	–
Trade and other payables	(77)	–	(331)	(13)	(264)	–	(361)	(25)
Net exposure arising from recognised assets and liabilities	1,370	14	3,843	334	1,640	318	2,841	234

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

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between Group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

The Group

	2007			2006		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity
		HK$'000	*HK$'000*		*HK$'000*	*HK$'000*
Sterling Pounds	N/A	–	–	10%	30	–
	N/A	–	–	(10%)	(30)	–
Renminbi Yuan	10%	384	–	5%	142	–
	(10%)	(384)	–	(5%)	(142)	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group's entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis has been performed on the same basis for 2006.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 19). Other than unquoted securities held for strategic purposes, all of these investments are listed.

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

The Group's investment in an unlisted equity security is held for long term strategic purposes and classified as a non-current asset. Performance is assessed at least bi-annually against performance of similar entities, based on the limited information available to the Group, together with an assessment of its relevance to the Group's long term strategic plans. The unlisted equity security is held at cost less impairment losses and, therefore, changes in market price do not affect its carrying value. The unlisted equity security is not subject to equity price risk and, accordingly, a sensitivity analysis is not presented.

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the relevant stock market index (for listed investments) to which the Group has significant exposure at the balance sheet date.

	2007			2006		
	Increase/ (decrease) in the relevant risk variable	Effect on profit after tax and retained profits *HK$'000*	Effect on other components of equity *HK$'000*	Increase/ (decrease) in the relevant risk variable	Effect on profit after tax and retained profits *HK$'000*	Effect on other components of equity *HK$'000*
Stock market index in respect of listed investments:						
Dow Jones Index	6%	–	639	16%	–	1,320
	(6%)	–	(639)	(16%)	–	(1,320)

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of a reasonably possible decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variable over the period until the next annual balance sheet date. The analysis has been performed on the same basis for 2006.

(f) Fair values

All significant financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

(g) Estimation of fair values

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

(i) Securities

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

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

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

(iii) Financial guarantees

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

29. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Contracted for	1,445	1,173

At 31 December 2007 and 2006, the Company did not have any capital commitments.

(b) At 31 December 2007, the total future lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	Land and buildings		Others	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	3,556	3,328	289	209
After 1 year but within 5 years	4,125	1,995	541	334
After 5 years	526	287	–	–
	8,207	5,610	830	543

At 31 December 2007 and 2006, the Company did not have any commitments under operating leases.

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

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

30. CONTINGENT LIABILITIES

At 31 December 2007, there were contingent liabilities in respect of the following:

(a) Financial guarantees issued

The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK$469,488,000 (2006: HK$327,600,000).

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

As at the balance sheet date, the directors do not consider to be probable that a claim will be made against the Company under any of the guarantees issued. The maximum liability of the company at the balance sheet date under the guarantees issued is the amount of banking facilities drawn down by the relevant subsidiaries of HK$167,358,000 (2006: HK$134,313,000).

(b) Litigation

During the first quarter of 2003, a Mexican company commenced a lawsuit in the State of Arizona against the Company on the grounds that the Company is a guarantor for a Lease Agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. ("Sinomex") as tenant (the "Litigation"). The plaintiffs initially alleged claims against Sinomex, formerly related to the Company, and the Company of US$5,235,000 for unpaid rent, value added tax, repair costs and interest owed by Sinomex under such Lease Agreement, plus accruing interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees. The plaintiffs amended their damage claim in the fourth quarter of 2007 and now seek US$7,426,000 in damages, plus accruing interest, court costs and attorneys fees. The increase in the amount claimed from that disclosed in the 2006 annual report mainly arose from accrued interest.

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

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

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

Having considered the Litigation with the Company's various legal counsels, the management and the Board believe that the Company's opposition to the plaintiffs' complaint, as well as the Company's defenses and appeal rights, continue to be meritorious. As such, the Company intends to continue to vigorously defend the Litigation. In accordance with paragraph 92 of HKAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, it would be against the interests of the Company to make further disclosure of the information required by HKAS 37.

31. EMPLOYEE RETIREMENT BENEFITS

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

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

Employees in the People's Republic of China are covered by a retirement insurance policy.

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

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

32. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Remuneration for key management personnel of the Group are disclosed in notes 7 and 8 to the financial statements.

(b) One of the directors of the Company is also a director and shareholder of a supplier which sold packaging and printing materials to the Group. Total purchases from the supplier amounted to HK$3,132,000 (2006: HK$3,723,000) during the year. The amount due to the supplier at the year end amounted to HK$317,000 (2006: HK$610,000).

(c) During the year, the Group advanced funds to certain associates with a net carrying value as at 31 December 2007 of HK$47,978,000 (2006: HK$50,608,000) in which certain directors of the Company have beneficial interests. Further details of the associates are given in note 17 to the financial statements.

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

(e) The Group has provided funding to associates. Details of the balance outstanding are disclosed in note 17 to the financial statements.

33. COMPARATIVE FIGURES

As a result of adopting HKFRS 7, *Financial instruments: Disclosures*, and the amendments to HKAS 1, *Presentation of financial statements: Capital disclosures*, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2.

34. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Impairment

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

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, HKFRS 8, *Operating segments* which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

3. INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2008

The following is the interim financial information of the Group for the six months ended 30 June 2008 as extracted from the interim report of the Company for the six months ended 30 June 2008.

CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2008

		Unaudited Six months ended 30 June	
	Note	**2008**	**2007**
		HK$'000	*HK$'000*
Turnover	*4*	290,793	266,148
Other revenue		6,977	6,387
Other net income		4,738	2,312
Changes in inventories of finished goods and work in progress		40,888	8,598
Cost of purchase of finished goods		(29,486)	(12,144)
Raw materials and consumables used		(113,030)	(84,561)
Staff costs		(109,018)	(87,243)
Depreciation expenses		(11,914)	(10,364)
Amortisation of interest in leasehold land held for own use		(11)	(11)
Other operating expenses		(73,046)	(65,059)
Profit from operations	*4*	6,891	24,063
Finance costs	*6(a)*	(4,313)	(5,614)
Share of profits less losses of associates		(455)	35
Profit before taxation	*6*	2,123	18,484
Income tax credit/(charge)	*7*	6,501	(4,606)
Profit for the period		8,624	13,878
Attributable to:			
Equity shareholders of the Company	*15*	8,612	13,556
Minority interests	*15*	12	322
Profit after taxation		8,624	13,878
Dividend	*8*	9,981	9,981
Earnings per share attributable to equity shareholders of the Company			
Basic	*9(a)*	1.29¢	2.04¢
Diluted	*9(b)*	N/A	N/A

CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Note	Unaudited At 30 June 2008 HK$'000	Audited At 31 December 2007 HK$'000
Non-current assets			
Fixed assets			
– Investment properties	10(b)	646,307	646,307
– Other property, plant and equipment	10(a)	142,701	137,976
– Interests in leasehold land held for own use under an operating lease		865	876
		789,873	785,159
Goodwill		31,200	31,200
Intangible assets		552	570
Interests in associates		48,462	48,760
Other non-current financial assets		23,829	26,249
Deferred tax assets		31,193	24,551
		925,109	916,489
Current assets			
Inventories	11	232,122	177,624
Current tax recoverable		2,728	–
Trade and other receivables	12	99,218	114,121
Cash and cash equivalents	13	35,260	26,592
		369,328	318,337
Current liabilities			
Trade and other payables	14	219,015	193,120
Bank loans and overdrafts		68,261	83,180
Obligations under finance leases		465	582
Current tax payable		9,363	6,135
		297,104	283,017
Net current assets		72,224	35,320
Total assets less current liabilities carried forward		997,333	951,809

	Note	Unaudited At 30 June 2008 HK$'000	Audited At 31 December 2007 HK$'000
Total assets less current liabilities brought forward		997,333	951,809
Non-current liabilities			
Bank loans		140,644	86,332
Rental deposits		2,797	3,661
Obligations under finance leases		276	498
Deferred tax liabilities		80,003	84,228
Accrued employee benefits		1,412	1,321
		225,132	176,040
NET ASSETS		772,201	775,769
CAPITAL AND RESERVES	*15*		
Share capital		66,541	66,541
Reserves		702,399	706,172
Total equity attributable to equity shareholders of the Company		768,940	772,713
Minority interests		3,261	3,056
TOTAL EQUITY		772,201	775,769

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

		Unaudited Six months ended 30 June			
		2008	**2008**	**2007**	**2007**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total equity at 1 January	*15*		775,769		653,368
Net income/(expense) for the period recognised directly in equity:					
Exchange differences on translation of the financial statements of overseas subsidiaries	*15*		(2,344)		1,353
Share of exchange reserve of associates	*15*		20		(418)
Changes in fair value of available-for-sale securities	*15*		113		1,738
Surplus on revaluation of land and buildings held for own use, net of deferred tax			–		162
Net (expenses)/income for the period recognised directly in equity			(2,211)		2,835
Net profit for the period	*15*		8,624		13,878
Total recognised income and expense for the period			6,413		16,713
Attributable to:					
Equity shareholders of the Company		6,401		16,391	
Minority interests		12		322	
		6,413		16,713	
Dividends declared	*8,15*		(9,981)		(9,981)
Acquisition of control over a jointly controlled entity			–		2,498
Total equity at 30 June	*15*		772,201		662,598

CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2008

		Unaudited Six months ended 30 June	
		2008	**2007**
	Note	*HK$'000*	*HK$'000*
Cash generated from operations		609	48,396
Tax paid		(3,866)	(10,285)
Net cash (used in)/generated from operating activities		(3,257)	38,111
Investing activities			
Payment for purchase of fixed assets	*10(a)*	(16,433)	(11,990)
Payment for purchase of other financial assets		–	(15,600)
Proceeds from disposal of other financial assets		3,777	–
Proceeds from disposal of fixed assets	*10(a)*	2,017	92
Interest received		1,108	135
Increase in amounts due from associates		(137)	(15,445)
Acquisition of control over a jointly controlled entity		–	1,026
Net cash used in investing activities		(9,668)	(41,782)
Financing activities			
Proceeds from new bank loans		116,844	113,465
Repayment of bank loans		(35,955)	(87,620)
Capital element of finance lease rentals paid		(339)	(682)
Decrease in amounts due to related companies		(2,679)	(13,907)
Repayment of loans from shareholders and directors		–	(16,312)
Dividend paid		(9,981)	(9,981)
Interest paid		(4,937)	(5,518)
Interest element of finance lease rentals paid		(21)	(50)
Net cash generated from/(used in) financing activities		62,932	(20,605)
Net increase/(decrease) in cash and cash equivalents		50,007	(24,276)
Cash and cash equivalents at 1 January		(23,528)	(12,700)
Effect of foreign exchange rate changes		151	216
Cash and cash equivalents at 30 June	*13*	26,630	(36,760)

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL REPORT

1. REPORTING ENTITY

Kader Holdings Company Limited is a company domiciled in Bermuda. The consolidated interim financial report of the Company as at and for the six months ended 30 June 2008 comprises the Company and its subsidiaries and the Group's interests in associates.

The financial report of the Group as at and for the year ended 31 December 2007 are available upon request from the Company's principal office at 11/F, 22 Kai Cheung Road, Kowloon Bay, Kowloon or at http://www.kaderholdings.com.

2. BASIS OF PREPARATION

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").

This consolidated interim financial report was approved by the Board of Directors and authorised for issue on 22 September 2008.

The consolidated interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2008. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2008 on the basis of HKFRSs currently in issue and effective for the current accounting period. The adoption of these new and revised HKFRSs which are expected to be reflected in the 2008 annual financial statements would not have a significant impact on the Group's results of operations and financial position.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The preparation of an 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 2007 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 HKFRSs.

The interim financial report is unaudited, but has been reviewed by the Audit Committee.

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the Company's principal office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 April 2008.

3. ESTIMATES

The preparation of interim financial statements 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 condensed consolidated 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 2007.

4. SEGMENT REPORTING

The Group's primary format for reporting segment information is business segments.

Business segments

The Group comprises the following main business 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 and trading:	The investment in and trading of listed securities.

Unaudited six months ended 30 June	Toys and model trains 2008 HK$'000	Toys and model trains 2007 HK$'000	Property investment 2008 HK$'000	Property investment 2007 HK$'000	Investment holding and trading 2008 HK$'000	Investment holding and trading 2007 HK$'000	Unallocated 2008 HK$'000	Unallocated 2007 HK$'000	Inter-segment elimination 2008 HK$'000	Inter-segment elimination 2007 HK$'000	Consolidated 2008 HK$'000	Consolidated 2007 HK$'000
Revenue from external customers	273,980	251,507	16,813	14,641	–	–	–	–	–	–	290,793	266,148
Inter-segment revenue	–	–	489	489	–	–	–	–	(489)	(489)	–	–
Other revenue from external customers	782	806	3,800	4,634	–	809	–	–	–	–	4,582	6,249
Total	274,762	252,313	21,102	19,764	–	809	–	–	(489)	(489)	295,375	272,397
Segment result	(12,600)	10,131	16,081	15,998	(738)	(2,441)	1,485	191	–	–	4,228	23,879
Unallocated operating income and expenses											2,663	184
Profit from operations											6,891	24,063

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):

	Unaudited Six months ended 30 June 2008 HK$'000	2007 HK$'000
(a) Finance costs		
Finance charges on obligations under finance leases	21	50
Interest on other borrowings	4,292	5,564
	4,313	5,614
(b) Other items		
Cost of inventories	198,645	165,163
Amortisation of intangible assets	18	17
Net gain on disposal of fixed assets *(note 10(a))*	(1,931)	(46)
Interest income	(732)	(138)
Share of associate's taxation	–	5
Net gain on disposal of financial assets	(1,244)	–

7. INCOME TAX

	Unaudited Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax	4,792	7,394
Current tax – Overseas	(426)	370
Deferred taxation	(10,867)	(3,158)
Income tax (credit)/charge	(6,501)	4,606

On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual Budget which proposed a cut in the profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008/09. This decrease is taken into account in the preparation of the consolidated interim financial report. Accordingly, the opening balances of the Group's deferred tax liabilities and deferred tax assets as at 1 January 2008 decreased by HK$4,459,000 and HK$Nil, respectively.

The provision for Hong Kong Profits Tax for the six months ended 30 June 2008 is calculated at 16.5% of the estimated assessable profits for the period (30 June 2007: 17.5%). Taxation for overseas subsidiaries is calculated by using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

8. DIVIDEND

Dividend attributable to the previous financial year, approved and paid during the interim period:

	Unaudited Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
Final dividend in respect of the financial year ended 31 December 2007, approved and paid during the following interim period, of HK1.5 cents per ordinary share (year ended 31 December 2006: HK1.5 cents per ordinary share)	9,981	9,981

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$8,612,000 (six months ended 30 June 2007: HK$13,556,000) and the weighted average number of ordinary shares of 665,412,000 (2007: 665,412,000).

(b) Diluted earnings per share

The diluted earnings per share is not presented as the Company does not have dilutive potential ordinary shares outstanding during both the current and prior periods.

10. FIXED ASSETS

(a) Acquisitions and disposals

During the six months ended 30 June 2008, the Group acquired items of fixed assets with a cost of HK$16,433,000 (six months ended 30 June 2007: HK$11,990,000). Items of fixed assets with a net book value of HK$86,000 were disposed of during the six months ended 30 June 2008 (six months ended 30 June 2007: HK$46,000), resulting in a gain on disposal of HK$1,931,000 (six months ended 30 June 2007: HK$46,000).

(b) Valuation

Investment properties carried at fair value were revalued at 31 December 2007 by an independent firm of surveyors, DTZ Debenham Tie Leung, who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis.

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 2008 are carried at fair value.

11. INVENTORIES

During six months ended 30 June 2008 HK$1,649,000 (six months ended 30 June 2007: HK$551,000) has been recognised as a reduction in the amount of inventories recognised as an expense during the period, being the amount of reversal of a write-down of inventories to estimated net realisable value.

12. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors (net of impairment losses) with the following ageing analysis:

	Unaudited At 30 June 2008 *HK$'000*	**Audited At 31 December 2007** *HK$'000*
Current	64,262	85,429
1 to 3 months overdue	4,168	1,551
More than 3 months overdue but less than 12 months overdue	304	751
More than 12 months overdue	503	15
Total trade debtors, net of impairment losses	69,237	87,746
Other debtors and prepayments	29,981	26,375
	99,218	114,121

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.

13. CASH AND CASH EQUIVALENTS

	Unaudited At 30 June 2008 *HK$'000*	Audited At 31 December 2007 *HK$'000*
Cash and cash equivalents in the balance sheet	35,260	26,592
Bank overdrafts	(8,630)	(50,120)
Cash and cash equivalents in the consolidated cash flow statement	26,630	(23,528)

14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors with the following ageing analysis:

	Unaudited At 30 June 2008 *HK$'000*	Audited At 31 December 2007 *HK$'000*
Due within 1 month or on demand	45,842	31,574
Due after 1 month but within 3 months	7,093	273
Due after 3 months but within 6 months	1,077	41
Due after 6 months	517	178
Total trade creditors	54,529	32,066
Other payables	164,486	161,054
	219,015	193,120

15. CAPITAL AND RESERVES

	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 reserves	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	66,541	109,942	10,815	173,397	12,450	35,591	449	244,183	653,368	–	653,368
Revaluation surplus, net of deferred tax	–	–	–	–	–	162	–	–	162	–	162
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	–	920	–	–	–	920	250	1,170
Share of exchange reserve of associates	–	–	–	–	(755)	–	–	–	(755)	–	(755)
Acquisition of control over a jointly controlled entity	–	–	–	–	–	–	–	–	–	1,914	1,914
Capital injection	–	–	–	–	–	–	–	–	–	447	447
Changes in fair value of available-for-sale securities	–	–	–	–	–	–	2,400	–	2,400	–	2,400
Profit for the year	–	–	–	–	–	–	–	126,599	126,599	445	127,044
Dividend approved in respect of the previous year	–	–	–	–	–	–	–	(9,981)	(9,981)	–	(9,981)
At 31 December 2007	66,541	109,942	10,815	173,397	12,615	35,753	2,849	360,801	772,713	3,056	775,769
At 1 January 2008	66,541	109,942	10,815	173,397	12,615	35,753	2,849	360,801	772,713	3,056	775,769
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	–	(2,537)	–	–	–	(2,537)	193	(2,344)
Share of exchange reserve of associates	–	–	–	–	20	–	–	–	20	–	20
Changes in fair value of available-for-sale securities	–	–	–	–	–	–	113	–	113	–	113
Profit for the period	–	–	–	–	–	–	–	8,612	8,612	12	8,624
Dividend approved in respect of the previous year	–	–	–	–	–	–	–	(9,981)	(9,981)	–	(9,981)
At 30 June 2008	66,541	109,942	10,815	173,397	10,098	35,753	2,962	359,432	768,940	3,261	772,201

16. CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	Unaudited At 30 June 2008 *HK$'000*	Audited At 31 December 2007 *HK$'000*
Contracted for	2,050	1,445

17. MATERIAL RELATED PARTY TRANSACTIONS

(a) One of the directors of the Company is a non-executive director and shareholder of a supplier which sold packaging and printing materials to the Group under the same terms as those available to other customers in the ordinary course of business. Total purchases from the supplier during the period amounted to HK$1,523,000 (six months ended 30 June 2007: HK$1,469,000). The amount due to the supplier at the period end amounted to HK$770,000 (at 31 December 2007: HK$317,000).

