KADER HOLDINGS COMPANY LIMITED

ANNUAL REPORT 2003

Contents

Corporate Information

DIRECTORS

Executive Directors:

Kenneth Ting Woo-shou, JP *(Managing Director)*
William Li Kai-wan

Non-Executive Directors:

Dr. Dennis Ting Hok-shou, OBE, JP *(Chairman)*
* Liu Chee-ming
* Moses Cheng Mo-chi, JP

* *(Independent Non-Executive Director)*

COMPANY SECRETARY
William Li Kai-wan

AUTHORISED REPRESENTATIVES
Kenneth Ting Woo-shou
William Li Kai-wan

SOLICITORS
P.C. Woo & Co.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
22 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL BANKERS
Liu Chong Hing Bank Limited
Citic Ka Wah Bank Limited
Hang Seng Bank Limited

AUDITORS
KPMG
Certified Public Accountants

PRINCIPAL REGISTRARS
The Bank of Bermuda Limited
6 Front Street
Hamilton 5-31
Bermuda

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
19th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Kader Holdings Company Limited (the "Company") will be held at 12/F, 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong on Friday, 28th May, 2004 at 10:30 a.m. for the following purposes:–

1. To receive and consider the Audited Financial Statements and Reports of the Directors and Auditors for the year ended 31st December, 2003.

2. To elect directors and fix their remuneration.

3. To appoint auditors and authorise the directors to fix their remuneration.

4. As special business to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:-

(A) "THAT:–

(a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period of all powers of the Company to repurchase issued shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, and that the exercise by the Directors of all powers of the Company to repurchase such shares, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval be limited accordingly; and

(c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:–

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and

(iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

Notice of Annual General Meeting *(Continued)*

(B) "THAT:–

(a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period of all the powers of the Company to allot and issue shares in the capital of the Company or securities convertible into such shares, or options, warrants or similar rights to subscribe for any shares of the Company or such convertible securities, and to make or grant offers, agreements or options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements or options which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to subscribe for shares in the Company; or (iii) any scrip dividend scheme or similar arrangement providing for the allotment of shares in the Company in lieu of the whole or part of a dividend pursuant to the Bye-laws of the Company from time to time, shall not exceed the aggregate of 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval be limited accordingly;

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and

(iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register of members on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

(C) **"THAT** conditional upon the passing of Resolutions No. 4(A) and 4(B) set out in the notice of the meeting of which this Resolution forms part, the general mandate granted under Resolution No. 4(B) above be extended by the addition of an amount representing the aggregate nominal amount of shares repurchased by the Company pursuant to and in accordance with the said Resolution No. 4(A) to the aggregate nominal amount of shares that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with the said Resolution No. 4(B)"

5. As special business to consider and, if thought fit, pass with or without amendments, the following resolution as Special Resolution:–

"**THAT** the Bye-laws of the Company be amended as follows:

(A) by adding the following new definitions after the definition "corporate representative" in Bye-law 1:

"associate" shall have the same meaning as defined by the rules, where applicable, of any Designated Stock Exchange;

"Designated Stock Exchange" shall mean a stock exchange which is an appointed stock exchange for the purposes of the Companies Act in respect of which the shares are listed or quoted and where such appointed stock exchange deems such listing or quotation to be the primary listing or quotation of the shares;

(B) by deleting the existing definition of "Clearing House" in its entirety in Bye-law 1 and substituted by the following:

"Clearing House" shall mean a recognised clearing house within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) or a clearing house or authorised shares depository recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction;

(C) by inserting the words "Without prejudice to Bye-law 89(C)," at the beginning of Bye-law 89(B);

Notice of Annual General Meeting *(Continued)*

(D) by adding a new sub-paragraph (C) in the following wordings to Bye-law 89:
"Where any member is, under the rules of any Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted."

(E) by deleting the words "in respect of any contract or arrangement in which he is directly or indirectly interested" and substituting therefor the words "on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest" in Bye-law 108(B)(ii);

(F) (i) by inserting the words "or his associates" immediately after the words "giving to him" in Bye-law 108(B)(ii)(a); and (ii) by inserting the words "or any of his associates" immediately after the words "lent by him" and immediately after the words "undertaken by him" in Bye-law 108(B)(ii)(a);

(G) by deleting the words "himself" and substituting therefor the words "or his associates has himself/themselves" in Bye-law 108(B)(ii)(b);

(H) by deleting Bye-law 108(B)(ii)(c) in its entirety and substituting therefor a new Bye-law 108(B)(ii)(c) in the following wordings:

"(c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;"

(I) (i) by deleting the word "is" immediately after the words "other company in which the Director" and substituting therefor the words "or his associates is/are"; (ii) by deleting the word "is" immediately after the words "shareholder or in which the Director" and substituting therefor the words "or his associates is/are"; (iii) by deleting the words "the Director together with his associates is not" and substituting therefor the words "the Director and any of his associates are not in aggregate"; and (iv) by inserting the words "(or any third company through which his interest or that of his associates is derived)" immediately after the words "issued share capital of that company" in Bye-law 108(B)(ii)(d);

(J) (i) by inserting the words ", their associates" immediately after the words "relates both to Directors"; and (ii) by deleting the words "as such any privilege or advantage not" and substituting therefor the words "or his associates, as such any privilege or advantage not generally" in Bye-law 108(B)(ii)(e);

(K) (i) by inserting the words "or his associates" immediately after the word "Director" wherever it appears in Bye-law 108(B)(ii)(f); and (ii) by inserting the word "generally" immediately before the word "accorded" in Bye-law 108(B)(ii)(f);

Notice of Annual General Meeting *(Continued)*

(L) (i) by deleting the word "is" immediately before the word "interested" and substituting therefor the words "or his associates is/are"; and (ii) by deleting the words "his interest" and substituting therefor the words "his/their interest" in Bye-law 108(B)(ii)(g);

(M) by deleting the words "not less than seven and not more than twenty-eight days before the date of the general meeting" in Bye-law 114 and adding the words "The length of period, during which the aforesaid notices may be given, will be at least seven days commencing no earlier than the day after the despatch of the notice of the general meeting appointed for such election and ending no later than seven days prior to the date of such meeting." at the end of Bye-law 114."

By Order of the Board
William Li Kai-wan
Company Secretary

Hong Kong, 16th April, 2004

Notes:

(1) A member entitled to attend and vote at the meeting convened by this Notice is entitled to appoint one or more proxies to attend and, on a poll, to vote in his place. A proxy need not be a member of the Company.

(2) To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, shall be deposited at 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 fixed for holding the meeting or any adjourned meeting.

(3) An explanatory statement giving the details of item nos. 4 and 5 of this Notice in relation to the proposed grant of general mandates to repurchase and issue shares of the Company, and amendments to Bye-laws of the Company will be sent to Shareholders of the Company together with the 2003 Annual Report.

Chairman's Statement

I have pleasure in presenting to our shareholders the annual report of Kader Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December, 2003.

The Board of Directors of the Company ("the Board") announces that the audited consolidated results of the Group for the year ended 31st December, 2003 recorded an operating turnover of approximately HK$495.3 million. Profit from ordinary activities before taxation was HK$879,000 which is an improvement as compared to last year's recorded loss of HK$28.7 million. In pursuing a prudent financial management strategy, the Board has resolved not to recommend any payment of dividend to the shareholders for the financial year under review.

2003 was a crucial year for Hong Kong. We faced severe challenges and experienced a very difficult year. In the first half of the year, Hong Kong economy was dampened by the outbreak of the SARS epidemic; while in the second half of the year, we experienced a V-shape recovery from the lowest point.

During the most difficult period, the Group closely adhered to the advice of various health bodies to take cautious precaution and policy to prevent the outbreak of the SARS epidemic within the factory in the PRC. This cautious policy successfully protected the Group's factory from the adverse impact of the epidemic, and the influence to the Group's production line was kept to minimal.

In the second half of the year, Hong Kong's economy progressively recovered from the setback of SARS. Together with the significant improvement in global economic climate, there was visible business growth. The Group is well prepared to meet this tremendous turning point and now it is time to enjoy this fruitful result. The Group is pleased to announce that the Group's turnover for the year has increased by 40.3% as compared to the corresponding period of the preceding year.

Looking ahead, the strength of the economic recovery is still weak. Adverse factors like fluctuation in production costs and the coming back of the SARS epidemic still exist. In particular, the Board is much concerned about the coming election of the American President, the result of which will probably affect the pace and policy of economic growth in the United States.

On the optimistic side, 2004 will be a prosperous year. The Hong Kong Government and the Central Government carried out extensive economy planning and schedules to stimulate the economy. With the implementation of the Closer Economic Partnership Arrangement (CEPA), the launch of the Disney project, and the closer economic ties of Hong Kong with Pearl River Delta, the Board anticipates that Hong Kong's manufacturing industry will benefit and will recover from the previous decline at a steady pace. The Group will continue to seize attractive development opportunities and is confident to fulfill our goal in achieving a better performance in 2004.

Taking this opportunity, on behalf of the Board, I would like to thank our dedicated employees for their contribution to the Group, our valuable shareholders for their continuous support, and our loyal customers for their confidence in the Group.

Dennis Ting Hok Shou
Chairman

Hong Kong, 16th April, 2004

Management Discussion and Analysis

RESULTS

The Group's turnover for the financial year ended 31st December, 2003 amounted to approximately HK$495.3 million, representing an increase of 40.3% over that reported in the previous financial year. The loss attributable to shareholders in the financial year of 2003 is approximately HK$5 million. (2002: loss of HK$39 million).

During last year, there were signs of gradual global economic recovery. In the United States, the economy recovered steadily, while in the PRC, there was rapid business growth and the economic climate was good. In Hong Kong, despite being adversely affected by the outbreak of the SARS epidemic in the first half of the year, the economy progressively recovered during the second half of the year. The Group, having its production plant based in the PRC, and its major customer base from the United States, benefited from such improved economic situations. Despite facing keen competition and harsh operational conditions, the Group achieved an increase of 40.3% in business turnover as compared to the corresponding period of the preceding year.

BUSINESS REVIEW

Toys

During 2003, the Group was operating under keen competition and harsh operational conditions. Raw material prices and other operational costs were high, while the PRC government had tightened the labor laws and custom policies that resulted in increased production costs. Despite all these unfavorable operating conditions, the Group recorded strong growth in OEM/ODM toys business. During the period under review, the turnover for the OEM/ODM toys business amounted to HK$198.8 million, an increase of 120% as compared to the corresponding period of last year.

During the outbreak of SARS in March 2003, the Group managed to keep the impact of the epidemic to minimal and maintained the production line in good performance level. When the time came for the economy to turnaround from the bottom, the Group is well prepared to meet the opportunity. During year 2003, business orders in the OEM/ODM toys business had increased tremendously, and the Group had successfully fulfilled its mission in producing high quality products under tight delivery lead-time and exercised tight cost control.

Model Trains

During the period under review, turnover in model trains increased by 15% as compared to the corresponding period of last year. The Group benefited from the recent economic growth in both Europe and the United States, as well as from the Group's continuous efforts in developing the Group's own brand name products. It is a global sign that there was growing demand for collectibles, and the Group's model trains were most welcome in the field of model train collectors in both Europe and the United States.

In Europe, the Group's own brand name product line, Graham Farish, is becoming more and more popular in the market. It is anticipated that business from Graham Farish will be steadily increasing.

Management Discussion and Analysis *(Continued)*

In the United States, several of the Group's Bachmann products continue to be "Award of the Year" in 2003, namely "Bachmann Spectrum Large Scale 2-6-0 Locomotive" was awarded Large Scale Locomotive of the Year; "Bachmann Spectrum On30 Two Truck Shay Locomotive" was the award of O-Scale Locomotive of the Year; "Bachmann Spectrum On30 Log Car, Woodside Dump Car, V Dump Car" was awarded Narrow Gauge Wagon of the Year; and lastly, the "Bachmann Spectrum Large Scale Heisler Locomotive" was awarded Large Scale Model of the Year. The Group is proud of its continuous leading position in the model train industry.

Looking ahead, the Group will focus on developing its own brand name products, widening product ranges and increasing market share.

Property Investment

During the period under review, the rental income of the Group dropped slightly, a decrease of 8% as compared to the corresponding period of last year. The drop is mainly due to the termination of several leases as a result of the adverse impact to Hong Kong's economy during the outbreak of the SARS epidemic in March 2003. However, the Group managed to secure new tenants and the occupancy rate maintained at around 80% as of 31st December, 2003.

During the year under review, the Group placed great efforts in upgrading its rental properties, studying various improvement plans, usage conversion plans etc., aiming to increase the development potential of the premises. With the recent remarkable signs of recovery in the property market, the Board anticipates the property investment will make a better contribution to the Group's revenue.

Investment Holding

During July 2002, the Group was brought into litigation arising from the termination of the agency in relation to the management of the Resort at Squaw Creek ("the Resort"). In March 2003, the Group reached a settlement with the disputing party, and in August 2003, the litigation ended. After the settlement, the disputing party's interest in the Resort was bought out, with funding from the Ting family, the majority shareholder of the Group. The directors agreed that the settlement was in the best interests of the Group.

During the year under review, the Resort had been operating under harsh conditions. Although the US economy has shown steady improvement in year 2003, the hotel industry had little benefit from this weak recovery. Consumer confidence was still weak while competition within the industry remained keen. Occupancy rate and room rates both deteriorated due to keen competition, these eventually lead to low profit margin and weak performance.