(b) During the period, the Group advanced funds to certain associates with a net carrying value as at 30 June 2008 of HK$47,879,000 (at 31 December 2007: HK$47,978,000) in which certain directors of the Company have beneficial interests.

(c) During the period, the Group has obtained funding from certain related companies to finance its operations. The outstanding balances are as follows:

	Unaudited At 30 June 2008 *HK$'000*	Audited At 31 December 2007 *HK$'000*
Related companies	1,736	4,415

Balances with related companies are unsecured, interest free and have no fixed terms of repayment.

18. CONTINGENT LIABILITIES

(a) The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK$473,690,000 at 30 June 2008 (at 31 December 2007: HK$469,488,000).

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

As at the balance sheet date, the directors do not consider to be probable that a claim will be made against the Company under any of the guarantees issued. The maximum liability of the Company at the balance sheet date under the guarantees issued is the amount of banking facilities drawn down by the relevant subsidiaries of HK$206,970,000 (2007: HK$167,358,000).

(b) Litigation

During the first quarter of 2003, a Mexican company commenced a lawsuit in the State of Arizona against the Company on the grounds that the Company is a guarantor for a Lease Agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. ("Sinomex") as tenant (the "Litigation"). The plaintiffs initially alleged claims against Sinomex, formerly related to the Company, and the Company of US$5,235,000 for unpaid rent, value added tax, repair costs and interest owed by Sinomex under such Lease Agreement, plus accruing interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees. The plaintiffs amended their damage claim in the fourth quarter of 2007 and now seek US$7,426,000 in damages, plus accruing interest, court costs and attorneys fees. The increase in the amount claimed from that disclosed in the 2006 annual report mainly arose from accrued interest.

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

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

In September 2007, the Company filed a motion for a new trial and/or for reconsideration, asking the court to apply the law of Mexico (rather than the law of Arizona) and claiming that under Mexican law the Company should prevail and that the court should therefore vacate its granting of summary judgment in favour of the plaintiffs. Thereafter, the court granted rebriefing and then conducted a hearing on 14 January 2008, to address the Company's motion for new trial and/or for reconsideration. On 14 March 2008, the court denied the Company's motion for a new trial and/or for reconsideration. In its ruling on that motion the court did apply Mexican law. However, it appears to the Company that the trial court has made an error as to the undisputed facts, leading the Company to file a second motion for new trial and/or motion for reconsideration to ask the court to correct its ruling and find in favour of the Company. The court agreed to hear that second motion and has ordered another rebriefing.

Having considered the Litigation with the Company's various legal counsels, the management and the Board believe that the Company's opposition to the plaintiffs' complaint, as well as the Company's defenses and appeal rights, continue to be meritorious. As such, the Company intends to continue to vigorously defend the Litigation. In accordance with paragraph 92 of HKAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* it would be against the interests of the Company to make further disclosure of the information required by HKAS 37.

19. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2008

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2008:

	Effective for accounting periods beginning on or after
HKFRS 8, Operating segments	1 January 2009
Revised HKAS 23, Borrowing costs	1 January 2009
Revised HKAS 1, Presentation of financial statements	1 January 2009

The above amendments, new standard and interpretation were not applied in this interim financial report because the directors expect that the Group will not early apply them when preparing the Group's annual financial statements for the year ending 31 December 2008.

The Group is in the process of making an assessment of the impact of these amendments, new standard and new interpretations in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

4. INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had total indebtedness of approximately HK$808,037,000.

As at 31 October 2008, the Group had total indebtedness of approximately HK$203,061,000, comprising secured bank loans and overdrafts of approximately HK$203,037,000, unsecured bank overdrafts of approximately HK$24,000, obligations under finance leases of approximately HK$570,000 and amounts due to related companies of approximately HK$2,373,000.

As at 31 October 2008, certain investment properties, leasehold land and buildings, inventories and other assets of the Group with carrying amounts of approximately HK$598,857,000, HK$45,210,000, HK$139,057,000 and HK$109,028,000, respectively, were mortgaged to various banks to secure the bank loans and overdrafts granted to the Group. All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants.

As at 31 October 2008, the amounts due to related companies of approximately HK$2,373,000 are unsecured, interest free and have no fixed terms of repayment.

As at 31 October 2008, the Target Group had total indebtedness of approximately US$77,561,000 (equivalent to approximately HK$604,976,000), representing the Indebtedness. Under the Agreement, the Company has not assumed the Indebtedness and has not given any guarantee on the repayment of the Indebtedness. Moreover, upon Completion, the Vendor shall procure from the Security Trustee the release of the Target Group from the Indebtedness and all claims, demands and liabilities under and security provided by the Target Group in connection with the Indebtedness. Hence, the Company shall not be obliged to proceed to Completion should the Vendor fail to procure from the Security Trustee the release of the Target Group from the Indebtedness and all claims, demands and liabilities under and security provided by the Target Group in connection with the Indebtedness. Based on the understanding from the negotiations between the Company and the representatives of the Receivers, the Directors consider that the Indebtedness is likely to be released and such release is procedural in nature.

Commitments

As at 31 October 2008, the Group had capital commitments of approximately HK$976,000 which are contracted for but not provided for.

As at 31 October 2008, the Target Group had capital commitments of approximately US$85,000 (equivalent to approximately HK$661,000) which are contracted for but not provided for.

As at 31 October 2008, the Group had operating lease commitments of approximately HK$9,756,000 for total future lease payments under non-cancelable operating leases in respect of properties and equipment.

As at 31 October 2008, the Target Group had operating lease commitments of approximately US$7,269,000 (equivalent to approximately HK$56,695,000) for total future lease payments under non-cancelable operating leases in respect of properties and equipment.

Contingent liabilities

As at 31 October 2008, the Group was involved in a lawsuit in the USA, further details of which are set out in the paragraph headed "Litigation" in Appendix IV to this circular.

Disclaimer

Save as referred to in this section and apart from intra-group liabilities and normal trade payables, the Group did not have, at the close of business on 31 October 2008, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, obligations under hire purchases contracts or finance leases, guarantees or other material contingent liabilities.

5. WORKING CAPITAL

Taking into account the internally generated funds and the presently available banking facilities, the Directors are of the opinion that the Enlarged Group will, upon Completion and release of the Target Group from the Indebtedness and all claims, demands and liabilities under and security provided by the Target Group in connection with the Indebtedness, have sufficient working capital for its present requirements, that is for at least 12 months from the date of this circular, in the absence of unforeseeable circumstances.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

The following is a record of management discussion and analysis of the Group for the three years ended 31 December 2007 and the six months ended 30 June 2008 as from the Company's annual reports for each of the three years ended 31 December 2007 and the Company's interim report for the six months ended 30 June 2008.

(a) For the year ended 31 December 2005

Results

The Board of Directors has much pleasure to announce that the profit attributable to shareholders in the financial year of 2005 is approximately HK$80.35 million, representing an increase of 107.33% over the last year's restated figure of HK$38.75 million. The Group's turnover for the financial year ended 31 December 2005 amounted to approximately HK$539.81 million, representing an increase of 7.72% over that reported in the last financial year.

The profit from operations before tax for the year 2005 amounted to HK$102.42 million, which included valuation gain of investment property amounted to HK$58.28 million, as compared to last year's restated figures of HK$86.97 million and HK$52.76 million respectively. In addition, the share of profits of associates for the year 2005 amounted to HK$10.89 million, as compared to the last year's loss of HK$11.43 million.

During the year under review, though operating conditions remained harsh, the Group succeeded in achieving a remarkable performance through enhancing its competitiveness in terms of productivity, quality, reliability and delivery. The Group is best known for producing high-quality toys. Our success in shifting towards high value added products had contributed to the outstanding performance. Moreover, the booming in the global property markets further improved the Group's financial position in its property investment business.

Business Review

Toys

The turnover for the OEM/ODM toys business for the year ended 31 December 2005 amounted to HK$161.59 million, representing a mild increase of 2.89% as compared to the corresponding period of last year.

During the year under review, competition remained keen and operating conditions remained tough, especially with the continuous increase and volatility of raw material prices that adversely affected the profitability. However, the Group has managed to strengthen production and financial management, and expanded high value added business to improve the profit margin. Eventually, the bottom line of the Group's OEM/ODM toys business continued to improve.

The Group will follow its on-going strategy of developing and enhancing high value added products. The worldwide mega-trend is to integrate electronics and new technology with toys, thus the Group will invest more in research and development to develop innovative toys that captures the high margin market segment. On the other hand, great efforts will be placed in the area of maintaining close contact with large buyers and to keep abreast of market trends, expanding business networks, and exploring market opportunities.

Model Trains

During the year under review, the model trains section continued to achieve good performance. Turnover in model trains amounted to HK$353.73 million, representing an increase of 10.68% as compared to last year.

The Group was making continuous efforts on enhancing quality, developing innovative products, expanding accessories and promoting product image and brand names, which further strengthened the Group's leading position in the model train industry. Our own brand name product lines, Bachmann Branchline, Graham Farish and Lilliput, continued to be well received in the field of model train collectors both in Europe and America. At the same time, operational efficiency and cost control has been seriously reviewed. As a result, the profit margin was remarkably increased.

Looking ahead, the Group's major focus will still be putting on research and development. One of our missions is to develop high quality products with creative ideas. Following the successful launch of Digital Command Control ("DCC") model train series in recent years, the product development team has managed to bring in the latest technology to further enhance our new DCC lines. The Group will continue to enrich our product lines and expand the variety of accessories to strengthen its business growth.

Recently the Group has tried to penetrate into the Japan market. Initial response is promising. With global growing demand for collectibles, the Group is anticipating that year 2006 will be another promising year for the Group's model train business development.

Property Investment

During the year under review, the rental income of the Group has slightly increased by 1.54% as compared to last year. Moreover, the Group recorded a revaluation gain on its investment properties amounted to HK$58.28 million.

Prosperity of the rental market in the East Kowloon district has contributed much to this improvement. As a result, the occupancy rate of the Group's major investment property, Kader Building, has increased to 93% as at the year end, as compared with 85% last year.

The rental market for commercial/industrial buildings in the East Kowloon district remains strong. With both the occupancy rate and the rental rate continuing to increase, the Board is optimistic that rental income of the Kader Building will be further improved upon the renewal of leases in the coming year.

During the year under review, global property markets were encouraging. Taking the opportunity, the Group had succeeded in disposing its rental properties in Canada, which was further strengthening the liquidity position of the Group.

Besides, the Group also realised a gain of approximately HK$2.05 million on disposing an investment property in Shenzhen, PRC before the expiry of the land use right.

Investment Holding

Following settlement of the litigation arising from the termination of the agency relating to the management of the Resort at Squaw Creek (the "Resort"), the Group's major investment in the United States, a real estate and hospitality group was admitted to the ownership and a new hotel operator was appointed to manage the Resort in April 2004.

During 2004, the ownership conducted a feasibility study on the opportunity for the condominium sale of the existing hotel guest rooms and decided to convert the Resort to a condominium hotel pursuant to which the guest rooms are structured as separate condominium units, which were marketed and sold to individual owners. The condominium owners will then contribute their unit to a rental program managed by the hotel operator.

The initial condominium sale was successfully launched in March 2005 and over 60% of the units were sold on the first day of the launch. As at 31 December 2005, over 80% of the units were sold.

Financial Review

Liquidity and Financial Resources

As at 31 December 2005, the Group's current ratio was 1.01 (2004 restated: 0.99). The Group's total bank borrowings were reduced from approximately HK$214.17 million as reported last year to approximately HK$190.97 million as at year end. The financial gearing of the Group, based on the total bank borrowings to the shareholder's equity, was reduced to 31.25% (2004 restated: 42.37%). There is no significant seasonality of borrowing requirements except during peak production period in the second half of the year when the Group's trade loans will be comparatively higher.

Capital Structure

During the year ended 31 December 2005, there were no changes in the Company's share capital. The Group's capital instruments were mainly composed of bank loans and directors' support, which were denominated in HK Dollars, Sterling Pounds and US Dollars at prevailing market rates.

Charges on Group Assets

As at 31 December 2005, certain investment properties, leasehold land and buildings and other assets of the Group valued at approximately HK$732.76 million (2004: HK$659.59 million) were pledged to banks to secure banking facilities granted to the Group.

Material Acquisitions and Disposals

Other than the disposal of certain investment properties mentioned above, there are no material acquisitions and disposals during the year ended 31 December 2005. At the moment, there are no major plans for acquiring substantial investments or capital assets.

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated either in Sterling Pounds, U.S. Dollars, Canadian Dollars, Renminbi Yuan or Hong Kong Dollars. During the year under review, the majority of the Group's sales proceeds were in Hong Kong Dollars, U.S. Dollars and Sterling Pounds while the majority of its raw materials and equipment purchases were required to be settled in HK Dollars. As such, the Group was facing a certain degree of exchange risk, mainly in Sterling Pounds. Efforts were taken to hedge against various transactions in foreign currency, so as to minimize possible exchange risk. During the year 2005, the Group recorded an aggregate exchange loss of approximately HK$3.23 million (2004: HK$4.19 million).

Contingent Liabilities

As at 31 December 2005, the Group did not have any significant contingent liabilities except:–

1. As reported in the Group's 2003 and 2004 Annual Report, an action was commenced in 2003 by a supplier of resin materials (the "Supplier") against a Group company in the Hong Kong High Court for payment of a trading debt amounting to HK$643,980. HK$20,852.50 of this debt has already been paid by the Group company pursuant to a court order. About 75% of the remaining debt is not disputed by the Group company. However, this has not been paid because the court ordered that this action should be tried together with a separate action commenced by the Group company against the same supplier in 2003 for damages amounting to US$590,000 on the basis, inter alia, that bulk resin supplied by the Supplier did not reasonably correspond with the sample first provided and tested by the Group company. The effect of both actions being tried together is that the court will take into account, and setoff, any damages awarded in either action to produce a net result. The trial date was fixed for the third quarter of 2006. The directors believe the Group will not suffer any material loss as a result of these actions. Meanwhile, the Group has made adequate provisions on the anticipated legal costs to be incurred.

2. As reported in the Group's 2004 Annual Report, during the last quarter of 2003, a Mexican company commenced a law suit in the State of Arizona against the Company on the ground that the Company is a guarantor for a Lease Agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. ("Sinomex") as tenant (the "Litigation"). Sinomex was a member company of the Group at that time and it was disposed of in 1996. The plaintiffs allege claimed against Sinomex and the Company of approximately US$5,000,000 for unpaid obligations of Sinomex under such Lease Agreement plus interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees.

   In 2004, the Company filed a Motion to Dismiss the complaint in the Litigation based upon the applicable laws of Arizona and those of the location of the property, Hermosillo, Mexico. In the Motion, the Company primarily argued that the Arizona court did not have sufficient subject matter and personal jurisdiction over the Company under the guarantee for the case to continue in that court, and as such, the case should be dismissed in favour of the Company.

In January 2005, the Arizona court denied the initial motion submitted by the Company. The Company planned to continue to vigorously defend the Litigation, and to assert the defences available to it. This would eliminate or at least significantly reduce the exposure of the Company if those defences proved to be successful.

Having considered the Litigation with the Company's legal counsel, the management and the Board believed that the Company's opposition to the plaintiffs' complaint, and its defenses, including defenses to the amount of damages awardable, were meritorious. As such, the Company intends to continue to vigorously defend the Litigation. On that basis, the Company has not made provision in relation to the claims under the Litigation, while anticipated legal cost has been sufficiently provided for in the year under review.

Employees and Remuneration Policies

As at 31 December 2005, the Group employed approximately 6,960 (2004: 5,150) full time management, administrative and production staff in Hong Kong SAR, mainland China, the United States and Europe. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In the area of staff training, the Group encourages and supports staff to engage and participate in continuing studies and self-enhancement courses.

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 2005.

Prospects

Year 2005 was a year of challenge. The Group strived for its goals under harsh operating conditions, and finally achieved promising performance.

During the year, the prices of raw materials such as paper and plastic remained high, interest rates were rising and keen competition remained within the industry. In the PRC, especially the Guangdong Province where the Group's production plant is located, labour and electricity supply remained tight, not to mention the increasingly sophisticated customs and tax rules. All these created production pressure and lifted production costs. However, the Group faced those challenges, exercised stringent cost control and performed well even under such harsh conditions.

Looking ahead, under sound global economic climate, both consumer confidence and business sentiment is good. Locally, the Financial Secretary has delivered to us a fiscal surplus and the unemployment rate is falling. The improvement in basic economic conditions has favorably eased the operating environment for our manufacturing and export-orientated business. All these factors have attributed to an optimistic market outlook in 2006.

In the coming year, the Group will emphasize on research and development because the worldtrend is to focus on innovative products. Therefore, more resources will be allocated to the development of new products. Continuous efforts will be placed on production planning and financial management so as to attain operational efficiency and cost control. The Group will seize every opportunity to penetrate into new and potential markets, like the Japan market. Barring any unforeseen circumstances, the Board remains cautiously optimistic toward the business prospects of the Group.

(b) For the year ended 31 December 2006

Results

The Board of Directors has pleasure in announcing that the Group's profit attributable to shareholders for the financial year ended 31 December 2006 was approximately HK$29.97 million, representing a decrease of 62.70% over the last year's figure of HK$80.35 million. The Group's turnover for the financial year ended 31 December 2006 amounted to approximately HK$643.22 million, representing an increase of 19.16% over that reported last year.

The profit from operations for the year 2006 amounted to HK$105.39 million, which included valuation gains on investment property amounting to HK$36.34 million, as compared to the last year's figures of HK$102.42 million and HK$58.28 million respectively. In addition, the share of losses of associates for the year 2006 amounted to HK$34.91 million, as compared to the last year's share of profits of HK$10.89 million. The share of losses of associates was arrived at after having recognised an impairment charge in respect of an associate's property, plant and equipment of approximately HK$53.08 million.

Business Review

Toys

For the financial year ended 31 December 2006, the turnover for the Group's OEM/ODM toys business was approximately HK$252.21 million, a substantial increase of 56.08% as compared to last year.

2006 continued to be a challenging year for toys manufacturers. The industry faced adverse factors such as high labour and material costs, and the appreciating Renminbi Yuan. However, the Group was well aware of these challenges and succeeded in exercising several measures to minimise the impact. As a result, the Group was able to record another year of fair results.

The Group continued its stringent control policies in both production and financial management. Emphasis has been placed on streamlining the production lines to maximise productivity; strengthening the quality control team to ensure product quality and reduce wastage; and making detailed and accurate order forecast and materials planning to minimise the costs on working capital. Our sales team had also contributed in securing more bulk order business from our existing customers and broadening our customer base.

Model Trains

The turnover for model trains for the year ended 31 December 2006 was approximately HK$365.62 million, a slight increase of 3.36% as compared to last year.

During the year under review, the manufacturing costs stood at a high level which adversely affected the performance of the Model Trains section. To face the challenge, the Company followed a strategy of further improving the quality of the products. This strategy has succeeded in gaining the loyalty of customers and maintained our leading position in the industry.

The Group is proud to announce that during the year under review, our Liliput brand HO scale model train ET 4030 was awarded "Model of the Year 2006" from VÖMEC, the model railroader organisation of Austria.

The Group's model trains continued to receive encouraging response from customers. 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.

In Europe, our subsidiary, Bachmann Europe Plc has signed up with Joella Production to produce the model train sets of Underground Ernie, a hit children's programme having the London Underground as the story background. The models accurately represent the characters on television and allow children to recreate their favourite stories from the programme. There is considerable value to attract the next generation of railway modellers and the Group has decided to add more trains and accessories to the initial set in the coming year.

In China, the model train series of "Qinghai-Tibet Railway", which is the world's highest and longest plateau railroad connecting the Tibet Autonomous Region with the rest of China, is targeted to be presented in mid-2007. The Group expects that the launching of this new train series will draw favourable market response.

The Group is 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. Safety standards, regulations and code of practices are the Group's major concern. The Group is always adhering to 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.

Property Investment

For the financial year ended 31 December 2006, the rental income of the Group amounted to HK$25.38 million, representing a 3.62% increment over the previous year. Moreover, the Group recorded a revaluation gain of HK$36.34 million on its investment properties during the year, as compared to the last year's figure of HK$58.28 million.

The Group's major rental property, Kader Building, reported a rental income of approximately HK$22.95 million in 2006, up 14.58% from 2005's HK$20.03 million. During the year under review, the Group succeeded in keeping its occupancy rate above 90% and increased the rental rate of Kader Building upon lease renewals. With the increased rental rate upon lease renewals, the Group anticipates that rental revenue will increase steadily.

Investment in Associates

As at 31 December 2006, over 90% of the Resort at Squaw Creek (the "Resort") condominium units were sold. About 90% of the owners of the sold units contributed their units to a rental programme such that the Resort continued to be operated as a hotel. The associate owning the Resort ("SCA") engaged an external professional valuer to value its property, plant and equipment as at 31 December 2006. As a result of the valuation, the Group recognised an impairment charge in respect of the property, plant and equipment of SCA of approximately HK$53.08 million for the year ended 31 December 2006.

Financial Review

Liquidity and Financial Resources

As at 31 December 2006, the Group's net asset value per share was HK$0.98 (2005: HK$0.92); the current ratio was 1.02 (2005: 1.01); the total bank borrowings were approximately HK$141.12 million (2005: HK$190.97 million) while the Group secured total banking facilities of approximately HK$317.86 million; the Group's financial gearing, based on the total interest bearing borrowings compared to the shareholders' equity, was 24.05% (2005: 49.70%). There is no significant seasonality of borrowing requirements except that during peak production period in the second half year, the Group's facilities on trade finance will be substantially utilised. All borrowings are on floating interest rate terms. The maturity profile of the Group's bank borrowings is set out in note 25 to the financial statements.

Capital Structure

There were no changes in the Company's share capital in 2006. The Group's source of financing was mainly bank borrowings and advances from directors and shareholders, which were denominated in Hong Kong Dollars, United States Dollars and Sterling Pounds at prevailing interest rates. During the year under review, a substantial portion of the advances from directors, shareholders and related companies were repaid.

Charges on Group Assets

As at 31 December 2006, certain investment properties, leasehold land and buildings and other assets of the Group valued at approximately HK$746.21 million (2005: HK$732.76 million) were pledged to several banks to secure banking facilities granted to the Group.

Material Acquisitions and Disposals

There are no material acquisitions and disposals during the year ended 31 December 2006. Subsequent to the balance sheet date, on 12 March 2007, a subsidiary of the Company, Bachmann Industries Inc., acquired a 16.5% interest in The Robot Factory, LLC ("Robotgalaxy") in the United States for cash consideration of approximately HK$7.80 million. An additional HK$7.80 million was invested in Robotgalaxy via a convertible note issued by Robotgalaxy to the Group. Robotgalaxy is principally engaged in the sale of toys.

At the moment, there are no other major plans for acquiring substantial investments or capital assets.

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 Canadian Dollars. 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 was facing a certain degree of exchange risk; mainly arising from Sterling Pounds denominated sales transactions of which the exchange rate volatility is relatively high. Meanwhile, forward contracts were arranged and the exchange risk in this respect was substantially covered.

Contingent Liabilities

As at 31 December 2006, the Group did not have any significant contingent liabilities except the following:

(i) As reported in the Group's 2003, 2004 and 2005 Annual Report, an action was commenced in 2003 by a supplier of resin materials (the "Supplier") against a Group company in the Hong Kong High Court for payment of a trading debt amounting to HK$643,980. HK$20,853 of this debt has already been paid by the Group company pursuant to a court order. About 75% of the remaining debt was not disputed by the Group company. However, this was not paid because the court ordered that this action should be tried together with a separate action commenced by the Group company against the Supplier in 2003 for damages amounting to approximately US$590,000 on the basis, inter alia, that bulk resin supplied by the Supplier did not reasonably correspond with the sample first provided and tested by the Group company. The effect of both actions being tried together was that the court could take into account, and set-off, any damages awarded in either action to produce a net result. The trial was heard in September 2006. At trial, the Group company was advised not to, and did not, pursue its defence to payment of any of the invoices remaining unpaid in the Supplier action, save that set-off was sought in respect of the damages the Group company was claiming in its action. Judgement was handed down on 30 March 2007 ("Judgement"). The Group company was unsuccessful in its action. Accordingly, the Group company was ordered to pay the Supplier HK$619,127 (plus interest) in the Supplier action (the Supplier was found to have abandoned HK$4,000 of its claim) and HK$160,305 (plus interest) in its action (representing the Supplier's counterclaim for unpaid invoices). The issue of costs was held over pending written submissions from the parties dealing with the payment of costs. The directors believe that the Group will not suffer any material loss as a result of the Judgement. The Group has made adequate provision for the legal costs incurred in taking both actions to trial (including any legal costs of the other parties to the action that the Group company might have to pay).

(ii) As reported in the Group's 2004 and 2005 Annual Report, during the last quarter of 2003, a Mexican company commenced a law suit in the State of Arizona against the Company on the ground that the Company is a guarantor for a Lease Agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. ("Sinomex") as tenant (the "Litigation"). Sinomex was a member company of the Group at that time and it was disposed of in 1996. The plaintiffs alleged claims against Sinomex and the Company of approximately US$5,000,000 for unpaid obligations of Sinomex under such Lease Agreement plus interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees.

In 2004, the Company filed a Motion to Dismiss (the "Motion") the complaint in the Litigation based upon the applicable laws of Arizona and those of the location of the property, Hermosillo, Mexico. In the Motion, the Company primarily argued that the Arizona court did not have sufficient subject matter and personal jurisdiction over the Company under the guarantee for the case to continue in that court, and as such, the case should be dismissed in favor of the Company.

In January 2005, the Arizona court denied the initial Motion submitted by the Company. Since then the Company has taken some discovery and will continue to take additional discovery as well as filing one or more motions to vindicate the Company. The Company plans to continue to vigorously defend the Litigation, and to assert the defenses available to it. This would eliminate or at least significantly reduce the exposure of the Company if those defenses prove to be successful. Currently, the Company is continuing to undertake discovery to develop the various factual and legal defenses to the lawsuit.

Having considered the Litigation with the Company's legal counsel, management and the Board believe that the Company's opposition to the plaintiffs' complaint, and its defenses, including defenses to the amount of damages awardable, are meritorious. As such, the Company intends to continue to vigorously defend the Litigation. On that basis, the Company has made adequate provision in relation to the Litigation.

Employees and Remuneration Policies

As at 31 December 2006, the Group employed approximately 6,646 (2005: 6,960) full time management, administrative and production staff in Hong Kong SAR, Mainland China, the United States and Europe. The Group had seasonal fluctuation in the number of workers employed in its production plant while the number of other management and administrative staff remained 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

The rising wage and appreciation of Renminbi Yuan continue to have an impact on the profit margins of the manufacturers having production facilities in Mainland China including the Group. To keep a competitive edge in the global market, the Group's strategy is focused on production cost control and broadening sources of revenue. In the area of production cost control, the Group will continue to monitor the efficiency on each of the manufacturing processes and encourage staff at all levels to make suggestions to further improve the operation and production efficiency. Moreover, the Group will continue its stringent control on wastage rates and material sourcing. In order to broaden the revenue source, further efforts will be put on widening the customer base and expanding new product lines.

The Group is cautiously optimistic that all these measures will continue to help to relieve the pressure on profit margins and at the same time facilitate business growth.

(c) For the year ended 31 December 2007

Results

The Board of Directors have pleasure in announcing that the Group's turnover for the financial year ended 31 December 2007 amounted to approximately HK$721.71 million, representing an increase of 12.20% over that reported last year and that profit from operations for the year 2007 amounted to HK$90.90 million as compared to last year's figure of HK$69.04 million. The Group's profit attributable to shareholders for the financial year ended 31 December 2007 was approximately HK$126.60 million, which included valuation gains on investment properties amounting to HK$104.29 million, as compared to last year's figure of HK$29.97 million and HK$36.34 million respectively.

Business Review

2007 was a tough year for manufacturers. During the year under review, factors such as higher labour costs, spiraling raw material costs and the appreciation of the Renminbi Yuan led to an increase in production costs. In addition, during the second half of the year, toys made in China were adversely affected by product recalls in the United States ("US"), which caused many countries to impose higher testing standards for exports from China.

On 1 January 2008, the New Labour Contract Law of China came into effect, which has increased labour expenditure whilst the US sub-prime mortgage crisis has affected the US economy and other markets. In addition to the continued appreciation of the Renminbi Yuan, labour shortages and increasing commodities prices, 2008 is expected to be as challenging, if not more so.

To combat these challenges, the Group will continue to develop high value added products, further integrate technology with toys, and modernise and scrutinise production methods to increase efficiency.

The Group will celebrate its 60th Anniversary in 2008. Looking back at the Group's success, the Group's ability to weather adverse 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 services and products they can trust.

Toys

For the financial year ended 31 December 2007, the turnover for the Group's OEM/ODM toys business was approximately HK$278.46 million, representing an increase of 10.41% as compared to last year.

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 2007 was approximately HK$412.97 million, an increase of 12.95% as compared to last year.

During the year under review, there was an improvement in the performance of the Model Trains section despite an increase in manufacturing costs. The Company has continued to improve the quality of the products, develop innovative products, enrich the product line and promote the product image and brand name. This strategy has succeeded in gaining the loyalty of customers and has maintained our leading position in the industry.

The Group is proud to announce that during the year under review, our Liliput brand HO scale model train ET11 DB was awarded "Model of the Year 2007" under the category of railcar by Eisenbahn Modellbahn Magazine. In addition, our OO scale model train Class 108 and Sealion Engineers Hopper were awarded "Model of the Year 2007" by Model Rail Magazine under different categories.

The Group's model trains continued to receive encouraging response from customers. 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 Bachmann's E-Z Command® series achieved excellent results during the year, with sales for 2007 increasing by 100% over 2006.

In the US, our subsidiary, Bachmann Industries, Inc. acquired the "Williams" name from Williams' Reproduction Limited. Williams is a model train brand for O scale model trains, which is a new scale and market sector for the Company. The Group considers that the acquisition of the "Williams" represents a good opportunity for the Group to expand its business into the "O" scale segment of the model trains market in which the Williams name is established.

Property Investment

For the financial year ended 31 December 2007, the rental income of the Group amounted to HK$30.28 million, representing a 19.33% increment over the previous year. In addition, the Group recorded a valuation gain of HK$104.29 million on its investment properties for the year, as compared to last year's figure of HK$36.34 million.

The Group's major rental property, Kader Building, reported rental income of approximately HK$26.99 million in 2007, up 17.60% from 2006's HK$22.95 million. During the year under review, the Group succeeded in keeping its occupancy rate above 90% and increased the rental rates of Kader Building upon lease renewals. With the increased rental rates upon lease renewals, the Group anticipates that rental income will increase steadily.

Financial Review

Liquidity and Financial Resources

As at 31 December 2007, the Group's net asset value per share was HK$1.16 (2006: HK$0.98); the current ratio was 1.12 (2006: 1.02); total bank borrowings were approximately HK$169.51 million (2006: HK$141.12 million) while the Group secured total banking facilities of approximately HK$422.05 million; the Group's financial gearing, based on the total interest bearing borrowings compared to the total equity, was 21.99% (2006: 24.05%). There is no significant seasonality in borrowing requirements except that during the peak production period in the second half of the year the Group's facilities for trade finance will be substantially utilised. The majority of borrowings are on floating interest rate terms.

Capital Structure

During the year under view, there were no changes in the Company's share capital. The Group's sources of financing were mainly bank borrowings and advances from directors and shareholders, which were denominated in Hong Kong Dollars, United States Dollars and Sterling Pounds at prevailing interest rates. During the year under review, the advances from directors were wholly repaid.

Charges on Group Assets

As at 31 December 2007, certain investment properties, land and buildings, inventories and other assets of the Group valued at approximately HK$884.30 million (2006: HK$746.21 million) were pledged to several banks to secure banking facilities granted to the Group.

Material Acquisitions and Disposals

There were no material disposals during the year ended 31 December 2007. Material acquisitions are discussed as follows:

On 12 March 2007, a subsidiary of the Company, Bachmann Industries, Inc., acquired a 16.5% interest in The Robot Factory, LLC ("Robotgalaxy") in the US for cash consideration of approximately HK$7.80 million. An additional HK$7.80 million was invested in Robotgalaxy via a convertible note issued by Robotgalaxy to the Group while a further HK$7.76 million was advanced as a short term loan. Robotgalaxy is principally engaged in the sale of toys.

On 16 October 2007, a conditional sale and purchase agreement was entered into between Bachmann Industries, Inc. and Williams' Reproduction Limited ("Williams") with respect to the acquisition of all the assets and rights of any kind of Williams for an aggregate consideration of US$5 million. Williams is principally engaged in the design, marketing and distribution of scale sized replica trains and related products.

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated in Hong Kong Dollars, United States Dollars, Sterling Pounds, Renminbi Yuan, Euros and Canadian Dollars. 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.

Contingent Liabilities

As at 31 December 2007, the Group did not have any significant contingent liabilities except as follows:

During the first quarter of 2003, a Mexican company commenced a lawsuit in the State of Arizona against the Company on the grounds that the Company is a guarantor for a Lease Agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. ("Sinomex") as tenant (the "Litigation"). The plaintiffs initially alleged claims against Sinomex, formerly related to the Company, and the Company of US$5,235,000 for unpaid rent, value added tax, repair cost and interest owed by Sinomex under such Lease Agreement, plus accruing interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees. The plaintiffs amended their damage claim in the fourth quarter of 2007 and now seek US$7,426,000 in damages, plus accruing interest, court costs and attorneys fees. The increase in the amount claimed from that disclosed in the 2006 annual report mainly arose from accrued interest.

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

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

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

Having considered the Litigation with the Company's various legal counsels, the management and the Board believes that the Company's opposition to the plaintiffs' complaint, as well as the Company's defenses and appeal rights, continue to be meritorious. As such, the Company intends to continue to vigorously defend the Litigation. In accordance with paragraph 92 of HKAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, it would be against the interests of the Company to make further disclosure of the information required by HKAS 37.

Employees and Remuneration Policies

As at 31 December 2007, the Group employed approximately 5,639 (2006: 6,646) full time management, administrative and production staff in Hong Kong SAR, 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 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

The Group continues to face challenges, such as the volatility of raw material prices, the ever-increasing energy and labour costs, high product safety standards, shortage of skilled workers and pressure from the appreciation of the Renminbi Yuan. The Group will continue to strengthen its core business, streamline operational procedures without sacrificing controls, improve operation 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 the factors mentioned above and the underlying business environment, the Group is cautious about ongoing performance and profit margins. Notwithstanding this, the Group is confident its efforts to uplift efficiency can provide stable business returns.

(d) For the six month ended 30 June 2008

Results

During the period under review, the Group recorded a consolidated turnover of HK$290.79 million, which increased by 9.26% as compared to HK$266.15 million reported for the corresponding period last year. The profit attributable to equity shareholders amounted to HK$8.61 million, representing a decrease of 36.50% as compared to HK$13.56 million reported for the corresponding period.

Business Review

Toys and Model Trains

During the first half year of 2008, the turnover for the Group's OEM/ODM toys business was HK$122.96 million, which increased by 24.73% as compared to the corresponding period last year. However, during the period under review, toy manufacturers have been facing the appreciation of Renminbi Yuan, high crude oil prices, continued rise in raw material prices and high labour costs due to the increase in statutory minimum wages. In addition, 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 2008 was approximately HK$151.02 million, representing a slight decrease of 1.24% as compared to the corresponding period last year. The Group is proud to announce that the Group's subsidiary, Bachmann Europe Plc., was awarded "Manufacturer of the Year" by Model Rail Magazine in the UK in December 2007. 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$16.81 million, representing a 14.84% 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$15.01 million, representing a 15.02% increment over the corresponding period last year. As at 30 June 2008, the occupancy rate of Kader Building was over 95%.

Financial Review

Liquidity and Financial Resources

As at 30 June 2008, the Group's net asset value per share amounted to HK$1.16 (at 31 December 2007: HK$1.16); the current ratio was 1.24 (at 31 December 2007: 1.12); total bank borrowings were approximately HK$208.91 million (at 31 December 2007: HK$169.51 million) while the Group had total unutilised banking facilities of approximately HK$473.69 million (at 31 December 2007: HK$422.05 million); the Group's financial gearing, based on the total interest bearing borrowings compared to the total equity, was 27.15% (at 31 December 2007: 21.99%). 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 2008, certain investment properties, land and buildings, inventories and other assets of the Group valued at approximately HK$857.33 million (at 31 December 2007: HK$884.30 million) were pledged to several banks to secure banking facilities granted to the Group.