In April 2004, a new hotel operator, Destination Hotels & Resorts, was appointed to manage the Resort. Although the Resort did not provide contribution in year 2003, the Group has great confidence in the new management and believes that the performance of the Resort will improve under the management of the new hotel operator.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2003, the Group's current ratio was 0.80 (2002: 0.83). The Group's total bank borrowings have decreased from approximately HK$278 million as reported last year to approximately HK$250 million as at year-end. The financial gearing of the Group, based on the total bank borrowings to the shareholder's equity was maintained at 57% (2002: 64%). There is no significant seasonality of borrowing requirements except during peak sales period when the Group's trade loans will be comparatively higher.

Capital Structure

During the year ended 31st December, 2003, there were no movements in the Company's share capital. The Group's capital instruments are mainly composed of bank loans and directors' support, which are in HK dollars, sterling and US dollars at prevailing market rates.

Charges on Group Assets

As at 31st December, 2003, certain investment properties, leasehold land and buildings and other assets of the Group with a total net book value of approximately HK$621 million (2002: HK$502 million) were pledged to banks to secure banking facilities granted to the Group.

Material Acquisitions and Disposals

There are no material acquisitions and disposals during the year ended 31st December, 2003. At the moment, there are no major plans for material investments or capital assets.

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated either in sterling, U.S. dollars, Canadian dollars, Renminbi or Hong Kong dollars. During the year under review, the exchange rate of US dollars and Renminbi against Hong Kong dollars was relatively stable while sterling and Canadian dollars had appreciated. Both sterling and Canadian dollars formed part of the Group's revenue source, the Group benefited from the appreciation of these two currencies.

Contingent Liabilities

As at 31st December, 2003, the Group did not have significant contingent liabilities except:

(a) Around May 2003, a Group company was bought into litigation with a supplier of resin materials. The supplier has taken action against the Group company for settlement of a trading debt amounting to HK$643,980. However, the Group company has counter claimed for US$590,000 as the resin materials supplied did not meet the required specifications. The directors believe the Group will not suffer any material loss as a result of these claims.

Management Discussion and Analysis *(Continued)*

(b) During the last quarter of 2003, a Mexican company commenced a law suit in the State of Arizona against the Company based on their claims 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 ("Litigation"). Sinomex was a member company of the Group that was disposed in mid 1996. The plaintiffs allege claims against Sinomex and the Company of approximately US$5,000,000 for unpaid obligations of Sinomex under the Lease Agreement.

In early January of 2004, the Company's legal counsel filed a Motion to Dismiss the complaint in the Litigation based upon the applicable law of Arizona and that of the location of the property, Hermosillo, Mexico. In that Motion, the Company argues that the Arizona court has insufficient 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 against the Company. Plaintiffs have not responded to the Company's Motion to dismiss as of this date.

Management having considered the Litigation with legal counsel to the Company, the Directors believe that the Company's Motion to Dismiss plaintiffs' complaint is meritorious, and that the Company has valid defenses to the claims of the plaintiffs. As such, the Company intends to vigorously defend the matter. On that basis, the Company has not made provision in relation to this claim.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2003, the Group employed approximately 4,800 (2002: 5,100) full time management, administrative and production staff in the United States, Europe, PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing industry practice. In the area of staff training, the Group encourages and supports staff to engage and participate in continuing studies or self-enhancement courses.

AUDIT COMMITTEE

The Audit Committee has met with the management to review the year-end financial statements and consider the significant accounting policies, and to discuss with the management about the Group's internal control system.

Management Discussion and Analysis *(Continued)*

PROSPECTS

Looking forward, the Board anticipates that 2004 will be a year of recovery. As a matter of fact, the official forecast of Hong Kong's GDP growth is 6% for 2004. Total exports and imports of goods grew by 11.7% and 11.5% respectively in 2003. The fiscal deficit and the unemployment rate are expected to decline gradually. Local interest rates continue to stay at a low level, and the property market is steadily recovering. All these basic economic conditions strengthened the operating environment for Hong Kong's manufacturing and export business.

On the other hand, competition has remained keen. Orders received are getting smaller in terms of lot size, while shorter delivery lead-time is generally required. The Board also alerted the possible harm to the Group's profit margin caused by the recent price fluctuation on electronic components and raw materials, like plastics, zinc alloy and packaging materials, etc.

However, the Group is always well prepared to strive for challenges and will closely monitor the operational situation and adhere to cautious precaution policies. To reduce operational costs and stay competitive, the Group will focus its strategies on cost control, enhancing product quality and improving productivity. The Group also adopts a prudent approach on cash management and continues to reduce stock level. Besides strengthening the core business, the Group also aims to explore new products, deploying new knowledge and new technologies, as well as to widen customer base.

The Board is cautiously optimistic to the future economic development, and is confident in leading the Group to maintain its top position in the toys industry, to commit total satisfactory to the customers and to provide high quality products to the market.

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

Hong Kong, 16th April, 2004

Report of the Directors

The directors of the Company (the "Directors") submit herewith their annual report together with the audited financial statements for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

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.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in Note 10 on the financial statements.

SUBSIDIARIES

Particulars of the Company's major subsidiaries at 31st December, 2003 are set out on pages 76 and 77 of the annual report.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2003.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31st December, 2003 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 24 to 77 of the annual report.

Movements in reserves during the year are set out in Note 27 on the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 79 and 80 of the annual report.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales attributable to the Group's largest suppliers and customers are as follows:

	2003	2002
	%	%
Purchases		
– the largest supplier	**5**	6
– five largest suppliers combined	**20**	23
Sales		
– the largest customer	**16**	6
– five largest customers combined	**35**	21

Except as disclosed under "Directors' Interests in Contracts" below, none of the directors, their associates or shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) were interested at any time in the year in the above suppliers or customers.

DONATIONS

Donations made by the Group during the year amounted to HK$46,000 (2002: HK$4,000).

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 11 on the financial statements.

PROPERTIES

Particulars of the major properties of the Group are shown on page 78 of the annual report.

BANK LOANS AND OVERDRAFTS AND OTHER BORROWINGS

Particulars of bank loans and overdrafts and other borrowings of the Group at 31st December, 2003 are set out in Notes 22 and 23 on the financial statements.

SHARE CAPITAL

There is no change in the authorised and issued share capital during the year.

Report of the Directors *(Continued)*

DIRECTORS

The Board of Directors during the financial year were:

Executive Directors:
Kenneth Ting Woo-shou
William Li Kai-wan

Non-Executive Directors:
Dennis Ting Hok-shou
*Liu Chee-ming
*Moses Cheng Mo-chi

* *(Independent Non-Executive Director)*

In accordance with clause 189(ix) of the Company's Bye-laws, Dr. Dennis Ting Hok-shou shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Chairman

Dr. Dennis Ting Hok-shou, OBE, JP, aged 70, has been the Non-Executive Chairman of the Company since its incorporation in 1989. He has been a director of Kader Industrial Company Limited since 1961.

Dr. Ting has served a number of trade organisations and public committees. At present, he is the President of the Hong Kong Plastics Manufacturers' Association, the Honorary President of the Federation of Hong Kong Industries and the Chairman of the Board of Trustees of Hong Kong Shue Yan College.

Dr. Ting is a director of H.C. Ting's Holdings Limited which is a substantial shareholder of the Company. He is a brother of Mr. Kenneth Ting Woo-shou.

Executive Directors

Mr. Kenneth Ting Woo-shou, JP, aged 61, has been the Managing Director and Chief Executive Officer of the Company since its incorporation in 1989. He has been a director of Kader Industrial Company Limited since 1971 and was appointed the Chairman in 1993. He is responsible for the overall policy and development of the Group.

Mr. Ting currently serves as the Legislative Councilor representing the Federation of Hong Kong Industries of the HKSAR, the Deputy Chairman of the Federation of Hong Kong Industries, the President of the Hong Kong Plastics Manufacturers' Association, the Chairman of the Vocational Training Council - Plastics Training Board, the Honorary President of the Chinese Manufacturers' Association of Hong Kong and the Honorary President of the Toys Manufacturers' Association of Hong Kong Limited. He is also a Director and Executive Committee Member of the Hong Kong Plastics Technology Centre and a member of ICAC - Operation Review Committee, Information Infrastructure Advisory Committee and The Council of The Hong Kong Polytechnic University.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Executive Directors *(continued)*

He also serves as a member of a number of other trade organisations and public committees such as the Hong Kong Exporters' Association and the Hong Kong General Chamber of Commerce. He was also a member of the Selection Committee of the Hong Kong Special Administrative Region and an Advisor of Hong Kong District Affairs to the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region.

Mr. Ting is a director of H.C. Ting's Holdings Limited which is a substantial shareholder of the Company. He is a brother of Dr. Dennis Ting Hok-shou.

Mr. William Li Kai-wan, aged 41, is a Fellow Member of the Chartered Association of Certified Accountants and a member of the Hong Kong Society of Accountants. Mr. Li was appointed to the Board in 1994 and is responsible for strategic planning and investments of the Group.

Independent Non-Executive Directors

Mr. Liu Chee-ming, aged 53, has been an Independent Non-Executive Director of the Company since June 1998. Mr. Liu is the Managing Director of Platinum Securities Company Limited. Prior to setting up Platinum, Mr. Liu was a member of the Executive Committee of Jardine Fleming Holdings Limited where he had worked for 19 years. He was the head of Corporate Finance Division between 1992 and 1996.

Mr. Liu was also a Governor of the Singapore International School between 1991 and 1994, and has been a member of the Takeovers Appeal Committee and Takeovers Panel of the Securities and Futures Commission since May 1995.

Mr. Moses Cheng Mo-chi, JP, aged 54, was appointed an Independent Non-Executive Director of the Company in March 1999. Mr. Cheng is a Senior Partner of P.C.Woo & Co., a firm of solicitors and notaries in Hong Kong. Mr. Cheng was a member of the Legislative Council of Hong Kong between 1991 and 1995. He is the Founder Chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. He also serves on the boards of various listed companies as an independent non-executive director.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for election at the forthcoming Annual General Meeting has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than normal statutory obligations.

Report of the Directors *(Continued)*

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in the Share Capital of the Company and the Associated Corporations

As at 31st December, 2003, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Interests in the Company

	Number of Ordinary Shares of HK$0.10 each				
Name of Directors	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Total number of shares held**	**% of total issued shares**
Kenneth Ting Woo-shou	93,865,385	586,629 *(i)*	244,175,800 *(ii)*	338,627,814	50.89%
Dennis Ting Hok-shou	9,692,817	275,000 *(iii)*	236,969,800 *(iv)*	246,937,617	37.11%
William Li Kai-wan	–	–	–	–	–
Liu Chee-ming	–	–	1,000,000	1,000,000	0.15%
Moses Cheng Mo-chi	11,000	–	–	11,000	0.002%

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.

DISCLOSURE OF INTERESTS *(continued)*

Interests in associated corporations

Name of associated corporation	Beneficial interests	Class of shares	No. 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%
Squaw Creek Associates, LLC	Kenneth Ting Woo-shou	Not applicable *(iii)*	–	–	–	72% *(iv)*
Squaw Creek Associates, LLC	Kenneth Ting Woo-shou	Not applicable *(iii)*	–	–	–	8% *(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. Mr. Kenneth Ting Woo-shou's beneficial interests in Allman Holdings Limited was disclosed in Note (i) above.*

(iii) *Squaw Creek Associates, LLC 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., Mr. Kenneth Ting Woo-shou's beneficial interests in Pacific Squaw Creek, Inc. was 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 31st December, 2003, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Save as disclosed above, as at 31st December, 2003, none of the directors or chief executives of the Company nor their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Directors' Rights to Acquire Shares or Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Report of the Directors *(Continued)*

Substantial Shareholder's Interests

As at 31st December, 2003, save for certain directors' interests in the share capital of the Company as disclosed above, no other person was recorded in the register kept by the Company under section 336 of the SFO, as having an interest of 5% or more of the issued share capital of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

The Group has interests in associates, Allman Holdings Limited, Pacific Squaw Creek, Inc. and Squaw Creek Associates, LLC, in which Mr. Kenneth Ting Woo-shou has beneficial interests.

During the year, the Group had dealings in packaging printing with New Island Printing Company Limited ("New Island") which are carried out at arm's length and in the ordinary course of business of the Group. Mr. Kenneth Ting Woo-shou was interested in these transactions as a non-executive director and shareholder of New Island. Purchases from New Island during the year amounted to HK$5,972,000 which accounted for approximately 3.5% of the Group's total purchases.

DIRECTORS' INTERESTS IN COMPETING BUSINESS(ES)

During the year and up to the date of this report, 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 of Hong Kong Limited, which competes or is likely to compete with the business of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As the Board of Directors of the Company is independent from the board of the above mentioned 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.

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

As at 31st December, 2003, the Group had certain financial assistance to affiliated companies which is disclosed below in accordance with Chapter 13 of the Listing Rules.

Advances to Affiliated Companies

As at 31st December, 2003, the Company advanced a total sum of HK$79,707,000 to its affiliated companies, the details of which are as follows:-

Affiliated Companies	Interest Rate of Advances	Amount of Advances as at 31/12/2003
		HK$'000
Allman Holdings Limited and its subsidiaries	Interest-free	63,324
Mango Designs, LLC	Interest-free	1,976
Hip Wah Industrial (Development) Limited	Interest-free	7,462
The Melville Street Trust	Interest-free	6,945
		79,707

All the said advances were unsecured, repayable on demand and were funded by internal resources and/or bank borrowings and were made for the purpose of providing investment funds and/or working capital.