Material Acquisitions and Disposals

There were no material acquisitions and disposals during the six months ended 30 June 2008.

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated in Hong Kong Dollars, United States Dollars, Sterling Pounds, Renminbi Yuan, Euros and Canadian Dollars. 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.

Contingent Liabilities

Details of the contingent liabilities of the Group for the six months ended 30 June 2008 are set out on pages 88 to 89 of this circular under the heading "Contingent Liabilities" thereof.

Employees and Remuneration Policies

As at 30 June 2008, the Group employed approximately 7,030 (at 30 June 2007: 7,201; at 31 December 2007: 5,639) full time management, administrative and production staff in Hong Kong SAR, Mainland China, the United States and Europe. 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, operational conditions are challenging and manufacturing costs would continue to rise. The Group would still be facing adverse factors, such as the appreciation of the Renminbi Yuan and increased costs in administering testing of toys to enhance products safety. Hopefully the drop in crude oil price would continue in the second half year, so that raw material costs would accordingly be reduced. The Group will continue to strengthen its core business, streamline operational procedures without compromising on quality, improve operating and production efficiency and develop automated processes with a view to fulfilling the mission of "Manufacturing Trust".

7. FURTHER INFORMATION ON BANK BORROWINGS

At 30 June 2008, 31 December 2007, 31 December 2006 and 31 December 2005, the bank borrowings were repayable as follows:

	As at 31 December 2005	**As at 31 December 2006**	**As at 31 December 2007**	**As at 31 June 2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	140,485	106,841	83,180	68,261
After 1 year but within 2 years	16,388	8,178	36,601	84,464
After 2 year but within 5 years	33,228	25,709	41,931	32,780
After 5 Years	865	396	7,800	23,400
Total	190,966	141,124	169,512	208,905

None of the bank borrowings are at fixed interest rates.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

23 December 2008

The Board of Directors
Kader Holdings Company Limited
11/F Kader Building
22 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Sanda Kan (Cayman III) Holdings Company Limited (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") for each of the three years ended 31 December 2005, 2006 and 2007 and the six months ended 30 June 2008 (the "Relevant Periods"), for inclusion in the circular dated 23 December 2008 (the "Circular") issued by Kader Holdings Company Limited (the "Company") in connection with the proposed acquisition by the Company of the entire issued share capital of the Target Company.

The Target Company is a private limited company incorporated in the Cayman Islands on 26 March 2004 and acts as an investment holding company. The addresses of the registered office and principal place of business of the Target Company are PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands and 1-7 Kwai Cheong Road, 1/F., Ching Cheong Industrial Building, Kwai Chung, New Territories, Hong Kong, respectively. As at 30 June 2008, the immediate holding company of the Target Company was Sanda Kan (Cayman II) Holdings Company Limited, a company incorporated in the Cayman Islands, and the ultimate holding company was JPMP SK Holdings Company Limited, a company also incorporated in the Cayman Islands.

As at the date of this report, the Target Company had the following subsidiaries, all of which are private companies with limited liability:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Attributable equity interests held by the Target Company	Principal activities
NC Train Acquisition LLC	United States of America, 28 November 2005	No share capital requirement	100% (Direct)	Patent licensing
Sanda Kan Industrial Company Limited	Cayman Islands, 29 March 2004	Ordinary share, US$1	100% (Direct)	Trading of toys
Sanda Kan Industrial (1981) Limited	Hong Kong, 17 March 1978	Ordinary shares, HK$3,340	100% (Indirect)	Manufacturing and marketing of toys
Sanda Kan Industrial (2000) Limited	Hong Kong, 22 October 1999	Ordinary shares, HK$7,988.73	100% (Direct)	Investment holding
Sanda Kan Industrial (Dongguan) Company Limited	Wholly owned foreign enterprise established in the People's Republic of China ("PRC") on 14 November 2006	Registered capital of US$3,020,000 (of which US$2,456,450 was paid up)	100% (Indirect)	Manufacturing of toys
Sanda Kan Technology (Shenzhen) Company Limited	Wholly owned foreign enterprise established in the PRC on 12 September 2005	Registered capital of US$5,000,000 (of which US$5,000,000 was paid up)	100% (Indirect)	Manufacturing of toys
Sanda Kan (Mauritius) Holdings Company Limited	Mauritius, 9 July 2004	Ordinary share, US$1	100% (Direct)	Investment holding
SDK Services Limited	Hong Kong, 4 December 2006	Ordinary shares, HK$100	100% (Direct)	Administrative center
Sanda Kan Industrial Hong Kong Limited	Hong Kong, 10 April 2007	Ordinary shares, HK$100	100% (Direct)	Trading of toys
SDK Resources Limited	Hong Kong, 11 April 2007	Ordinary shares, HK$100	100% (Direct)	Inactive

The consolidated financial statements of the Target Group for each of the three years ended 31 December 2005, 2006 and 2007 were prepared in accordance with accounting principles generally accepted in Hong Kong and were audited by Deloitte Touche Tohmatsu, certified public accountants, Hong Kong. The independent auditor's reports on the consolidated financial statements of the Target Group for the years ended 31 December 2005 and 2006 did not contain a qualification or modification. The independent auditor's report on the consolidated financial statements of the Target Group for the year ended 31 December 2007 contained a disclaimer of opinion arising from the material uncertainties relating to the going concern basis of the Target Group.

For the purpose of this report, we have carried out independent audit procedures in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants on the consolidated management accounts of the Target Group for the six months ended 30 June 2008, which were prepared in accordance with accounting principles generally accepted in Hong Kong.

We have examined the audited consolidated financial statements, or where appropriate, consolidated management accounts (the "Underlying Financial Statements") of the Target Group for the Relevant Periods. Our examination was made in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants.

The consolidated income statements, consolidated cash flow statements and consolidated statements of changes in equity of the Target Group for the Relevant Periods and the consolidated balance sheets as at 31 December 2005, 2006 and 2007 and 30 June 2008 as set out in this report have been prepared based on the Underlying Financial Statements for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of the Target Company who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you. However, because of the matters described in the section headed "Basis for disclaimer of opinion" below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Scope limitation - inventories

We were engaged as reporting accountants to report on the Financial Information subsequent to 30 June 2008 which was subsequent to the end of the Relevant Periods. In consequence we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of inventories appearing in the consolidated balance sheets of the Target Group at US$20,250,067, US$15,668,371, US$17,445,292 and US$18,949,472 as at 31 December 2005, 2006 and 2007 and 30 June 2008, respectively. There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the existence of inventories. Accordingly, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Any adjustment to the figures may have a consequential significant effect on the results of the Target Group for the Relevant Periods and the consolidated net assets/(liabilities) of the Target Group as at 31 December 2005, 2006 and 2007 and 30 June 2008.

2. Material uncertainty - going concern

As set out in **Note 1** to the Financial Information, the Target Group had net current liabilities of US$57,438,207 and US$65,177,783 as at 31 December 2007 and 30 June 2008, respectively, and incurred losses of US$186,803,509 and US$8,007,092 for the year ended 31 December 2007 and the period ended 30 June 2008, respectively. In addition, as of 31 December 2007, certain bank loan covenants were breached and in accordance with the bank loan agreement, the banks have the right to demand for immediate repayment of these bank borrowings. As a result, the entire bank borrowings were reclassified from non-current liabilities to current liabilities as at 31 December 2007. During the period ended 30 June 2008 and subsequently, the Target Group also failed to repay the bank borrowings in accordance with its repayment schedule in February, May, August and November 2008, respectively. However, the Target Group had fully repaid all due interest and loan principal for February's installment and repaid all due interest and partially repaid the loan principal for May's installment in May 2008. In September 2008, the banks appointed receivers to protect all the shares of the Target Company pledged by the shareholders to the banks. The receivers intend to operate the business as usual while coordinating the sale of shares of the Target Company to an interested party.

The Financial Information has been prepared on a going concern basis because the Target Group is currently in the process of implementing certain measures to attempt to improve its liquidity position, as further described in **Note 1** to the Financial Information. However it is uncertain as to whether these measures will be successful and accordingly there is significant uncertainty as to whether the Target Group is able to continue as a going concern, and realize its assets and liabilities in the normal course of business. In view of the extent and potential impact of the significant uncertainties related to the going concern basis of the Target Group, we disclaim our opinion in these respects.

DISCLAIMER OF OPINION ON THE FINANCIAL INFORMATION

Because of the significance of the matters described in the section headed "Basis for disclaimer of opinion" above, we do not express an opinion on the Financial Information as to whether the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Group as at 31 December 2005, 2006 and 2007 and 30 June 2008 and of the consolidated results and cash flows of the Target Group for each of the three years ended 31 December 2005, 2006 and 2007 and the six months ended 30 June 2008.

REVIEW CONCLUSION ON THE 30 JUNE 2007 FINANCIAL INFORMATION

The comparative consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Target Group for the six months ended 30 June 2007, together with the notes thereon (the "30 June 2007 Financial Information"), were prepared by the directors of the Target Company solely for the purpose of this report.

We have reviewed the 30 June 2007 Financial Information in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the 30 June 2007 Financial Information is free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the 30 June 2007 Financial Information and, accordingly, we do not express an audit opinion on the 30 June 2007 Financial Information.

Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2007 Financial Information is not presented fairly, in all material respects, in accordance with the significant accounting policies in **Note 2**.

I. FINANCIAL INFORMATION

Consolidated income statements

	Notes	Year ended 31 December 2005 US$ (Audited)	Year ended 31 December 2006 US$ (Audited)	Year ended 31 December 2007 US$ (Audited)	Period ended 30 June 2007 US$ (Unaudited)	Period ended 30 June 2008 US$ (Audited)
Revenue	7	114,582,918	102,947,603	104,261,036	39,815,610	33,344,473
Cost of sales		(81,939,480)	(76,966,142)	(90,509,276)	(36,217,780)	(36,447,341)
Gross profit/(loss)		32,643,438	25,981,461	13,751,760	3,597,830	(3,102,868)
Other income		546,143	714,564	255,967	108,031	1,494,182
Gain on settlement of derivative financial instruments under cash flow hedges		–	–	415,980	415,980	–
Reversal of impairment loss previously recognized in respect of trade receivables		47,214	1,000,000	739,956	–	2,000,000
Bank interest income		47,963	86,099	41,043	24,081	10,302
Distribution costs		(1,310,817)	(1,122,161)	(937,763)	(551,315)	(217,939)
Administrative expenses		(9,555,938)	(8,629,532)	(13,281,681)	(6,599,382)	(4,126,913)
Loss on fair value change of derivative financial instruments under cash flow hedges		–	–	(1,057,418)	–	(196,319)
Impairment loss recognized on goodwill	15	–	–	(170,224,558)	–	–
Impairment loss recognized on amount due from immediate holding company		–	–	(10,003,946)	–	(1,849)
Impairment loss recognized on amount due from intermediate holding company		–	–	(73,363)	–	(1,848)
Finance costs	9	(5,544,975)	(4,713,764)	(6,090,079)	(2,719,620)	(3,585,932)
Profit/(Loss) before tax		16,873,028	13,316,667	(186,464,102)	(5,724,395)	(7,729,184)
Income tax	10	(2,360,679)	(1,782,403)	(339,407)	45,734	(277,908)
Profit/(Loss) for the year/period	11	14,512,349	11,534,264	(186,803,509)	(5,678,661)	(8,007,092)

Consolidated balance sheets

	Notes	As at 31 December 2005 US$ (Audited)	As at 31 December 2006 US$ (Audited)	As at 31 December 2007 US$ (Audited)	As at 30 June 2008 US$ (Audited)
Non-current assets					
Property, plant and equipment	14	10,473,135	11,155,302	12,003,224	11,371,192
Goodwill	15	170,224,558	170,224,558	–	–
Patent	16	–	1,236,469	412,153	–
Available-for-sale investments	17	46,166	20,513	26,923	26,923
		180,743,859	182,636,842	12,442,300	11,398,115
Current assets					
Inventories	18	20,250,067	15,668,371	17,445,292	18,949,472
Trade and other receivables	19	20,274,633	21,635,442	23,110,151	18,009,585
Amount due from immediate holding company	20	400	3,946	–	–
Amount due from intermediate holding company	20	16,148	44,725	–	–
Derivative financial instruments	24	1,210,590	767,905	–	–
Restricted bank balance		–	–	–	1,255,917
Bank balances and cash	21	9,176,950	11,467,454	7,116,627	4,741,088
		50,928,788	49,587,843	47,672,070	42,956,062
Current liabilities					
Trade and other payables	22	18,732,922	20,207,293	24,917,560	29,769,675
Taxation payable		488,196	405,229	530,717	803,204
Secured bank borrowings - due within one year	23	18,158,161	27,610,034	79,662,000	77,560,966
		37,379,279	48,222,556	105,110,277	108,133,845
Net current assets/(liabilities)		13,549,509	1,365,287	(57,438,207)	(65,177,783)
Total assets less current liabilities		194,293,368	184,002,129	(44,995,907)	(53,779,668)
Non-current liabilities					
Secured bank borrowings - due after one year	23	62,895,055	41,668,021	–	–
Derivative financial instruments	24	–	–	1,057,418	1,253,737
Deferred taxation	25	422,102	302,689	17,444	17,444
Retirement benefit obligations	26	1,036,778	999,527	499,203	275,590
		64,353,935	42,970,237	1,574,065	1,546,771
Net assets/(liabilities)		129,939,433	141,031,892	(46,569,972)	(55,326,439)
Capital and reserves					
Share capital	27	10,000	10,000	10,000	10,000
Reserves		129,929,433	141,021,892	(46,579,972)	(55,336,439)
Total equity/(deficit)		129,939,433	141,031,892	(46,569,972)	(55,326,439)

Consolidated statements of changes in equity

	Attributable to equity holders of the Target Company						
	Share capital	**Share premium**	**Available-for-sale investment revaluation reserve**	**Translation reserve**	**Hedging reserve**	**Accumulated profits/ (losses)**	**Total equity/ (deficit)**
	US$	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*
At 1 January 2005	10,000	101,478,000	–	–	(662,114)	12,707,713	113,533,599
Gain on cash flow hedges	–	–	–	–	1,872,704	–	1,872,704
Gain on fair value changes of available-for-sale investments	–	–	20,781	–	–	–	20,781
Net income recognized directly in equity	–	–	20,781	–	1,872,704	–	1,893,485
Profit for the year	–	–	–	–	–	14,512,349	14,512,349
Total income recognized for the year	–	–	20,781	–	1,872,704	14,512,349	16,405,834
At 31 December 2005	10,000	101,478,000	20,781	–	1,210,590	27,220,062	129,939,433
Loss on cash flow hedges	–	–	–	–	(442,685)	–	(442,685)
Loss on fair value changes of available-for-sale investments	–	–	(25,653)	–	–	–	(25,653)
Exchange difference arising on translation of foreign operations	–	–	–	26,533	–	–	26,533
Net income and expenses recognized directly in equity	–	–	(25,653)	26,533	(442,685)	–	(441,805)
Profit for the year	–	–	–	–	–	11,534,264	11,534,264
Total income and expenses recognized for the year	–	–	(25,653)	26,533	(442,685)	11,534,264	11,092,459
At 31 December 2006	10,000	101,478,000	(4,872)	26,533	767,905	38,754,326	141,031,892

	Attributable to equity holders of the Target Company						
	Share capital	**Share premium**	**Available-for-sale investment revaluation reserve**	**Translation reserve**	**Hedging reserve**	**Accumulated profits/ (losses)**	**Total equity/ (deficit)**
	US$	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*
Transfer to profit or loss on cash flow hedges	–	–	–	–	(767,905)	–	(767,905)
Gain on fair value changes of available-for-sale investments	–	–	6,410	–	–	–	6,410
Exchange difference arising on translation of foreign operations	–	–	–	(36,860)	–	–	(36,860)
Net income and expenses recognized directly in equity	–	–	6,410	(36,860)	(767,905)	–	(798,355)
Loss for the year	–	–	–	–	–	(186,803,509)	(186,803,509)
Total income and expenses recognized for the year	–	–	6,410	(36,860)	(767,905)	(186,803,509)	(187,601,864)
At 31 December 2007	10,000	101,478,000	1,538	(10,327)	–	(148,049,183)	(46,569,972)
Exchange difference arising on translation of foreign operations	–	–	–	(749,375)	–	–	(749,375)
Net expenses recognized directly in equity	–	–	–	(749,375)	–	–	(749,375)
Loss for the period	–	–	–	–	–	(8,007,092)	(8,007,092)
Total expenses recognized for the period	–	–	–	(749,375)	–	(8,007,092)	(8,756,467)
At 30 June 2008	10,000	101,478,000	1,538	(759,702)	–	(156,056,275)	(55,326,439)

For the period ended 30 June 2007 (Unaudited)

	Attributable to equity holders of the Target Company						
	Share capital	**Share premium**	**Available-for-sale investment revaluation reserve**	**Translation reserve**	**Hedging reserve**	**Accumulated profits/ (losses)**	**Total equity/ (deficit)**
	US$	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*
At 1 January 2007	10,000	101,478,000	(4,872)	26,533	767,905	38,754,326	141,031,892
Transfer to profit or loss on cash flow hedges	–	–	–	–	(285,991)	–	(285,991)
Exchange difference arising on translation of foreign operations	–	–	–	31,823	–	–	31,823
Net income and expenses recognized directly in equity	–	–	–	31,823	(285,991)	–	(254,168)
Loss for the period	–	–	–	–	–	(5,678,661)	(5,678,661)
Total income and expenses recognized for the period	–	–	–	31,823	(285,991)	(5,678,661)	(5,932,829)
At 30 June 2007	10,000	101,478,000	(4,872)	58,356	481,914	33,075,665	135,099,063