Set out below is a proforma combined balance sheet of the above affiliated companies as at 31st December, 2003 (being the latest practicable date for determining the relevant figures) required to be disclosed under Chapter 13 of the Listing Rules:–

Proforma Combined Balance Sheet as at 31st December, 2003

	HK$'000
Fixed assets	824,994
Other non-current assets	3,621
Net current liabilities	(67,997)
Bank loans and shareholders' loans – long term	(518,965)
Surplus in shareholders' funds	241,653

The aggregate of the Group's advances to affiliated companies as at 31st December, 2003 amounted to HK$79,707,000 which represents approximately 8.4% of the Group's total assets as at 31st December, 2003.

Report of the Directors *(Continued)*

PURCHASE, SALE OR REDEMPTION OF SHARES

There has been no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year ended 31st December, 2003.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws in Bermuda.

CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at Annual General Meetings in accordance with clause 189 (ix) of the Company's Bye-laws.

AUDITORS

A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

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

Hong Kong, 16th April, 2004

Report of the Auditors

KPMG

To the shareholders of Kader Holdings Company Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 77 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2003 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 16th April, 2004

Consolidated Income Statement

For the year ended 31st December, 2003

	Note	2003	2002 Restated
		HK$'000	*HK$'000*
Turnover	2&10	**495,325**	353,049
Other revenue	3(a)	**7,391**	14,177
Other net expense	3(b)	**(2,880)**	(3,788)
Changes in inventories of finished goods and work in progress		**743**	13,401
Cost of purchase of finished goods		**(13,254)**	(11,981)
Raw materials and consumables used		**(172,269)**	(95,430)
Staff costs		**(137,352)**	(120,092)
Depreciation and amortisation expenses		**(21,057)**	(23,605)
Other operating expenses		**(129,664)**	(120,501)
Profit from operations		**26,983**	5,230
Finance costs	4(a)	**(16,731)**	(19,959)
Share of loss of associates		**(9,373)**	(13,979)
Profit/(loss) from ordinary activities before taxation	4	**879**	(28,708)
Income tax	5	**(6,209)**	(10,734)
Loss from ordinary activities after taxation		**(5,330)**	(39,442)
Minority interests		**–**	–
Loss attributable to shareholders	7	**(5,330)**	(39,442)
Loss per share			
Basic	8(a)	**(0.80¢)**	(5.93¢)
Diluted	8(b)	**N/A**	N/A

The notes on pages 32 to 77 form part of these financial statements.

Consolidated Balance Sheet

At 31st December, 2003

	Note	2003	2002 Restated
		HK$'000	*HK$'000*
Non-current assets			
Fixed assets			
– Investment properties	11	**412,801**	407,281
– Other property, plant and equipment	11	**112,535**	113,459
		525,336	520,740
Investments in associates	13	**171,552**	88,817
Investment in a jointly controlled entity	14	**–**	–
Other non-current financial assets	15	**1,734**	88,718
Intangible assets	16	**–**	–
Deferred taxation	25(b)	**9,334**	5,856
		707,956	704,131
Current assets			
Current investments	17	**144**	158
Inventories	18	**144,138**	158,906
Properties held for resale	19	**4,672**	4,672
Tax recoverable	25(a)	**2,978**	3,191
Trade and other receivables	20	**71,860**	72,604
Cash and cash equivalents		**21,796**	9,090
		245,588	248,621
Current liabilities			
Bank loans and overdrafts	23	**(210,299)**	(219,941)
Trade and other payables	21	**(83,537)**	(67,993)
Obligations under finance leases	24	**(6,019)**	(5,871)
Tax payable	25(a)	**(8,807)**	(8,137)
		(308,662)	(301,942)
Net current liabilities		**(63,074)**	(53,321)
Total assets less current liabilities carried forward		**644,882**	650,810

Consolidated Balance Sheet *(Continued)*

At 31st December, 2003

	Note	2003	2002 Restated
		HK$'000	*HK$'000*
Total assets less current liabilities brought forward		**644,882**	650,810
Non-current liabilities			
Interest-bearing borrowings	22	**(167,358)**	(178,941)
Rental deposits		**(5,656)**	(2,456)
Obligations under finance leases	24	**(1,163)**	(7,193)
Deferred taxation	25(b)	**(27,286)**	(25,967)
Accrued employee benefits		**(1,887)**	(2,389)
		(203,350)	(216,946)
Minority interests		**–**	–
NET ASSETS		**441,532**	433,864
CAPITAL AND RESERVES			
Share capital	26	**66,541**	66,541
Reserves	27	**374,991**	367,323
		441,532	433,864

Approved and authorised for issue by the Board of Directors on 16th April, 2004.

Kenneth Ting Woo-shou
Director

William Li Kai-wan
Director

The notes on pages 32 to 77 form part of these financial statements.

Balance Sheet

At 31st December, 2003

	Note	2003 HK$'000	2002 HK$'000
Non-current assets			
Investments in subsidiaries	12	**609,664**	571,361
Investment in a jointly controlled entity	14	**–**	–
		609,664	571,361
Current assets			
Cash and cash equivalents		**61**	21
Current liabilities			
Trade and other payables	21	**(366,568)**	(330,898)
Net current liabilities		**(366,507)**	(330,877)
Total assets less current liabilities		**243,157**	240,484
Non-current liabilities			
Amounts due to subsidiaries		**(39,821)**	(40,655)
Accrued employee benefits		**(265)**	(268)
		(40,086)	(40,923)
NET ASSETS		**203,071**	199,561
CAPITAL AND RESERVES			
Share capital	26	**66,541**	66,541
Reserves	27	**136,530**	133,020
		203,071	199,561

Approved and authorised for issue by the Board of Directors on 16th April, 2004.

Kenneth Ting Woo-shou
Director

William Li Kai-wan
Director

The notes on pages 32 to 77 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2003

	Note	**2003**	2002 Restated
		HK$'000	*HK$'000*
Shareholders' equity at 1st January			
As previously reported		**457,705**	492,257
Prior period adjustment arising from changes in accounting policy for deferred tax	9	**(23,841)**	(24,010)
As restated		**433,864**	468,247
Surplus on revaluation of investment properties			
As previously reported			719
Prior period adjustment arising from changes in accounting policy for deferred tax	9		(45)
Surplus on revaluation of investment properties, net of deferred tax (2002: as restated)	27	**8,189**	674
Exchange differences on translation of the financial statements of foreign entities	27	**4,810**	4,436
Net gains not recognised in the income statement		**12,999**	5,110
Net loss for the year:			
As previously reported			(39,656)
Prior period adjustment arising from changes in accounting policy for deferred tax	9		214
Net loss for the year (2002: as restated)		**(5,330)**	(39,442)
Movements in capital reserve:			
Write off of goodwill	27	**(1)**	(51)
Shareholders' equity at 31st December		**441,532**	433,864

The notes on pages 32 to 77 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	Note	2003 HK$'000	2002 Restated HK$'000
Operating activities			
Profit/(loss) from ordinary activities before taxation		**879**	(28,708)
Adjustments for:			
Depreciation of fixed assets		**21,057**	21,109
Impairment loss in respect of fixed assets		**2,984**	5,982
Amortisation of intangible assets		**–**	2,496
Finance costs		**16,731**	19,959
Dividend income		**(1)**	(7)
Interest income		**(51)**	(211)
Share of loss of associates		**9,373**	13,979
Waiver of amount due to related company		**–**	(4,056)
Loss from partnership		**1,853**	1,409
Net (gain)/loss on sale of fixed assets		**(203)**	85
Unrealised loss on listed investments		**14**	96
Unrealised gain on revaluation of investment in Squaw Creek Associates, LLC	(a)	**(1,727)**	(685)
Write off of goodwill		**(1)**	(51)
Foreign exchange loss		**5,518**	3,931
Operating profit before changes in working capital		**56,426**	35,328
Decrease/(increase) in inventories		**14,768**	(2,167)
Decrease in trade and other receivables		**744**	1,438
Increase in creditors and accrued charges		**16,889**	5,026
Decrease in rental deposits received		**(443)**	(395)
(Decrease)/increase in accrued employee benefits		**(502)**	422
Cash generated from operations		**87,882**	39,652
Tax paid			
Hong Kong profits tax paid		**(1,542)**	(953)
Overseas tax paid		**(6,178)**	(11,622)
Net cash from operating activities		**80,162**	27,077

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31st December, 2003

	Note	2003 HK$'000	2002 Restated HK$'000
Investing activities			
Payment for purchase of fixed assets		**(18,406)**	(18,573)
Proceeds from sales of fixed assets		**215**	178
Proceeds from sales of land held for resale	(b)	**–**	28,333
Interest received		**51**	856
Dividend received		**1**	7
Capital element of distributions from partnership		**7,511**	7,642
Increase in investment in associate	(a)	**–**	(1,950)
Increase in amounts due from associates		**(13,372)**	(6,842)
Increase in interest in Squaw Creek Associates, LLC	(a)	**(584)**	(1,248)
Increase in amount due from partnership		**–**	(982)
Net cash (used in)/from investing activities		**(24,584)**	7,421
Financing activities			
Proceeds from new bank loans		**291,796**	261,509
Repayment of bank loans		**(328,406)**	(284,165)
Net increase/(decrease) in bank overdrafts		**6,621**	(21,776)
Proceeds from finance lease transaction for owned assets		**–**	15,000
Capital element of finance lease rentals paid		**(5,882)**	(4,595)
Proceeds from new advances from shareholders		**–**	900
Increase in amounts due to related companies and related parties		**2,437**	570
New loans from a director		**7,019**	19,000
Interest paid		**(16,396)**	(17,821)
Interest element of finance lease rentals paid		**(474)**	(656)
Net cash used in financing activities		**(43,285)**	(32,034)
Net increase in cash and cash equivalents		**12,293**	2,464
Cash and cash equivalents at 1st January		**9,090**	6,417
Effect of foreign exchange rates changes		**413**	209
Cash and cash equivalents at 31st December		**21,796**	9,090

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

(a) During the year ended 31st December, 2003, the Group's associate company purchased additional shareholding in Squaw Creek Associates, LLC ("SCA") and SCA also became an associate of the Group. At this point, the Group's investment in SCA was reclassified from other securities to investments in associates. Further details are set out in Notes 13 and 15.

(b) During the year ended 31st December, 2002, the Group entered into the following non-cash transactions:

    (i) The Group entered into an agreement with an associate such that the amount due to an associate of HK$87,360,000 was settled by offsetting the same amount due from another associate.

    (ii) Certain land held for resale was sold for cash consideration of RMB30,000,000 and residential units in the PRC initially valued at RMB5,000,000. These residential units are included in "properties held for resale" as at 31st December, 2002 and 2003.

Notes on the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the 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 is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

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.

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with Note 1 (e).

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 jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, its investment in a jointly controlled entity is stated at cost less impairment losses (see Note 1(j)).

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

(i) for acquisitions before 1st January, 2001, positive goodwill is written off to contributed surplus and is reduced by impairment losses (see Note 1(j)); and

(ii) for acquisitions on or after 1st January, 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see Note 1(j)).

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see Note 1(j)) is included in the carrying amount of the interest in associates or jointly controlled entities.

Negative goodwill arising on acquisitions of subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

(i) for acquisitions before 1st January, 2001, negative goodwill is credited to capital reserve; and

(ii) for acquisitions on or after 1st January, 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/ amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

(i) for subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

(ii) for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on the Group reserves is included in the calculation of the profit or loss on disposal.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in securities

The Group's policy for investments in securities other than investments in subsidiaries, associates and jointly controlled entities is as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

(ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

(iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(g) Interest in partnership

Interest in partnership is stated at cost less provision, where appropriate, together with profits less losses attributable to the Group.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Fixed assets

(i) Fixed assets are carried in the balance sheet on the following bases:

(a) investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;

(b) land and buildings held for own use are stated in the balance sheet at cost less accumulated depreciation (see Note 1(i)) and impairment losses (see Note 1(j)); and

(c) plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see Note 1(i)) and impairment losses (see Note 1(j)).

(ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

(a) when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and

(b) when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the income statement.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Depreciation and amortisation

(i) No depreciation is provided in respect of investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) Depreciation is provided on the then carrying amount of investment properties with an unexpired lease term of 20 years or less on a straight-line basis over the remaining term of the lease.

(iii) Depreciation is provided on the cost of leasehold land and buildings on a straight-line basis over 50 years or the remaining terms of the respective leases, if shorter.

(iv) Depreciation is provided on the written down value of 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

(v) Amortisation of patents is charged to the income statement on a straight-line basis over its estimated useful life of five years.

(j) Impairment of 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 an impairment loss previously recognised no longer exists or may have decreased:

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

(ii) investments in subsidiaries, associates and jointly ventures;

(iii) intangible assets; and

(iv) positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of such an asset (including positive goodwill taken directly to reserves) exceeds its recoverable amount.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(i) 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 assets. 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).

(ii) 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 reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

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 the income statement in the year in which the reversals are recognised.

(k) Intangible assets (other than goodwill)

(i) Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (see Note 1(i)) and impairment losses (see Note 1(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

(ii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) 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 of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(j). Finance charges implicit in the lease payments are charged to the income statement 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.

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(j). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 1(s)(ii).

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement 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 the income statement as an integral part of the aggregate net lease payments made.

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Inventories

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

Cost is calculated using the FIFO cost formula 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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Properties held for resale

Properties held for resale are stated at the lower of specific identified cost and estimated net realisable value.

(o) 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 cash flow statement.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits

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

(ii) Contributions to the Group's defined contribution retirement plans and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) 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.

(q) Income tax

(i) 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 the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) 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.

(iii) 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.

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 back or 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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

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 profit 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 profit 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.

(iv) 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, and only 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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group 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 expenditures 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 economic benefits is remote.