Consolidated cash flow statements

	Year ended 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007	Period ended 30 June 2007	Period ended 30 June 2008
	US$	*US$*	*US$*	*US$*	*US$*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Operating activities					
Profit/(Loss) before tax	16,873,028	13,316,667	(186,464,102)	(5,724,395)	(7,729,184)
Adjustments for:					
Amortization of patent	–	618,234	824,316	412,158	412,153
Depreciation of property, plant and equipment	1,997,127	2,108,642	2,212,223	1,060,887	1,010,168
Gain on settlement of derivative financial instruments under cash flow hedges	–	–	(415,980)	(415,980)	–
Interest income	(594,106)	(344,232)	(44,469)	(27,511)	(1,504,355)
Interests on bank borrowings	5,544,975	4,713,764	6,090,079	2,719,620	3,585,932
Loss on disposal of property, plant and equipment	1,852	73,087	81,299	20,912	79,817
Loss on fair value change of derivative financial instruments under cash flow hedges	–	–	1,057,418	–	196,319
Reversal of impairment loss previously recognized in respect of trade receivables	(47,214)	(1,000,000)	(739,956)	–	(2,000,000)
Impairment loss recognized on trade receivables	–	122,012	877,046	–	–
Impairment loss recognized on goodwill	–	–	170,224,558	–	–
Impairment loss recognized on amount due from immediate holding company	–	–	10,003,946	–	1,849
Impairment loss recognized on amount due from intermediate holding company	–	–	73,363	–	1,848
Operating cash flows before movements in working capital	23,775,662	19,608,174	3,779,741	(1,954,309)	(5,945,453)
– Inventories	1,815,918	5,696,222	(1,776,921)	(5,677,765)	(1,504,180)
– Trade and other receivables	990,310	(5,272,821)	(1,611,799)	154,197	7,100,566
– Trade and other payables	(3,894,160)	1,500,904	4,710,267	7,535,139	4,852,115
– Retirement benefit obligations	–	(37,251)	(500,324)	(291,801)	(223,613)
Cash generated by/(used in) operations	22,687,730	21,495,228	4,600,964	(234,539)	4,279,435
Income taxes paid	(1,785,243)	(1,984,783)	(499,164)	(499,164)	(5,421)
Net cash generated by/(used in) operating activities	20,902,487	19,510,445	4,101,800	(733,703)	4,274,014

	Year ended 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007	Period ended 30 June 2007	Period ended 30 June 2008
	US$	*US$*	*US$*	*US$*	*US$*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Investing activities					
Advance to immediate holding company	–	(3,546)	(10,000,000)	(10,000,000)	(1,849)
Purchase of property, plant and equipment	(2,096,840)	(1,048,432)	(3,034,574)	(1,290,460)	(228,620)
Advance to intermediate holding company	–	(28,577)	(28,638)	(28,617)	(1,848)
Interest received	594,106	344,232	44,469	27,511	1,504,355
Proceeds from disposal of property, plant and equipment	7,823	5,307	31,825	21,711	22,858
Decrease in pledged bank balances	907,642	–	–	–	–
Increase in restricted bank balance	–	–	–	–	(1,255,917)
Net cash generated by/(used in) investing activities	(587,269)	(731,016)	(12,986,918)	(11,269,855)	38,979
Financing activities					
New bank borrowings raised	3,000,000	4,000,000	82,000,000	72,000,000	–
Proceeds from settlement of derivative financial instruments under cash flow hedges	–	–	415,980	415,980	–
Repayment of bank borrowings	(13,596,784)	(15,775,161)	(71,616,055)	(65,278,055)	(2,101,034)
Interest paid	(5,544,975)	(4,713,764)	(6,090,079)	(2,719,620)	(3,585,932)
Net cash generated by/(used in) financing activities	(16,141,759)	(16,488,925)	4,709,846	4,418,305	(5,686,966)
Net increase/(decrease) in cash and cash equivalents	4,173,459	2,290,504	(4,175,272)	(7,585,253)	(1,373,973)
Cash and cash equivalents brought forward	5,003,491	9,176,950	11,467,454	11,467,454	7,116,627
Effect of foreign exchange rate changes	–	–	(175,555)	22,447	(1,001,566)
Cash and cash equivalents carried forward, representing bank balances and cash	9,176,950	11,467,454	7,116,627	3,904,648	4,741,088

Notes to the financial information

1. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

The directors of the Target Company have given careful consideration to the going concern status of the Target Group in light of its net current liabilities of US$57,438,207 and US$65,177,783 as at 31 December 2007 and 30 June 2008, respectively, and losses of US$186,803,509 and US$8,007,092 for the year ended 31 December 2007 and the period ended 30 June 2008, respectively. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Target Group's ability to continue as a going concern. As of 31 December 2007, certain bank loans covenants were breached and in accordance with the bank loan agreement, the banks have the right to demand for immediate repayment of these bank borrowings. As a result, the entire bank borrowings were reclassified from non-current liabilities to current liabilities as at 31 December 2007. During the period ended 30 June 2008 and subsequently, the Target Group also failed to repay the bank borrowings in accordance with its repayment schedule in February, May, August and November 2008, respectively. However, the Target Group had fully repaid all due interest and loan principal for February's installment and repaid all due interest and partially repaid the loan principal for May's installment in May 2008. In September 2008, the banks appointed receivers to protect all the shares of the Target Company pledged by the shareholders to the banks. The receivers intend to operate the business as usual while coordinating the sale of shares of the Target Company to an interested party.

The financial information has been prepared on a going concern basis because the Target Group is taking steps to improve its liquidity position. These steps included (i) implementing stringent cost control measures; (ii) re-negotiating with the existing bankers for more favorable bank covenants for the bank borrowings; (iii) restructuring the principal repayment to a more favorable schedule; and (iv) to derive adequate operating cash flow from its existing operations. Provided that all these measures can successfully improve the liquidity position of the Target Group, the Target Group should have sufficient working capital to finance its operation in order to maintain its operating scale and meet its obligations in the next twelve months from the balance sheet date. Accordingly, the directors of the Target Company are satisfied that it is appropriate to prepare the financial information of the Target Group on a going concern basis. The financial information does not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Target Group be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The financial information is presented in United States dollars ("US$"), which is the same as the functional currency of the Target Company.

Application of new and revised HKFRS

The Target Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets [3]
HKFRS 2 (Amendment)	Share-based Payment [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 8	Operating Segments [1]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estates [1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation [5]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective from 1 July 2008
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008

The directors of the Target Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Target Group.

Basis of consolidation

The financial information incorporates the financial statements of the Target Company and entities controlled by the Target Company (its subsidiaries). Control is achieved where the Target Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Target Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Target Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts.

Revenue from sales of goods are recognized when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the reducing balance method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

Patent

Patent acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for patents with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of patents are measured at the difference between the net disposal proceeds and the carrying amount of the patent and are recognized in the consolidated income statement when the patent is derecognized.

Impairment

At each balance sheet date, the Target Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the first-in, first-out method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income or expense that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in currencies other than US$ are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Target Company's net investment in a foreign operation, in which case, such exchange differences are recognized in equity in the financial information. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purposes of presenting the financial information, the assets and liabilities of the Target Group's foreign operations are translated into the presentation currency of the Target Group (i.e. US$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Target Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from immediate holding company, amount due from intermediate holding company and bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss. Any impairment losses on available-for-sale financial assets are recognized in profit or loss.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Target Company after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, secured bank borrowings and retirement benefit obligations are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Target Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

The Target Group designates certain derivatives (primarily interest rate swap) as hedging instruments as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Target Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss as other gains or losses.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognized in profit or loss.

Hedge accounting is discontinued when the Target Group revokes the hedge relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognized immediately in profit or loss.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Target Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration received or receivable is recognized in profit or loss.

Provisions

Provisions are recognized when the Target Group has a present obligation as a result of a past event, and it is probable that the Target Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Leasing

The Target Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit costs

Payments to the mandatory provident fund scheme and other defined contribution schemes are charged as expenses when employees have rendered service entitling them to the contributions.

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in **Note 2**, the directors of the Target Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Going concern and liquidity

The Target Group had net current liabilities of US$57,438,207 and US$65,177,783 as at 31 December 2007 and 30 June 2008, respectively, and incurred losses of US$186,803,509 and US$8,007,092 for the year ended 31 December 2007 and the period ended 30 June 2008, respectively. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Target Group's ability to continue as a going concern. The Target Group is taking steps to improve its liquidity position and the details are set out in **Note 1**. In September 2008, the banks appointed receivers to protect all the shares of the Target Company pledged by the shareholders to the banks. The receivers intend to operate the business as usual while coordinating the sale of shares of the Target Company to an interested party. The financial information of the Target Group has been prepared on a going concern basis. Should the measures fail to improve the liquidity position of the Target Group and the Target Group were unable to continue in business as a going concern, adjustments would have to be made to reduce the carrying amounts of the assets of the Target Group to their recoverable amounts and to provide for further liabilities which might arise.

Estimated impairment of trade receivables

Where there is objective evidence of impairment loss, the Target Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 30 June 2008, the carrying amount of trade receivables is approximately US$14,614,579 (net of allowance for doubtful debts of US$877,046).

Allowances for inventories

Management of the Target Group reviews the inventories listing at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. As at 30 June 2008, the carrying amount of inventories (net of allowances) is approximately, US$18,949,472. Management estimates the net realizable value for such raw materials, work in progress and finished goods based primarily on the latest invoice prices and current market conditions. The Target Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

4. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Target Group's overall strategy unchanged from prior year.

The capital structure of the Target Group consists of cash and cash equivalents, debt (which includes the secured bank borrowings as disclosed in **Note 23**), and equity attributable to equity holders of the Target Company, comprising issued share capital, reserves and accumulated profits/(losses).

5. CATEGORIES OF FINANCIAL INSTRUMENTS

	As at 31 December 2005	**As at 31 December 2006**	**As at 31 December 2007**	**As at 30 June 2008**
	US$	*US$*	*US$*	*US$*
Financial assets				
Loans and receivables (including restricted bank balance and cash and cash equivalents)	27,660,120	30,865,423	28,434,814	20,611,584
Available-for-sale financial assets	46,166	20,513	26,923	26,923
Derivative financial instruments	1,210,590	767,905	–	–
Financial liabilities				
Amortized cost	91,842,188	82,563,623	98,522,319	100,693,317
Derivative financial instruments	–	–	1,057,418	1,253,737

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's major financial instruments include trade and other receivables, trade and other payables, amount due from immediate/intermediate holding company and secured bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Currency risk

The Target Group operates in Hong Kong and the PRC, giving rise to significant exposure to market risk from changes in foreign exchange rates. The Target Group's foreign exchange exposures arise mainly from the exchange rate movements of US$ and Renminbi ("RMB").

The carrying amounts of the Target Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet dates are as follows:

	As at 31 December 2005	As at 31 December 2006	As at 31 December 2007	As at 30 June 2008
	US$	*US$*	*US$*	*US$*
Liabilities				
US$	1,635,395	5,018,870	1,516,072	1,117,269
RMB	3,621,484	1,533,935	578,913	12,254,904
Assets				
US$	24,043,422	24,204,615	2,980,584	15,516,551
RMB	160,003	517,691	588,819	3,088,289

The Target Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Sensitivity analysis

The Target Group is mainly exposed to US$ and RMB.

The following table details the Target Group's sensitivity to a 5% increase and decrease in US$ against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the balance sheet dates for a 5% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where US$ strengthen 5% against the relevant currency. For a 5% weakening of US$ against the relevant currency, there would be an equal and opposite impact on the profit and the balance below would be negative.

	As at 31 December 2005	As at 31 December 2006	As at 31 December 2007	As at 30 June 2008
Profit/(loss)	*US$*	*US$*	*US$*	*US$*
US$ Impact	1,120,401	959,287	73,226	719,965
RMB Impact	(173,074)	(50,812)	495	(458,331)

(ii) Credit risk

As at the balance sheet dates, the Target Group's maximum exposures to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet.

In order to minimize the credit risk, management of the Target Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Target Group considers that the Target Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit rating assigned by international credit-rating agencies.

The Target Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

(iii) Interest rate risk

The Target Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see **Note 23** for details of these borrowings). It is the Target Group's policy to keep its borrowings at floating rate of interests so as to minimize the fair value interest rate risk.

The Target Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Target Group's cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank Offer Rate ("LIBOR") arising from the Target Group's borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet dates. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Target Group's loss for the period ended 30 June 2008 would increase/decrease by approximately US$388,000 (2007: increase/decrease by approximately US$398,000) (2006: decrease/increase by approximately US$346,000) (2005: decrease/increase by approximately US$405,000). This is mainly attributable to the Target Group's exposure to interest rates on its variable-rate bank borrowings.

(iv) Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and compliance with loan covenants.

As described in **Note 1**, the Target Group had net current liabilities of US$57,438,207 and US$65,177,783 as at 31 December 2007 and 30 June 2008, respectively, and incurred losses of US$186,803,509 and US$8,007,092 for the year ended 31 December 2007 and the period ended 30 June 2008, respectively. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Target Group's ability to continue as a going concern.

As of 31 December 2007, certain bank loans covenants were breached and in accordance with the bank loan agreement, the banks have the right to demand for immediate repayment of the bank borrowings. As a result, the entire bank borrowings were reclassified from non-current liabilities to current liabilities as at 31 December 2007. During the period ended 30 June 2008 and subsequently, the Target Group also failed to repay the bank borrowings in accordance with its repayment schedule in February, May, August and November 2008, respectively. However, the Target Group had fully repaid all due interest and loan principal for February's installment and repaid all due interest and partially repaid the loan principal for May's installment in May 2008. In September 2008, the banks appointed receivers to all the shares of the Target Company pledged by the shareholders to the banks. The receivers intend to operate the business as usual while coordinating the sale of shares of the Target Company to an interested party.

The financial information has been prepared on a going concern basis because the Target Group is taking steps to improve its liquidity position. These steps included (i) implementing stringent cost control measures; (ii) re-negotiating with the existing bankers for more favorable bank covenants for the bank borrowings; (iii) restructuring the principal repayment to a more favorable schedule; and (iv) to derive adequate operating cash flow from its existing operations. Provided that all these measures can successfully improve the liquidity position of the Target Group, the Target Group should have sufficient working capital to finance its operation in order to maintain its operating scale and meet its obligations in the next twelve months from the balance sheet date.

The following table details the Target Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Target Group can be required to pay. The table includes both interest and principle cash flows.

	Weighted average effective interest rate	Within 1 year	Over 1 year	Total undiscounted cash flows	Total carrying amount
		US$	*US$*	*US$*	*US$*
As at 31 December 2005					
Non-derivative financial liabilities					
Trade and other payables	–	10,788,972	–	10,788,972	10,788,972
Bank borrowings - variable rate	4.80%	21,639,072	66,159,006	87,798,078	81,053,216
As at 31 December 2006					
Non-derivative financial liabilities					
Trade and other payables	–	13,285,568	–	13,285,568	13,285,568
Bank borrowings - variable rate	7.35%	32,347,250	43,721,835	76,069,085	69,278,055
As at 31 December 2007					
Non-derivative financial liabilities					
Trade and other payables	–	18,860,319	–	18,860,319	18,860,319
Bank borrowings - variable rate	7.85%	23,235,108	72,488,457	95,723,565	79,662,000
Derivatives - net settlement					
Interest rate swap	–	–	1,057,418	1,057,418	1,057,418
As at 30 June 2008					
Non-derivative financial liabilities					
Trade and other payables	–	23,132,351	–	23,132,351	23,132,351
Bank borrowings - variable rate	6.20%	24,519,745	66,164,579	90,684,324	77,560,966
Derivatives - net settlement					
Interest rate swap	–	–	1,253,737	1,253,737	1,253,737

Fair values of financial instruments

The fair value of available-for-sale investments and derivative financial instruments are calculated using quoted market prices. The fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors of the Target Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized costs in the financial information approximate their fair values.

7. REVENUE

Revenue represents the net amount received and receivable for goods sold, less returns and allowances, during the Relevant Periods.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

As the Target Group is principally engaged in patent licensing, trading, manufacturing and marketing of toys which comprise a single business segment, no further business segment information is presented.

Geographical segments

The following table provides an analysis of the Target Group's sales by geographical markets, irrespective of the origin of goods:

Revenue from external customers	Year ended 31 December 2005 US$	Year ended 31 December 2006 US$	Year ended 31 December 2007 US$	Period ended 30 June 2007 US$ (Unaudited)	Period ended 30 June 2008 US$
United States and Canada	63,248,714	47,082,879	38,106,638	15,837,735	11,700,636
United Kingdom	20,201,073	18,925,932	22,055,791	7,961,527	7,126,578
Japan	10,805,182	10,425,234	11,641,827	5,054,901	3,810,539
Other European countries	19,580,683	23,210,919	28,868,824	10,083,627	9,995,180
Others	747,266	3,302,639	3,587,956	877,820	711,540
	114,582,918	102,947,603	104,261,036	39,815,610	33,344,473

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analyzed by the geographical area in which the assets are located:

Carrying amount of segment assets	As at 31 December 2005 US$	As at 31 December 2006 US$	As at 31 December 2007 US$	As at 30 June 2008 US$
Hong Kong	31,501,161	33,257,769	8,358,806	4,978,959
PRC	29,709,741	26,646,215	29,641,117	32,335,310
Macau	60,241	60,292	21,251,390	16,463,911
Others	170,401,504	172,260,409	863,057	575,997
	231,672,647	232,224,685	60,114,370	54,354,177

Additions to property, plant and equipment and intangible assets	Year ended 31 December 2005 US$	Year ended 31 December 2006 US$	Year ended 31 December 2007 US$	Period ended 30 June 2008 US$
Hong Kong	323,297	95,625	48,264	1,921
PRC	1,715,406	2,770,541	2,974,052	225,818
Macau	58,137	3,037	12,258	881
United States	–	1,854,703	–	–
	2,096,840	4,723,906	3,034,574	228,620

9. FINANCE COSTS

	Year ended 31 December 2005 *US$*	Year ended 31 December 2006 *US$*	Year ended 31 December 2007 *US$*	Period ended 30 June 2007 *US$* (Unaudited)	Period ended 30 June 2008 *US$*
Interest on bank borrowings wholly repayable within five years	5,544,975	4,713,764	6,090,079	2,719,620	3,585,932

10. INCOME TAX

	Year ended 31 December 2005 *US$*	Year ended 31 December 2006 *US$*	Year ended 31 December 2007 *US$*	Period ended 30 June 2007 *US$* (Unaudited)	Period ended 30 June 2008 *US$*
The charge comprises:					
Hong Kong Profits Tax					
– Current year/period	1,997,563	1,902,722	621,327	(45,734)	277,908
– Under/(over) provisions in previous years	378,513	(906)	3,325	–	–
	2,376,076	1,901,816	624,652	(45,734)	277,908
Deferred tax credit	(15,397)	(119,413)	(285,245)	–	–
Tax charge/(credit) for the year/period	2,360,679	1,782,403	339,407	(45,734)	277,908

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for each of the three years ended 31 December 2005, 2006 and 2007 and at 16.5% for the period ended 30 June 2008.

In the opinion of the directors of the Target Company, a subsidiary of the Target Company is entitled to a 50% relief from Hong Kong Profits Tax for its estimated assessable profit in accordance with a practice note laid down by the Hong Kong Inland Revenue Department.

The tax charge/(credit) for the Relevant Periods can be reconciled to the profit/(loss) before tax per the consolidated income statements as follows:

	Year ended 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007	Period ended 30 June 2007	Period ended 30 June 2008
	US$	*US$*	*US$*	*US$* (Unaudited)	*US$*
Profit/(Loss) before tax	16,873,028	13,316,667	(186,464,102)	(5,724,395)	(7,729,184)
Tax at the domestic income tax rate	2,952,780	2,330,417	(32,631,218)	(1,001,769)	(1,275,315)
Tax effect of expenses not deductible for tax purpose	1,013,260	1,144,673	33,879,410	1,155,707	2,953,727
Tax effect of income not taxable for tax purpose	(8,394)	(11,507)	(129,744)	(5,067)	(1,358,206)
Under/(over) provisions in previous years	378,513	(906)	3,325	–	–
Tax effect of 50% relief from Hong Kong Profits Tax	(1,996,397)	(1,902,722)	(545,413)	(285,246)	(234,302)
Others	20,917	222,448	(236,953)	90,641	192,004
Tax charge/(credit) for the year/period	2,360,679	1,782,403	339,407	(45,734)	277,908

Details of deferred taxation are set out in **Note 25**.

11. PROFIT/(LOSS) FOR THE YEAR/PERIOD

Profit/(Loss) for the year/period has been arrived at after charging/(crediting):

	Year ended 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007	Period ended 30 June 2007	Period ended 30 June 2008
	US$	*US$*	*US$*	*US$* (Unaudited)	*US$*
Salaries and other benefits	30,087,542	28,155,550	34,098,347	15,542,145	15,918,791
Contributions to retirement benefits schemes	163,552	156,134	285,042	73,110	74,141
Total employee benefits expenses	30,251,094	28,311,684	34,383,389	15,615,255	15,992,932
Amortization of patent	–	618,234	824,316	412,158	412,153
Auditors' remuneration	66,667	56,023	168,148	66,013	67,735
Depreciation of property, plant and equipment	1,997,127	2,108,642	2,212,223	1,060,887	1,010,168
Exchange loss/(gain)	313,587	303,349	429,411	1,640	(457,875)

	Year ended 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007	Period ended 30 June 2007	Period ended 30 June 2008
	US$	*US$*	*US$*	*US$*	*US$*
				(Unaudited)	
Loss on disposal of property, plant and equipment	1,852	73,087	81,299	20,912	79,817
Impairment loss recognized on trade receivables	–	122,012	877,046	–	–
Interest income from customers	(546,143)	(258,133)	(3,426)	(3,430)	(1,494,053)
Minimum lease payments paid under operating leases in respect of office premises, warehouses and staff quarters	2,600,913	2,679,254	2,977,724	1,433,723	1,630,629

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Compensation to key management personnel

The directors of the Target Company consider that they are the only key management personnel of the Target Group. No emoluments were paid to the directors of the Target Company during the Relevant Periods.

During the Relevant Periods, no emoluments ware paid by the Target Group to the directors as an inducement to join or upon joining the Target Group or as compensation for loss of office.

The emoluments of the five individuals with the highest emoluments in the Target Group were as follows:

	Year ended 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007	Period ended 30 June 2007	Period ended 30 June 2008
	US$	*US$*	*US$*	*US$*	*US$*
				(Unaudited)	
Salaries and other benefits	942,478	1,192,590	1,454,193	656,050	426,793
Bonuses	312,307	160,200	14,682	–	–
Severance pay including leave pay	199,408	262,500	169,458	–	182,336
Contributions to retirement benefits schemes	7,692	5,513	7,692	3,846	3,718
	1,461,885	1,620,803	1,646,025	659,896	612,847

Their emoluments were within the following bands:

	Year ended 31 December 2005 Number of individuals	Year ended 31 December 2006 Number of individuals	Year ended 31 December 2007 Number of individuals	Period ended 30 June 2007 Number of individuals (Unaudited)	Period ended 30 June 2008 Number of individuals
Nil-HK$1,000,000	–	–	–	3	3
HK$1,000,001-HK$1,500,000	–	–	2	1	1
HK$1,500,001-HK$2,000,000	3	2	–	1	1
HK$2,000,001-HK$2,500,000	1	2	2	–	–
HK$2,500,001-HK$3,000,000	–	–	1	–	–
HK$3,500,001-HK$4,000,000	1	–	–	–	–
HK$4,500,001-HK$5,000,000	–	1	–	–	–
	5	5	5	5	5

13. EARNINGS/(LOSS) PER SHARE

Earnings/(Loss) per share have not been presented as such information is not considered meaningful for the purpose of this report.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *US$*	Plant and machinery *US$*	Office equipment *US$*	Moulds *US$*	Motor vehicles *US$*	Total *US$*
COST						
At 1 January 2005	1,953,232	8,497,349	924,163	51,374	383,722	11,809,840
Additions	345,131	1,210,409	471,831	13,398	56,071	2,096,840
Disposals	–	(24,434)	(14,483)	–	(42,719)	(81,636)
At 31 December 2005	2,298,363	9,683,324	1,381,511	64,772	397,074	13,825,044
Additions	347,413	387,611	217,925	–	95,483	1,048,432
Acquired on acquisition of assets	–	–	–	1,820,771	–	1,820,771
Disposals	(29,464)	(256,228)	(38,036)	–	–	(323,728)
At 31 December 2006	2,616,312	9,814,707	1,561,400	1,885,543	492,557	16,370,519
Exchange realignment	10,015	131,642	2,319	–	3,499	147,475
Additions	635,271	2,025,823	342,981	–	30,499	3,034,574
Disposals	–	(264,252)	(74,611)	(541,886)	(70,048)	(950,797)
At 31 December 2007	3,261,598	11,707,920	1,832,089	1,343,657	456,507	18,601,771
Exchange realignment	19,224	229,056	26,153	–	5,430	279,863
Additions	55,113	132,496	40,297	–	714	228,620
Disposals	(37,185)	(429,171)	(55,501)	–	–	(521,857)
At 30 June 2008	3,298,750	11,640,301	1,843,038	1,343,657	462,651	18,588,397

	Leasehold improvements	Plant and machinery	Office equipment	Moulds	Motor vehicles	Total
	US$	*US$*	*US$*	*US$*	*US$*	*US$*
DEPRECIATION						
At 1 January 2005	302,680	947,070	105,701	11,824	59,468	1,426,743
Provided for the year	399,136	1,313,576	193,086	15,885	75,444	1,997,127
Eliminated on disposals	–	(20,922)	(11,424)	–	(39,615)	(71,961)
At 31 December 2005	701,816	2,239,724	287,363	27,709	95,297	3,351,909
Provided for the year	385,251	1,080,608	193,032	372,266	77,485	2,108,642
Eliminated on disposals	(14,888)	(203,878)	(26,568)	–	–	(245,334)
At 31 December 2006	1,072,179	3,116,454	453,827	399,975	172,782	5,215,217
Exchange realignment	1,449	6,076	611	–	644	8,780
Provided for the year	425,569	1,171,853	191,331	361,147	62,323	2,212,223
Eliminated on disposals	–	(221,328)	(57,502)	(515,940)	(42,903)	(837,673)
At 31 December 2007	1,499,197	4,073,055	588,267	245,182	192,846	6,598,547
Exchange realignment	3,642	20,188	2,675	–	1,167	27,672
Provided for the period	182,809	570,879	102,283	126,403	27,794	1,010,168
Eliminated on disposals	(4,958)	(370,149)	(44,075)	–	–	(419,182)
At 30 June 2008	1,680,690	4,293,973	649,150	371,585	221,807	7,217,205
CARRYING AMOUNTS						
At 30 June 2008	1,618,060	7,346,328	1,193,888	972,072	240,844	11,371,192
At 31 December 2007	1,762,401	7,634,865	1,243,822	1,098,475	263,661	12,003,224
At 31 December 2006	1,544,133	6,698,253	1,107,573	1,485,568	319,775	11,155,302
At 31 December 2005	1,596,547	7,443,600	1,094,148	37,063	301,777	10,473,135

The above items of property, plant and equipment are depreciated on a reducing balance method at the following rates per annum:

Leasehold improvements	20%
Plant and machinery	15%
Office equipment	15%
Moulds	30%
Motor vehicles	20%

15. GOODWILL

	US$
COST	
At 1 January 2005, 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008	170,224,558
IMPAIRMENT	
At 1 January 2005, 31 December 2005 and 31 December 2006	–
Impairment loss recognized for the year ended 31 December 2007	170,224,558
At 31 December 2007 and 30 June 2008	170,224,558
CARRYING VALUE	
At 30 June 2008	–
At 31 December 2007	–
At 31 December 2006	170,224,558
At 31 December 2005	170,224,558

The goodwill arose from the acquisition of subsidiaries during the period ended 31 December 2004.

For the purpose of impairment testing, goodwill has been allocated to cash generating units ("CGU"). The recoverable amount of this CGU has been determined based on a value in use calculation.

During the year ended 31 December 2007, the Target Group recognized an impairment loss of US$170,224,558 in relation to goodwill of the CGU due to the adverse market change in the industries and the poor performance of the CGU.

16. PATENT

	US$
COST	
At 1 January 2005 and 31 December 2005	–
Additions during the year	1,854,703
At 31 December 2006, 31 December 2007 and 30 June 2008	1,854,703
AMORTIZATION	
At 1 January 2005 and 31 December 2005	–
Provided for the year	618,234
At 31 December 2006	618,234
Provided for the year	824,316
At 31 December 2007	1,442,550
Provided for the period	412,153
At 30 June 2008	1,854,703
CARRYING VALUES	
At 30 June 2008	–
At 31 December 2007	412,153
At 31 December 2006	1,236,469
At 31 December 2005	–

Patent arose from the acquisition of assets and liabilities in April 2006, and was amortized over a period of 27 months.

17. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments represent unlisted club debenture with no maturity date and are stated at fair values determined by reference to bid prices quoted in active markets.

18. INVENTORIES

	As at 31 December 2005 US$	As at 31 December 2006 US$	As at 31 December 2007 US$	As at 30 June 2008 US$
Raw materials	5,989,958	6,078,986	5,937,876	6,305,172
Work in progress	8,832,066	7,157,430	9,321,147	10,474,190
Finished goods	5,428,043	2,431,955	2,186,269	2,170,110
	20,250,067	15,668,371	17,445,292	18,949,472

19. TRADE AND OTHER RECEIVABLES

	As at 31 December 2005 US$	As at 31 December 2006 US$	As at 31 December 2007 US$	As at 30 June 2008 US$
Trade receivables	22,084,566	22,089,254	24,195,233	15,491,625
Less: allowance for doubtful debts	(3,617,944)	(2,739,956)	(2,877,046)	(877,046)
	18,466,622	19,349,298	21,318,187	14,614,579
Other receivables	1,808,011	2,286,144	1,791,964	3,395,006
Total trade and other receivables	20,274,633	21,635,442	23,110,151	18,009,585

Before accepting any new customer, the Target Group uses an internal credit assessment process to assess the potential customers' credit quality and defines credit limits by customer. Limits attributed to customers are reviewed by the management regularly. The Target Group allows an average credit period of 30 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet dates:

	As at 31 December 2005 US$	As at 31 December 2006 US$	As at 31 December 2007 US$	As at 30 June 2008 US$
0-30 days	8,439,572	9,719,913	11,289,101	11,239,292
31-60 days	4,265,632	4,243,780	5,109,243	857,602
61-90 days	1,073,522	1,063,979	1,676,834	865,838
91-120 days	491,545	334,993	665,434	598,345
Over 120 days	7,814,295	6,726,589	5,454,621	1,930,548
Total	22,084,566	22,089,254	24,195,233	15,491,625

The following is an aged analysis of trade receivables which are past due but not impaired at the balance sheet dates, for which the Target Group has not provided for impairment loss. The Target Group does not hold any collateral over these balances.

	As at 31 December 2005 *US$*	As at 31 December 2006 *US$*	As at 31 December 2007 *US$*	As at 30 June 2008 *US$*
0-30 days	4,053,000	4,073,886	5,109,243	857,602
31-60 days	1,025,191	1,010,780	1,676,834	865,838
61-90 days	467,601	318,243	665,434	598,345
Over 91 days	4,903,237	4,712,472	2,577,575	1,053,502
Total	10,449,029	10,115,381	10,029,086	3,375,287

Movement in the allowance for doubtful debts

	As at 31 December 2005 *US$*	As at 31 December 2006 *US$*	As at 31 December 2007 *US$*	As at 30 June 2008 *US$*
Balance at beginning of the year/period	3,665,158	3,617,944	2,739,956	2,877,046
Impairment losses recognized on receivables	–	122,012	877,046	–
Amounts recovered during the year/period	(47,214)	(1,000,000)	(739,956)	(2,000,000)
Balance at end of the year/period	3,617,944	2,739,956	2,877,046	877,046

20. AMOUNTS DUE FROM IMMEDIATE HOLDING COMPANY/INTERMEDIATE HOLDING COMPANY

The amounts are unsecured, interest free and repayable on demand. The Target Group has provided fully for the amounts due from immediate holding company and intermediate holding company as at 31 December 2007 and 30 June 2008 due to the financial difficulties of these companies.

21. BANK BALANCES AND CASH

At 30 June 2008, bank balances carry interest at market rates which range from 0.01% to 1.15% (2007: 1.5% to 2.5%) (2006: 2.25% to 2.75%) (2005: 2% to 2.5%) per annum.

22. TRADE AND OTHER PAYABLES

	As at 31 December 2005 *US$*	As at 31 December 2006 *US$*	As at 31 December 2007 *US$*	As at 30 June 2008 *US$*
Trade payables	4,529,169	8,129,920	15,172,824	16,043,453
Other payables	14,203,753	12,077,373	9,744,736	13,726,222
Total trade and other payables	18,732,922	20,207,293	24,917,560	29,769,675

The following is an aged analysis of trade payables at the balance sheet dates:

	As at 31 December 2005 US$	As at 31 December 2006 US$	As at 31 December 2007 US$	As at 30 June 2008 US$
0-30 days	2,120,400	2,373,720	3,772,668	4,238,668
31-60 days	1,919,540	2,861,239	4,302,174	3,867,465
61-90 days	194,088	2,337,325	3,107,190	2,826,404
91-120 days	53,414	370,851	2,329,947	2,007,641
Over 120 days	241,727	186,785	1,660,845	3,103,275
	4,529,169	8,129,920	15,172,824	16,043,453

23. SECURED BANK BORROWINGS

The exposure of the Target Group's borrowings and the contractual maturity dates (or re-pricing dates) are as follows:

	As at 31 December 2005 US$	As at 31 December 2006 US$	As at 31 December 2007 US$	As at 30 June 2008 US$
Variable rate borrowings:				
– Within one year	18,158,161	27,610,034	18,419,000	77,560,966
– More than one year, but not exceeding two years	20,814,192	25,986,490	7,000,000	–
– More than two years, but not more than five years	42,080,863	15,681,531	48,125,000	–
– More than five years	–	–	6,118,000	–
	81,053,216	69,278,055	79,662,000	77,560,966
Less: Amounts due within one year shown under current liabilities	(18,158,161)	(27,610,034)	(79,662,000)	(77,560,966)
Amount due after one year	62,895,055	41,668,021	–	–
Effective interest rates (which are also equal to contracted interest rates):				
– Variable rate borrowings	4.6% to 5%	6.7% to 8%	7.0% to 8.0%	5.0% to 7.4%

Note: During the year ended 31 December 2007, in respect of a bank loan with a carrying amount of US$79,662,000 as at 31 December 2007, the Target Group breached certain terms of the bank loan, which are primarily related to the total debts to earning before interest and depreciation ("EBITDA") ratio and EBITDA to interest expense ratio. Upon discovery of the breach, the directors of the Target Company informed the lender and commenced a renegotiation of the terms of the loan with the banker. Since the lender has not agreed to waive its right to demand for immediate repayment of the bank borrowings, the entire bank borrowings were reclassified from non-current liabilities to current liabilities in the consolidated balance sheet as at 31 December 2007. In September 2008, the banks appointed receivers to protect all the shares of the Target Company pledged by the shareholders to the banks. The receivers intend to operate the business as usual while coordinating the sale of shares of the Target Company to an interested party.

All of the Target Group's borrowings are denominated in their functional currencies.

24. DERIVATIVE FINANCIAL INSTRUMENTS

Cash flow hedges:

The Target Group uses interest rate swaps to minimize its exposure to fair value changes of its floating-rate US$ bank borrowings for swapping the floating-rate borrowings from floating rates to fixed rates. The interest rate swaps and the corresponding bank borrowings have the same terms and the directors of the Target Company consider that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps are set out below:

	As at 31 December 2005	As at 31 December 2006	As at 31 December 2007	As at 30 June 2008
Notional amount	US$81,075,000	US$70,500,000	US$52,500,000	US$52,500,000
Maturity	22 July 2007	22 July 2007	26 February 2010	26 February 2010
Swap	From LIBOR to 3.63%	From LIBOR to 3.63%	From LIBOR to 4.911%	From LIBOR to 4.911%

The above derivative is measured at fair value at the balance sheet date. The fair value is determined based on the quoted market prices for equivalent instruments at the balance sheet date.

For the year ended 31 December 2007 and the period ended 30 June 2008, losses relating to the ineffective proportion of approximately US$1,057,418 and US$196,319 are recognized immediately to the consolidated income statement respectively.

At 20 August 2008, the interest rate swaps were terminated by the bank due to the failure to settle the payment by the Target Group when it is falling due.

25. DEFERRED TAXATION

The following are the major deferred tax liabilities/(assets) recognized by the Target Group and movements thereon during the Relevant Periods:

	Accelerated tax depreciation *US$*	General provision *US$*	Total *US$*
At 1 January 2005	735,296	(297,797)	437,499
(Credit)/charge for the year	5,678	(21,075)	(15,397)
At 31 December 2005	740,974	(318,872)	422,102
(Credit)/charge for the year	(172,842)	53,429	(119,413)
At 31 December 2006	568,132	(265,443)	302,689
(Credit)/charge for the year	(508,912)	223,667	(285,245)
At 31 December 2007 and 30 June 2008	59,220	(41,776)	17,444

26. RETIREMENT BENEFIT OBLIGATIONS

	As at 31 December 2005 *US$*	As at 31 December 2006 *US$*	As at 31 December 2007 *US$*	As at 30 June 2008 *US$*
Balance at beginning of the year/period	1,036,778	1,036,778	999,527	499,203
Provided for the year/period	–	63,987	–	–
Utilized for the year/period	–	(101,238)	(500,324)	(223,613)
Balance at end of the year/period	1,036,778	999,527	499,203	275,590

At the balance sheet dates, a number of employees of the Target Group who had completed the required number of years of service are eligible for long service payments on termination of their employment in accordance with the Hong Kong Employment Ordinance. The Target Group is required to make such payments if the termination of employment falls within the circumstances as set out in the Hong Kong Employment Ordinance.

27. SHARE CAPITAL

	As at 31 December 2005 *US$*	As at 31 December 2006 *US$*	As at 31 December 2007 *US$*	As at 30 June 2008 *US$*
Authorized:				
5,000,000 ordinary shares of US$0.01 each	50,000	50,000	50,000	50,000
Issued and fully paid:				
1,000,000 ordinary shares of US$0.01 each	10,000	10,000	10,000	10,000

28. ACQUISITION OF ASSETS AND LIABILITIES

For the year ended 31 December 2006

In April 2006, the Target Group entered into several agreements with Lionel LLC and MDK Inc. ("MDK"), both of which are customers of a subsidiary of the Target Company. A new company, NC Train Acquisition LLC ("NC Train") was set up as a wholly owned subsidiary of the Target Company, and acquired substantially all of the assets (excluding operating cash and trade receivables) of MDK. NC Train also took up the debts that MDK previously owed to the subsidiary of the Target Company.

Details of the assets and liabilities acquired were as follows:

	US$
Property, plant and equipment	1,820,771
Patent	1,854,703
Inventories	1,114,526
Trade receivables	(4,790,000)
	–

The assets and liabilities acquired were used to set off the debts owed to the subsidiary, Sanda Kan Industrial (1981) Limited.

29. OPERATING LEASES

As at balance sheet dates, the Target Group had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

	As at 31 December 2005	As at 31 December 2006	As at 31 December 2007	As at 30 June 2008
	US$	*US$*	*US$*	*US$*
Within one year	2,455,349	2,416,258	2,998,384	2,920,969
In the second to fifth year inclusive	6,135,061	4,822,224	5,549,056	4,340,811
Over five years	1,950,499	1,464,623	384,289	202,000
	10,540,909	8,703,105	8,931,729	7,463,780

Operating lease payments represent rentals payable by the Target Group for certain of its office premises, warehouses and staff quarters. Leases are negotiated for an average term of five years and rentals are fixed for an average term of three to five years.

30. CAPITAL COMMITMENTS

	As at 31 December 2005	As at 31 December 2006	As at 31 December 2007	As at 30 June 2008
	US$	*US$*	*US$*	*US$*
Contracted for but not provided for:				
Acquisition of property, plant and equipment	71,000	157,000	–	3,347

31. BANKING FACILITIES

As at 30 June 2008, the Target Group issued a corporate guarantee to certain banks and pledged a floating charge over the assets of the Target Group for banking facilities granted to the Target Company and its immediate holding company.

32. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes:

SDK 2000 Scheme

Pursuant to a resolution passed on 21 January 2002, the share option scheme of Sanda Kan Industrial (2000) Limited ("SDK 2000 Scheme"), a subsidiary of the Target Company, was adopted for the primary purpose of providing incentives to directors and eligible employees of its subsidiary. The SDK 2000 Scheme will remain in effect at any time, subject to the right of the directors of Sanda Kan Industrial (2000) Limited to terminate it. Under the SDK 2000 Scheme, the directors of Sanda Kan Industrial (2000) Limited may grant options to eligible employees, including directors of Sanda Kan Industrial (2000) Limited and its subsidiary, to subscribe for shares in Sanda Kan Industrial (2000) Limited. Subject to adjustment by the directors of Sanda Kan Industrial (2000) Limited, the number of shares so reserved for issuance under the SDK 2000 Scheme upon the exercise of options should be 39,000 ordinary shares of Sanda Kan Industrial (2000) Limited.

Options granted must be accepted in writing by the eligible employees within 30 days of the date of grant. No consideration is payable by the employees on the grant of an opinion. Options may be exercised at any time within the period determined by the directors of Sanda Kan Industrial (2000) Limited, such period not to exceed 10 years from the date of grant. The exercise price is determined by the directors of Sanda Kan Industrial (2000) Limited at each grant provided that the minimum exercise price shall not be less than US$12.8172 for each share.

During the Relevant Periods, no options under SDK 2000 Scheme were granted, exercised or outstanding.

SDK Cayman 2004 Scheme

Pursuant to a resolution passed on 31 July 2004, the share option scheme of Sanda Kan (Cayman I) Holdings Company Limited ("SDK Cayman 2004 Scheme"), the intermediate holding company of the Target Company, was adopted for the primary purpose of providing incentives to directors and eligible employees of Sanda Kan (Cayman I) Holdings Company Limited and its subsidiaries and the shareholders of Sanda Kan (Cayman I) Holdings Company Limited. SDK Cayman 2004 Scheme shall terminate on 31 December 2014.

The first 50% of the share options granted in any financial year shall become immediately exercisable if the directors of Sanda Kan (Cayman I) Holdings Company Limited determine that the Target Company has achieved the net operating cash flow (as defined in the share option scheme) for that financial year, and the remaining 50% of the share options shall become immediately exercisable if the directors of Sanda Kan (Cayman I) Holdings Company Limited determine that the Target Company has achieved the profit target (as defined in the share option scheme) for such financial year.

If any of the share options do not become immediately exercisable as a result of failure to attain the required targets, such share options shall become immediately exercisable in the next financial year if the actual results for the next financial year equals or exceeds the targets. If the targets are not met, the share options shall automatically terminate and be completely cancelled without any further action.

Subject to adjustments by the directors of Sanda Kan (Cayman I) Holdings Company Limited, the number of shares so reserved for issuance under the SDK Cayman 2004 Scheme upon the exercise of options should be 60,000 non-voting ordinary shares of Sanda Kan (Cayman I) Holdings Company Limited.

Details of the total entitlement of employees of the Target Group under the SDK Cayman 2004 Scheme for the Relevant Periods are as follows:

Participants	Date of grant	Exercise price per share	At 1 January 2005	Granted during the year	Forfeited during the year	At 31 December 2005	Granted during the year	Forfeited during the year	At 31 December 2006, 2007 and 30 June 2008
Employees	30 April 2005	US$67.78	–	11,520	(3,975)	7,545	–	(7,545)	–
	30 April 2006	US$67.78	–	–	–	–	7,595	(1,250)	6,345
	1 June 2006	US$67.78	–	–	–	–	3,750	–	3,750
			–	11,520	(3,975)	7,545	11,345	(8,795)	10,095

The directors of the Target Company considered that the fair value of options granted during the years ended 31 December 2005 and 2006 were not significant.

SDK Cayman 2007 Scheme

Pursuant to a resolution passed on 30 April 2007, the share option scheme of Sanda Kan (Cayman I) Holdings Company Limited ("SDK Cayman 2007 Scheme"), the Target Company's intermediate holding company, was adopted for the primary purpose of providing incentives to directors and eligible employees of Sanda Kan (Cayman I) Holdings Company Limited and its subsidiaries and the shareholders of Sanda Kan (Cayman I) Holdings Company Limited. SDK Cayman 2007 Scheme shall terminate on 31 December 2014.

The first 50% of the share options granted in any financial year shall become immediately exercisable if the directors of Sanda Kan (Cayman I) Holdings Company Limited determines that the Target Company has achieved the net operating cash flow (as defined in the share option scheme) for that financial year, and the remaining 50% of the share options shall become immediately exercisable if the directors of Sanda Kan (Cayman I) Holdings Company Limited determines that the Target Company has achieved the profit target (as defined in the share option scheme) for such financial year.

If any of the share options do not become immediately exercisable as a result of failure to attain the required targets, such share options shall become immediately exercisable in the next financial year if the actual results for next financial year equals or exceeds the targets. If the targets are not met, the share options shall automatically terminate and be completely cancelled without any further action.

Subject to adjustments by the directors of Sanda Kan (Cayman I) Holdings Company Limited, the number of shares so reserved for issuance under the SDK Cayman 2007 Scheme upon the exercise of options should be 60,000 non-voting ordinary shares of Sanda Kan (Cayman I) Holdings Company Limited.

Details of the total entitlement of employees of the Target Group under the SDK Cayman 2007 Scheme for the year ended 31 December 2007 and the period ended 30 June 2008 are as follows:

Participants	Date of grant	Exercise price per share	At 1 January 2007	Granted during the year	Forfeited during the year	At 31 December 2007	Granted during the period	Forfeited during the period	At 30 June 2008
Employees	30 April 2007	US$0.01	–	2,500	–	2,500	–	(2,500)	–
	30 April 2007	US$67.78	–	9,735	(2,600)	7,135	–	(3,800)	3,335
			–	12,235	(2,600)	9,635	–	(6,300)	3,335

The directors of the Target Company considered that the fair value of options granted during the year ended 31 December 2007 were not significant.

II. SUBSEQUENT EVENTS

Save as disclosed elsewhere in the financial information, no significant event took place subsequent to 30 June 2008.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements of the Target Group have been prepared in respect of any period subsequent to 30 June 2008.

Yours faithfully,

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. INTRODUCTION

The unaudited pro forma financial information of the Enlarged Group, comprising the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated cash flow statement of the Enlarged Group (hereinafter collectively referred to as the "Pro Forma Financial Information"), has been prepared by the Directors to illustrate the effect of the Acquisition.

The Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix I, the financial information of the Target Group as set out in Appendix II, and other financial information included elsewhere in this circular. The Pro Forma Financial Information does not take account of any trading or other transactions subsequent to the dates of the respective financial statements of the companies comprising the Enlarged Group included in the Pro Forma Financial Information.

2. PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated income statement of the Enlarged Group as if the Acquisition had been completed at the commencement of the period reported on. The unaudited pro forma consolidated income statement has been prepared based on the audited consolidated income statement of the Group for the year ended 31 December 2007 as set out in Appendix I to this circular and the audited consolidated income statement of the Target Group for the year ended 31 December 2007 as set out in Appendix II to this circular, after incorporating the pro forma adjustments as described in the accompanying notes to illustrate the effect of the Acquisition.

The unaudited pro forma consolidated income statement has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the results of the Enlarged Group for the year ended 31 December 2007 or any future periods.

	The Group	The Target Group	The Target Group	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*US$*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Note 2.1	*Note 2.1*	*Note 2.2*	*Note 2.3*	
Turnover	721,709	104,261,036	813,236			1,534,945
Cost of sales	–	(90,509,276)	(705,972)			(705,972)
Gross profit	721,709	13,751,760	107,264			828,973
Other revenue	9,522	–	–			9,522
Other net income	2,459	255,967	1,997			4,456
Gain on settlement of derivative financial instruments under cash flow hedges	–	415,980	3,245			3,245
Reversal of impairment loss previously recognized in respect of trade receivables	–	739,956	5,772			5,772
Bank interest income	–	41,043	320			320
Changes in inventories of finished goods and work in progress	27,568	–	–			27,568
Cost of purchase of finished goods	(35,058)	–	–			(35,058)
Raw materials and consumables used	(211,319)	–	–			(211,319)
Staff costs	(211,554)	–	–			(211,554)
Depreciation expenses	(21,726)	–	–			(21,726)
Amortization of interest in leasehold land held for own use	(22)	–	–			(22)
Distribution costs	–	(937,763)	(7,315)			(7,315)
Administrative expenses	–	(13,281,681)	(103,597)			(103,597)
Loss on fair value change of derivative financial instruments under cash flow hedges	–	(1,057,418)	(8,248)			(8,248)
Impairment loss recognized on goodwill	–	(170,224,558)	(1,327,752)	1,327,752		–
Impairment loss recognized on amount due from immediate holding company	–	(10,003,946)	(78,031)			(78,031)
Impairment loss recognized on amount due from intermediate holding company	–	(73,363)	(572)			(572)
Other operating expenses	(190,683)	–	–			(190,683)
Finance costs	(11,599)	(6,090,079)	(47,503)		(1,658)	(60,760)
Share of losses of associates	(12,596)	–	–			(12,596)
Valuation gains on investment properties	104,288	–	–			104,288
Profit / (Loss) before taxation	170,989	(186,464,102)	(1,454,420)			42,663
Income tax	(43,945)	(339,407)	(2,647)		290	(46,302)
Profit / (Loss) for the year	127,044	(186,803,509)	(1,457,067)			(3,639)

Notes to the Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group:

2.1 The adjustment reflects the inclusion of the income and expenses of the Target Group as if the Acquisition had been completed at the commencement of the period reported on. The balances have been extracted from the audited consolidated income statement of the Target Group for the year ended 31 December 2007 as set out in Appendix II to this circular, and have been translated into Hong Kong dollars using an exchange rate of US$1.00: HK$7.80 for the purpose of the preparation of the unaudited pro forma consolidated income statement.

2.2 For the purpose of the preparation of the unaudited pro forma consolidated income statement, the goodwill recognized by the Target Group with a carrying amount of approximately US$170,224,558 as at 1 January 2007 would not have been recognized by the Group as an identifiable asset on acquisition, as if the Acquisition had been completed at the commencement of the period reported on. Accordingly the adjustment is made to reverse the impairment loss on goodwill recognized by the Target Group for the year ended 31 December 2007. This adjustment is not expected to have a continuing effect on the Enlarged Group.

2.3 The adjustment represents the notional interest expenses of approximately HK$1,658,000 on the short-term bank loans with aggregate principal amount of US$8,500,000 (equivalent to approximately HK$66,300,000) which are intended to be taken out by the Group to finance the total consideration for the Acquisition, and the corresponding tax effect calculated at the Hong Kong profits tax rate of 17.5% thereon, as if the Acquisition had been completed and the bank loans were taken out by the Group at the commencement of the period reported on. For the purpose of the preparation of the unaudited pro forma consolidated income statement, it has been assumed that the interest expenses on the bank loans will be charged at the prevailing market interest rate of 2.5% per annum and the bank loans were outstanding for twelve months. This adjustment is expected to have a continuing effect on the Enlarged Group.

3. PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated balance sheet of the Enlarged Group as if the Acquisition had been completed at the date reported on. The unaudited pro forma consolidated balance sheet has been prepared based on the audited consolidated balance sheet of the Group as at 31 December 2007 as set out in Appendix I to this circular and the audited consolidated balance sheet of the Target Group as at 31 December 2007 as set out in Appendix II to this circular, after incorporating the pro forma adjustments as described in the accompanying notes to illustrate the effect of the Acquisition.

The unaudited pro forma consolidated balance sheet has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2007 or any future date.

	The Group	The Target Group	The Target Group	Pro forma adjustments					Pro forma Enlarged Group
	HK$'000	*US$*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Note 3.1	*Note 3.1*	*Note 3.2*	*Note 3.3*	*Note 3.4*	*Note 3.5*	*Note 3.6*	
Non-current assets									
Fixed assets	785,159	12,003,224	93,625						878,784
Intangible assets	570	412,153	3,215						3,785
Goodwill	31,200	–	–	66,300	3,000	363,246	(621,364)	188,818	31,200
Interests in associates	48,760	–	–						48,760
Other non-current financial assets	26,249	26,923	210						26,459
Deferred tax assets	24,551	–	–						24,551
	916,489	12,442,300	97,050						1,013,539
Current assets									
Inventories	177,624	17,445,292	136,073						313,697
Trade and other receivables	114,121	23,110,151	180,260						294,381
Cash and cash equivalents	26,592	7,116,627	55,510		(3,000)				79,102
	318,337	47,672,070	371,843						687,180
Current liabilities									
Trade and other payables	193,120	24,917,560	194,357						387,477
Bank loans and overdrafts	83,180	79,662,000	621,364	66,300			(621,364)		149,480
Obligations under finance leases	582	–	–						582
Current tax payable	6,135	530,717	4,140						10,275
	283,017	105,110,277	819,861						547,814
Net current assets/(liabilities)	35,320	(57,438,207)	(448,018)						139,366
Non-current liabilities									
Bank loans	86,332	–	–						86,332
Rental deposits	3,661	–	–						3,661
Obligations under finance leases	498	–	–						498
Derivative financial instruments	–	1,057,418	8,248						8,248
Deferred tax liabilities	84,228	17,444	136						84,364
Accrued employee benefits	1,321	499,203	3,894						5,215
	176,040	1,574,065	12,278						188,318
Net assets/(liabilities)	775,769	(46,569,972)	(363,246)						964,587
Capital and reserves									
Share capital	66,541	10,000	78			(78)			66,541
Reserves	706,172	(46,579,972)	(363,324)			363,324		188,818	894,990
Total equity attributable to equity shareholders of the Company	772,713	(46,569,972)	(363,246)						961,531
Minority interests	3,056	–	–						3,056
Total equity/(deficit)	775,769	(46,569,972)	(363,246)						964,587

Notes to the Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group:

3.1 The adjustment reflects the inclusion of the assets and liabilities of the Target Group as if the Acquisition had been completed at the date reported on. The balances have been extracted from the audited consolidated balance sheet of the Target Group as at 31 December 2007 as set out in Appendix II to this circular, and have been translated into Hong Kong dollars using an exchange rate of US$1.00: HK$7.80 for the purpose of the preparation of the unaudited pro forma consolidated balance sheet.

3.2 The adjustment reflects the payment of the total consideration for the Acquisition of US$8,500,000 (equivalent to approximately HK$66,300,000) by the Group, which is intended to be financed by short-term bank loans to be taken out by the Group.

3.3 The adjustment reflects the payment of the estimated costs directly attributable to the Acquisition of approximately HK$3,000,000 by the Group from its internal resources.

Since the actual dates of payment of the total consideration for the Acquisition and the estimated costs directly attributable to the Acquisition would be different from the assumptions used in the preparation of the unaudited pro forma consolidated balance sheet presented above, the actual financial position arising from the Acquisition might be materially different from the financial position as shown in this Appendix.

3.4 The adjustment reflects the elimination of the share capital and pre-acquisition reserves of the Target Group as at 31 December 2007, as if the Acquisition had been completed at the date reported on.

3.5 The adjustment reflects the release of the Target Group from the Indebtedness with a carrying amount of approximately US$79,662,000 as at 31 December 2007 (equivalent to approximately HK$621,364,000) upon Completion, as if the Acquisition had been completed at the date reported on.

3.6 The adjustment reflects the discount on acquisition (i.e. excess of the acquirer's interest in the fair values of identifiable net assets acquired in a business combination over the cost of the combination) of the Target Group of approximately HK$188,818,000 which is recognized immediately in profit or loss, as if the Acquisition had been completed at the date reported on. For the purpose of the preparation of the unaudited pro forma consolidated balance sheet, the discount on acquisition of the Target Group represents the excess of the adjusted consolidated net assets of the Target Group as at 31 December 2007 of approximately US$33,092,028 (equivalent to approximately HK$258,118,000) over the total consideration for the Acquisition of US$8,500,000 (equivalent to approximately HK$66,300,000) and the estimated costs directly attributable to the Acquisition of approximately HK$3,000,000.

For the purpose of the preparation of the unaudited pro forma consolidated balance sheet, the adjusted consolidated net assets of the Target Group as at 31 December 2007 of approximately US$33,092,028 represents the consolidated net liabilities of the Target Group of approximately US$46,569,972 as adjusted to exclude the Indebtedness with a carrying amount of approximately US$79,662,000 as at 31 December 2007, and have been assumed to approximate the fair values of the assets, liabilities and contingent liabilities of the Target Group on Completion.

Since the actual fair values of the assets, liabilities and contingent liabilities of the Target Group on Completion would be different from their estimated fair values used in the preparation of the unaudited pro forma consolidated balance sheet presented above, the actual amount of goodwill or discount on acquisition might be materially different from the estimated amount as shown in this Appendix.

4. PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated cash flow statement of the Enlarged Group as if the Acquisition had been completed at the commencement of the period reported on. The unaudited pro forma consolidated cash flow statement has been prepared based on the audited consolidated cash flow statement of the Group for the year ended 31 December 2007 as set out in Appendix I to this circular and the audited consolidated cash flow statement of the Target Group for the year ended 31 December 2007 as set out in Appendix II to this circular, after incorporating the pro forma adjustments as described in the accompanying notes to illustrate the effect of the Acquisition.

The unaudited pro forma consolidated cash flow statement has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended 31 December 2007 or any future periods.

	The Group	The Target Group	The Target Group	Pro forma adjustments					Pro forma Enlarged Group
	HK$'000	*US$*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Note 4.1	*Note 4.1*	*Note 2.2*	*Note 2.3*	*Note 4.2*	*Note 4.3*	*Note 4.4*	
Operating activities									
Profit /(Loss) before taxation	170,989	(186,464,102)	(1,454,420)	1,327,752	(1,658)				42,663
Adjustments for:									
Valuation gains on investment properties	(104,288)	–	–						(104,288)
Depreciation of fixed assets	21,726	2,212,223	17,255						38,981
Amortization of interest in leasehold land held for own use	22	–	–						22
Amortization of intangible assets	33	824,316	6,430						6,463
Impairment of fixed assets	672	–	–						672
Finance costs	11,599	6,090,079	47,503		1,658				60,760
Interest income	(883)	(44,469)	(347)						(1,230)
Share of losses of associates	12,596	–	–						12,596
Gain on disposal of unlisted equity security	(12)	–	–						(12)
Net (gain) / loss on disposal of fixed assets	(464)	81,299	634						170
Foreign exchange loss	119	–	–						119
Gain on settlement of derivative financial instruments under cash flow hedges	–	(415,980)	(3,245)						(3,245)
Loss on fair value change of derivative financial instruments under cash flow hedges	–	1,057,418	8,248						8,248
Reversal of impairment loss previously recognized in respect of trade receivables	–	(739,956)	(5,772)						(5,772)
Impairment loss recognized on trade receivables	–	877,046	6,841						6,841
Impairment loss recognized on goodwill	–	170,224,558	1,327,752	(1,327,752)					–
Impairment loss recognized on amount due from immediate holding company	–	10,003,946	78,031						78,031
Impairment loss recognized on amount due from intermediate holding company	–	73,363	572						572

	The Group	The Target Group	The Target Group	Pro forma adjustments					Pro forma Enlarged Group
	HK$'000	*US$*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Note 4.1	*Note 4.1*	*Note 2.2*	*Note 2.3*	*Note 4.2*	*Note 4.3*	*Note 4.4*	
Operating profit before changes in working capital	112,109	3,779,741	29,482						141,591
– Inventories	(41,790)	(1,776,921)	(13,860)						(55,650)
– Trade and other receivables	(88)	(1,611,799)	(12,572)						(12,660)
– Trade and other payables	78,495	4,710,267	36,740						115,235
– Rental deposits received	863	–	–						863
– Accrued employee benefits	48	(500,324)	(3,903)						(3,855)
Cash generated from operations	149,637	4,600,964	35,887						185,524
Income taxes paid	(29,502)	(499,164)	(3,893)						(33,395)
Net cash generated from operating activities	120,135	4,101,800	31,994						152,129
Investing activities									
Payment of the total consideration for the Acquisition	–	–	–			(66,300)			(66,300)
Payment of the estimated costs directly attributable to the Acquisition	–	–	–				(3,000)		(3,000)
Cash and cash equivalents of the Target Group acquired	–	–	–					89,446	89,446
Payment for the purchase of fixed assets	(32,209)	(3,034,574)	(23,670)						(55,879)
Payment for the purchase of other financial assets	(46,800)	–	–						(46,800)
Proceeds from disposal of fixed assets	506	31,825	248						754
Proceeds from sale of unlisted equity security	112	–	–						112
Interest received	342	44,469	347						689
Increase in amount due from associates	(11,071)	–	–						(11,071)
Acquisition of control over a jointly controlled entity	482	–	–						482
Capital injection by minority interests	447	–	–						447
Loan advanced	(7,760)	–	–						(7,760)
Advance to immediate holding company	–	(10,000,000)	(78,000)						(78,000)
Advance to intermediate holding company	–	(28,638)	(223)						(223)
Net cash used in investing activities	(95,951)	(12,986,918)	(101,298)						(177,103)

	The Group	The Target Group	The Target Group	Pro forma adjustments					Pro forma Enlarged Group
	HK$'000	*US$*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Note 4.1	*Note 4.1*	*Note 2.2*	*Note 2.3*	*Note 4.2*	*Note 4.3*	*Note 4.4*	
Financing activities									
Proceeds from new bank loans	267,353	82,000,000	639,600			66,300			973,253
Repayment of bank loans	(252,042)	(71,616,055)	(558,605)						(810,647)
Capital element of finance lease rentals paid	(1,380)	–	–						(1,380)
Repayment of loans from shareholders and directors	(16,312)	–	–						(16,312)
Decrease in amounts due to related companies	(11,616)	–	–						(11,616)
Dividend paid	(9,981)	–	–						(9,981)
Interest paid	(11,276)	(6,090,079)	(47,503)		(1,658)				(60,437)
Interest element of finance lease rentals paid	(85)	–	–						(85)
Proceeds from settlement of derivative financial instruments under cash flow hedges	–	415,980	3,245						3,245
Net cash generated by /(used in) financing activities	(35,339)	4,709,846	36,737						66,040
Net decrease in cash and cash equivalents	(11,155)	(4,175,272)	(32,567)						41,066
Cash and cash equivalents at 1 January 2007	(12,700)	11,467,454	89,446					(89,446)	(12,700)
Effect of foreign exchange rate changes	327	(175,555)	(1,369)						(1,042)
Cash and cash equivalents at 31 December 2007	(23,528)	7,116,627	55,510						27,324

Notes to the Unaudited Pro Forma Consolidated Cash Flow Statement of the Enlarged Group:

4.1 The adjustment reflects the inclusion of the cash flows of the Target Group as if the Acquisition had been completed at the commencement of the period reported on. The balances have been extracted from the audited consolidated cash flow statement of the Target Group for the year ended 31 December 2007 as set out in Appendix II to this circular, and have been translated into Hong Kong dollars using an exchange rate of US$1.00: HK$7.80 for the purpose of the preparation of the unaudited pro forma consolidated cash flow statement.

4.2 The adjustment reflects the payment of the total consideration for the Acquisition of US$8,500,000 (equivalent to approximately HK$66,300,000) by the Group, which is intended to be financed by short-term bank loans to be taken out by the Group. This adjustment is not expected to have a continuing effect on the Enlarged Group.

4.3 The adjustment reflects the payment of the estimated costs directly attributable to the Acquisition of approximately HK$3,000,000 by the Group from its internal resources. This adjustment is not expected to have a continuing effect on the Enlarged Group.

4.4 The adjustment is made to show the opening balance of cash and cash equivalents of the Target Group acquired of approximately US$11,467,454 (equivalent to approximately HK$89,446,000) as part of the cash flow effect from the Acquisition under investing activities, as if the Acquisition had been completed at the commencement of the period reported on. This adjustment is not expected to have a continuing effect on the Enlarged Group.

Since the actual dates of payment of the total consideration for the Acquisition and the estimated costs directly attributable to the Acquisition would be different from the assumptions used in the preparation of the unaudited pro forma consolidated cash flow statement presented above, the actual timing of cash flows arising from the Acquisition might be materially different from the timing of cash flows as shown in this Appendix.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

23 December 2008

The Board of Directors
Kader Holdings Company Limited
11/F Kader Building
22 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

Dear Sirs,

REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

We report on the unaudited pro forma financial information of Kader Holdings Company Limited (the "Company") and its subsidiaries (collectively, the "Group"), and Sanda Kan (Cayman III) Holdings Company Limited and its subsidiaries (hereinafter collectively referred to as the "Enlarged Group"), comprising the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated cash flow statement of the Enlarged Group (the "Pro Forma Financial Information"), as set out in Section A entitled "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix III of the Company's circular dated 23 December 2008 (the "Circular"). The Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the entire existing issued share capital of Sanda Kan (Cayman III) Holdings Company Limited by the Company might have affected the financial information presented. The basis of preparation of the Pro Forma Financial Information is set out in Section A of Appendix III of the Circular.

Respective responsibilities of the directors of the Company and the reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 December 2007 or any future date; or
- the results or cash flows of the Enlarged Group for the year ended 31 December 2007 or any future periods.

Opinion

In our opinion:

a. the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS IN SHARES

As at the Latest Practicable Date, the Directors of the Company had the following interests, all being long positions, in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or are required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code under the Listing Rules:

Interests in the Company

	Number of ordinary shares of HK$0.10 each				
Name of directors	Personal interests	Family interests	Corporate interests	Total interests	% of total issued shares
Kenneth Ting Woo-shou	123,971,385	1,452,629(i)	244,175,800(ii)	369,599,814	55.54%
Dennis Ting Hok-shou	9,692,817	275,000(iii)	236,969,800(iv)	246,937,617	37.11%
Ivan Ting Tien-li	14,336,303	–	–	14,336,303	2.15%
Nancy Ting Wang Wan-sun	1,452,629	123,971,385(v)	–	125,424,014	18.85%
Moses Cheng Mo-chi	11,000	–	–	11,000	0.00%
Liu Chee-ming	–	–	1,000,000	1,000,000	0.15%
Floyd Chan Tsoi-yin	–	–	–	–	–
Andrew Yao Cho-fai	–	–	–	–	–

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 its substantial shareholder, H.C. Ting's Holdings Limited, in which Messrs. Dennis Ting Hok-shou and Kenneth Ting Woo-shou together have a controlling interest; and 34,504,800 shares of the Company held by its substantial shareholder, Glory Town Limited, in which Mr. Kenneth Ting Woo-shou has a controlling interest.

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

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

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

Interests in Associated Corporations

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

Notes:

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

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

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

(iv) These interests are held by Pacific Squaw Creek, Inc. ("PSC"), Mr. Kenneth Ting Woo-shou's beneficial interests in PSC are disclosed 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 the Latest Practicable Date, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the directors or chief executives of the Enlarged Group nor their spouses or children under 18 years of age had any interests or short positions in the shares, underlying shares and debentures of any member of the Enlarged Group or any of their respective associated corporations, as recorded in the register required to be kept pursuant to Divisions 7 and 8 of Part XV of the SFO or under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

3. SUBSTANTIAL SHAREHOLDER'S AND OTHER PERSON'S INTERESTS

Interests in Enlarged Group

So far as was known to the directors, save for certain Directors' interests in the share capital of the Company as disclosed above, there was no other person who, as at the Latest Practicable Date, had an interest or short position in the shares or debenture of any member of the Enlarged Group or their respective associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group.

4. DIRECTORS' SERVICE CONTRACTS

All non-executive Directors are engaged on a term of service of two years renewable for another two years upon expiry, and subject to re-election upon retirement by rotation. The directors' fees are determined at the annual general meeting of the shareholders. No new directors will be appointed as a result of the Acquisition.

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Messrs Kenneth Ting Woo-shou and Dennis Ting Hok-shou, Shareholders and Directors of the Company, are considered to have interests in Qualidux Industrial Company Limited, a company engaging in toys manufacturing long before the listing of the Company on the Stock Exchange, which competes or is likely to compete with the business of the Group pursuant to the Listing Rules. As the Board of Directors of the Company is independent from the boards of the abovementioned company and none of the above Directors can control the Board of the Company, the Group is capable of carrying on its business independently of, and at arm's length from, the business of such company.

6. LITIGATION

During the first quarter of 2003, a Mexican company commenced a lawsuit in the State of Arizona against the Company on the grounds that the Company is a guarantor for a Lease Agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. ("Sinomex") as tenant (the "Litigation"). The plaintiffs initially alleged claims against Sinomex, formerly related to the Company, and the Company of US$5,235,000 for unpaid rent, value added tax, repair costs and interest owed by Sinomex under such Lease Agreement, plus accruing interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees. The plaintiffs amended their damage claim in the fourth quarter of 2007 and now seek US$7,426,000 in damages, plus accruing interest, court fees and attorney fees. The increase in the amount claimed from that disclosed in 2006 annual report mainly arose from accrued interest.

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

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

In September 2007, the Company filed a motion for a new trial and/or for reconsideration, asking the court to apply the law of Mexico (rather than the law of Arizona) and claiming that under Mexican law the Company should prevail and that the court should therefore vacate its granting of summary judgment in favour of the plaintiffs. Thereafter, the court granted rebriefing and then conducted a hearing on 14 January 2008, to address the Company's motion for a new trial and/or for reconsideration. On 14 March 2008, the court denied the Company's motion for a new trial and/or reconsideration. In its ruling on the motion the court did apply Mexican law. However, it appears to the Company that the trial court has made an error as to the undisputed facts, leading the Company to file a second motion for new trial and/or motion for reconsideration to ask the court to correct its ruling and find in favour of the Company. The court agreed to hear that second motion and has ordered another rebriefing.

Having considered the Litigation with the Company's various legal counsels, the management and the Board believe that the Company's opposition to the plaintiffs' complaint, as well as the Company's defenses and appeal rights, continue to be meritorious. As such, the Company intends to continue to vigorously defend the Litigation. In accordance with paragraph 92 of HKAS 37, Provisions, Contingent Liabilities and Contingent Assets, it would be against the interests of the Company to make further disclosure of the information required by HKAS 37

So far as was known to the directors, save for the litigations or claims disclosed above, as at the Latest Practicable Date, there were no other litigation or claims of material importance pending or threatened against any member of the Enlarged Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Group were made up.

8. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2007 (being the date to which the latest published audited financial statements of the Group were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Enlarged Group.

9. EXPERT AND CONSENT

The following is the qualifications of the expert who has given opinion or advice which are contained in this circular:

Name	Qualifications
HLB Hodgson Impey Cheng ("HLB")	Chartered Accountants Certified Public Accountants

As at the Latest Practicable Date, HLB:

(a) did not have any direct or indirect interest in any assets which have since 31 December 2007 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and

(b) did not have any shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

HLB has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its reports, and reference to its name in the form and context in which it appears.

10. MATERIAL CONTRACTS

Save and except the transaction disclosed below, there are no material contracts (being contracts entered outside the ordinary course of business carried on or intended to be carried on by the Enlarged Group) having been entered into by any member of the Enlarged Group within the two years preceding the Latest Practicable Date.

On 16 October 2007, Bachmann Industries, Inc. ("Bachmann") (an indirect wholly-owned subsidiary of the Company) entered into the conditional sale and purchase agreement with Williams' Reproduction Limited ("Williams'"), pursuant to which Williams' has conditionally agreed to sell all the assets, properties and rights of any kind, whether tangible or intangible, real or personal of Williams related to or constituting the business of designing, marketing and distributing scale sized replica trains and related products (the "Acquired Assets") and Bachmann has conditionally agreed to buy the Acquired Assets for an aggregate consideration of US$5,000,000 (equivalent to approximately HK$39,000,000).

11. GENERAL

i. The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

ii. The head office and principal place of business of the Company in Hong Kong is at 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong.

iii. The branch registrars and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

iv. The vacant post of company secretary of the Company is to be identified; and the vacant post of qualified accountant of the Company is to be appointed.

v. The English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company during normal business hours on any business day from the date of this circular up to and including the date of the SGM:

(a) the memorandum and articles of association of the Company and the Target Company;

(b) the Agreement;

(c) the service contracts referred to in the section headed "Directors' Service Contracts" in this Appendix;

(d) the contract referred to in the section headed "Material Contracts" in this Appendix;

(e) the letter from the Board, the text of which is set out on page 4 to page 16 of this circular;

(f) the accountants' report on the Target Group for the three years ended 31 December 2005, 2006 and 2007 and for the six months ended 30 June 2008, the text of which is set out in Appendix II of this circular;

(g) the report on the unaudited pro forma financial information of the Enlarged Group from HLB, the text of which is set out in Appendix III of this circular;

(h) the annual reports of the Company for the three years ended 31 December 2005, 2006 and 2007, and the interim report of the Company for the six months ended 30 June 2008;

(i) the consent letter referred to in the section headed "Expert and Consent";

(j) a copy of this circular.

KADER

Manufacturing Trust

KADER HOLDINGS COMPANY LIMITED
開達集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 180)

VERY SUBSTANTIAL ACQUISITION

NOTICE IS HEREBY GIVEN that a special general meeting of Kader Holdings Company Limited (the "Company") will be held at 12th Floor, 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong on Thursday, 8 January 2009 at 10:30 a.m. or any adjournment thereof for the purposes of considering and, if thought fit, passing with or without amendment or modification, of the following resolutions:

ORDINARY RESOLUTION

"**THAT** the execution of the sale and purchase agreement dated 12 November 2008 (the "**Agreement**") (a copy of which is produced before the meeting marked "A" and initialed by the chairman of the meeting for the purpose of identification) entered into between the Company as purchaser and Sanda Kan (Cayman II) Holdings Company Limited as vendor (the "**Vendor**") and Messrs John Howard Batchelor, Fok Hei Yu and Roderick John Sutton of Ferrier Hodgson as receivers (the "**Receivers**") for the acquisition of all the issued shares in the capital of Sanda Kan (Cayman III) Holdings Company Limited representing its entire issued share capital to be sold by the Vendor and the Receivers to the Company pursuant to the Agreement (the "**Sale Shares**") is hereby confirmed, ratified and approved and **THAT** any one director of the Company (the "**Director**") be and is hereby authorized to sign, seal, execute, perfect and deliver the Agreement and such other documents and to do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary, desirable or expedient for the purposes of implementing, completing and giving effect to the Agreement and the transactions contemplated thereunder with such modifications, amendments or changes as such Director may consider necessary, desirable or expedient."

By order of the Board
Kader Holdings Company Limited
Ivan Ting Tien-li
Executive Director

Hong Kong, 23 December 2008

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on behalf of him. A proxy need not be a member of the Company.

2. A form of proxy for use at the meeting is enclosed.

3. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority must be lodged to the principal place of business of the Company at 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.