(s) 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 the income statement as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added 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 the income statement 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 granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

(iii) Dividends

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

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

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition *(Continued)*

(iv) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rate for the year, balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

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

(u) Borrowing costs

Borrowing costs are expensed in the income statement 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.

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) 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, 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 enterprises 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, corporate and financing expenses and minority interests.

Notes on the Financial Statements *(Continued)*

2. 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 invoiced value of goods sold, less returns, to third parties, rental income and investment income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2003	2002
	HK$'000	*HK$'000*
Sale of goods	**469,395**	324,943
Rental income	**25,929**	28,099
Investment income	**1**	7
	495,325	353,049

3. OTHER REVENUE AND NET EXPENSE

	2003	2002
	HK$'000	*HK$'000*
(a) Other revenue		
Interest income	**51**	211
Air conditioning, management and maintenance service charges from tenants	**4,124**	4,910
Service income	**910**	3,972
Waiver of amount due to related company *(Note 31(f))*	**–**	4,056
Others	**2,306**	1,028
	7,391	14,177
(b) Other net expense		
Unrealised gain on revaluation of investment in Squaw Creek Associates, LLC *(Note 15)*	**1,727**	685
Net gain/(loss) on sale of fixed assets	**203**	(85)
Net exchange loss	**(2,943)**	(2,883)
Unrealised loss on listed investments	**(14)**	(96)
Loss from partnership	**(1,853)**	(1,409)
	(2,880)	(3,788)

4. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit/(loss) from ordinary activities before taxation is arrived at after charging/(crediting):

	2003 HK$'000	2002 HK$'000
(a) Finance costs		
Interest on bank advances repayable within 5 years	**9,545**	12,668
Interest on advances from directors	**3,857**	3,419
Interest on advances from shareholders	**2,327**	2,353
Interest on amounts due to related parties/related companies	**122**	117
Interest on other loans	**406**	746
Finance charges on obligations under finance leases	**474**	656
	16,731	19,959
(b) Other items		
Cost of inventories sold	**342,503**	226,429
Amortisation of intangible assets	**–**	2,496
Amortisation of positive goodwill included in the share of profits less losses of associates	**185**	–
Depreciation		
– owned assets	**20,568**	20,566
– assets held under finance leases	**489**	543
Impairment loss in respect of fixed assets	**2,984**	5,982
Auditors' remuneration	**1,680**	2,221
Operating lease charges		
– rental on land and buildings	**11,891**	11,750
– other rental	**439**	367
Employer's contributions to defined contribution retirement plans, net of forfeited contributions of HK$241,000 (2002: HK$213,000) *(Note 30)*	**5,008**	3,891
Dividend income from listed investments	**(1)**	(1)
Dividend income from unlisted investments	**–**	(6)
Gross rental income from investment properties less direct outgoings of HK$3,649,000 (2002: HK$3,458,000)	**(22,280)**	(24,641)

Cost of inventories includes HK$102,804,000 (2002: HK$81,196,000) 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.

Notes on the Financial Statements *(Continued)*

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2003	2002
		Restated
	HK$'000	*HK$'000*
Current tax-Provision for Hong Kong Profits Tax		
Tax for the year	**963**	1,135
Current tax-Overseas		
Tax for the year	**7,341**	6,874
Under/(over)-provision in respect of prior years	**3**	(21)
	7,344	6,853
Deferred tax		
Origination and reversal of temporary differences	**(3,137)**	1,572
Adjustments in respect of previous years	**(27)**	287
Effect of increase in tax rate on deferred tax balances at 1 January	**798**	–
	(2,366)	1,859
Share of associates' taxation	**268**	887
	6,209	10,734

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at 17.5% (2002: 16%) 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.

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

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

	2003	2002
	HK$'000	*HK$'000*
Profit/(loss) before tax	**879**	(28,708)
Notional tax on profit/(loss) before tax, calculated at the rates applicable to profit/(loss) in the countries concerned	**108**	(5,488)
Tax effect on non-deductible expenses	**9,009**	12,734
Tax effect of non-taxable revenue	**(14)**	(335)
Tax effect of tax losses not recognised	**759**	5,605
Tax effect of unrecognised tax losses utilised this year	**(4,438)**	(1,780)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	**798**	–
Over provision in prior years	**(24)**	(21)
Others	**11**	19
Actual tax expense	**6,209**	10,734

Notes on the Financial Statements *(Continued)*

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

	2003	2002
	HK$'000	*HK$'000*
(i) Executive directors		
Fees	**80**	80
Other emoluments:		
Salaries and other benefits	**2,503**	2,503
Pension scheme contributions	**203**	137
	2,706	2,640
	2,786	2,720
(ii) Non-executive directors		
Fees	**80**	80
Other emoluments:		
Salaries and other benefits	**334**	334
Pension scheme contributions	**33**	33
	367	367
	447	447

The remuneration of the directors is within the following bands:

	2003 Number of directors	2002 Number of directors
HK$Nil to HK$1,000,000	**4**	4
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**1**	1

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

During the year ended 31st December, 2003, the five highest paid individuals included one (2002: one) director, details of whose emoluments are set out in Note 6(a). The emoluments of the remaining of the five highest paid individuals, excluding commissions on sales generated by the employees, are as follows:

	2003	2002
	HK$'000	*HK$'000*
Salaries and other benefits	**4,004**	3,838
Bonus	**138**	300
Pension scheme contributions	**154**	118
	4,296	4,256

The emoluments of the four *(2002: four)* individuals with the highest emoluments are within the following bands:

	2003	2002
	Number of employees	Number of employees
HK$Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**4**	3

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a profit of HK$3,510,000 (2002: loss of HK$26,684,000) which has been dealt with in the financial statements of the Company.

8. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK$5,330,000 (2002 Restated: HK$39,442,000) and the weighted average of 665,412,000 ordinary shares (2002: 665,412,000 shares) in issue during the year.

(b) Diluted loss per share

The diluted loss per share is not presented as the Company does not have dilutive potential ordinary shares outstanding during both 2002 and 2003.

Notes on the Financial Statements *(Continued)*

9. CHANGES IN ACCOUNTING POLICIES

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1st January, 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in Note 1(q). As a result of the adoption of this accounting policy, the Group's loss for the year has been decreased by HK$1,466,000 (2002: HK$214,000) and the net assets as at the year end have been decreased by HK$22,581,000 (2002: HK$23,841,000).

The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the statement of changes in equity.

10. 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 partnership and trading of listed securities.

10. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	Toys and model trains		Property investment		Investment holding and trading		Unallocated		Inter-segment elimination		Consolidated	
	2003	2002 Restated	**2003**	2002 Restated	**2003**	2002 Restated	**2003**	2002 Restated	**2003**	2002 Restated	**2003**	2002 Restated
	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	**469,395**	324,920	**25,929**	28,099	**1**	7	**–**	23	**–**	–	**495,325**	353,049
Inter-segment revenue	**–**	–	**687**	687	**–**	–	**–**	–	**(687)**	(687)	**–**	–
Other revenue from external customers	**1,640**	823	**4,462**	4,918	**325**	188	**913**	3,981	**–**	–	**7,340**	9,910
Total	**471,035**	325,743	**31,078**	33,704	**326**	195	**913**	4,004	**(687)**	(687)	**502,665**	362,959
Segment result	**15,729**	(1,021)	**22,514**	23,199	**(3,944)**	(7,418)	**(5,717)**	(8,247)	**–**	–	**28,582**	6,513
Unallocated operating income and expenses											**(1,599)**	(1,283)
Profit from operations											**26,983**	5,230
Finance costs											**(16,731)**	(19,959)
Share of loss of associates							**(9,373)**	(13,979)			**(9,373)**	(13,979)
Taxation											**(6,209)**	(10,734)
Loss attributable to shareholders											**(5,330)**	(39,442)
Depreciation and amortisation for the year	**17,129**	16,671	**2,982**	2,923	**–**	–	**946**	4,011	**–**	–	**21,057**	23,605
Impairment loss in respect of fixed assets	**2,984**	2,303	**–**	–	**–**	–	**–**	3,679	**–**	–	**2,984**	5,982

Notes on the Financial Statements *(Continued)*

10. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	Toys and model trains		Property investment		Investment holding and trading		Unallocated inter-company and other balances		Inter-segment elimination		Consolidated	
	2003	2002 Restated	2003	2002 Restated	2003	2002 Restated	2003	2002 Restated	2003	2002 Restated	2003	2002 Restated
	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	**339,928**	342,246	**423,163**	416,765	**1,938**	88,877	**356,677**	358,779	**(352,026)**	(351,779)	**769,680**	854,888
Investments in associates	**–**	–	**–**	–	**171,552**	88,817	**–**	–	**–**	–	**171,552**	88,817
Unallocated assets											**12,312**	9,047
Total assets											**953,544**	952,752
Segment liabilities	**360,855**	366,042	**101,343**	100,402	**59,501**	50,783	**306,246**	319,336	**(352,026)**	(351,779)	**475,919**	484,784
Unallocated liabilities											**36,093**	34,104
Total liabilities											**512,012**	518,888
Capital expenditure incurred during the year	**18,406**	19,831										

10. SEGMENT REPORTING *(Continued)*

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. The Group also has investment and investment properties in North America. In Europe and other locations, the major business is sale of toys and model trains.

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**	
	2003	2002 Restated	**2003**	2002 Restated	**2003**	2002 Restated	**2003**	2002 Restated
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**79,108**	83,129	**251,529**	150,894	**134,710**	110,147	**29,978**	8,879
Segment assets	**885,975**	900,933	**134,617**	216,559	**101,114**	89,175	**–**	–
Capital expenditure incurred during the year	**15,593**	16,534	**219**	2,367	**2,594**	930	**–**	–

Notes on the Financial Statements *(Continued)*

11. FIXED ASSETS

The Group

	Land and buildings				Investment properties			
	In Hong Kong	Outside Hong Kong	Equipment	Sub-total	In Hong Kong	Outside Hong Kong	Sub-total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:								
At 1st January, 2003	14,131	25,247	419,634	459,012	346,350	60,931	407,281	866,293
Exchange differences	–	1,444	1,838	3,282	–	–	–	3,282
Additions	–	–	18,406	18,406	–	–	–	18,406
Disposals	–	–	(290)	(290)	–	–	–	(290)
Surplus/(deficit) on revaluation *(Note (b) below)*	–	–	–	–	(400)	5,920	5,520	5,520
At 31st December, 2003	14,131	26,691	439,588	480,410	345,950	66,851	412,801	893,211
Representing								
Cost	14,131	26,691	439,588	480,410	–	–	–	480,410
Valuation - 2003	–	–	–	–	345,950	66,851	412,801	412,801
	14,131	26,691	439,588	480,410	345,950	66,851	412,801	893,211
Accumulated depreciation:								
At 1st January, 2003	5,896	8,119	331,538	345,553	–	–	–	345,553
Exchange differences	–	178	1,256	1,434	–	–	–	1,434
Charge for the year	306	611	17,265	18,182	–	2,875	2,875	21,057
Impairment loss *(Note (c) below)*	–	–	2,984	2,984	–	–	–	2,984
Written back on disposals	–	–	(278)	(278)	–	–	–	(278)
Written back on revaluation *(Note (b) below)*	–	–	–	–	–	(2,875)	(2,875)	(2,875)
At 31st December, 2003	6,202	8,908	352,765	367,875	–	–	–	367,875
Net book value:								
At 31st December, 2003	**7,929**	**17,783**	**86,823**	**112,535**	**345,950**	**66,851**	**412,801**	**525,336**
At 31st December, 2002	8,235	17,128	88,096	113,459	346,350	60,931	407,281	520,740

11. FIXED ASSETS *(Continued)*

(a) Land and buildings comprise:

	2003	2002
	HK$'000	*HK$'000*
At net book value:		
In Hong Kong		
Medium-term leases	**7,929**	8,235
Freehold outside Hong Kong	**17,783**	17,128

(b) Investment properties comprise:

	2003	2002
	HK$'000	*HK$'000*
At valuation:		
In Hong Kong		
Medium-term leases	**345,950**	346,350
Outside Hong Kong		
Short-term leases	**10,000**	11,500
Medium-term leases	**34,841**	34,841
Freehold	**22,010**	14,590
	66,851	60,931

The investment properties of the Group at 31st December, 2003 were revalued by Surpass Company Limited and Johnston, Ross & Cheng Limited, external professional valuers, on an open market basis, by either making reference to comparable sales evidence in the market, or otherwise, by capitalising the income derived from the leased properties at an appropriate rate of return.

The net revaluation surplus of HK$8,395,000 (2002: HK$719,000) was credited to the investment properties revaluation reserve (Note 27).

(c) Impairment loss

During the year, the Group's directors assessed the recoverable amount of the Group's moulds. Based on this assessment, the carrying value of certain of those moulds was written down by HK$2,984,000 (included in "Other operating expenses").

11. FIXED ASSETS *(Continued)*

(d) Equipment comprises plant and machinery, furniture and fixtures, moulds and tools, vehicles and pleasure craft.

(e) Certain fixed assets of the Group were mortgaged to various banks to secure banking facilities granted to the Group. Details are disclosed in Note 23.

(f) The Group leases production plant and machinery under finance leases expiring in three 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. The net book value of fixed assets included an amount of HK$1,955,000 (2002: HK$2,444,000) in respect of assets held under finance leases.

(g) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease 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$412,801,000 (2002: HK$407,281,000).

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

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Within 1 year	**16,713**	17,624
After 1 year but within 5 years	**16,633**	10,146
	33,346	27,770

12. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	**244,480**	244,819
Add: Amounts due from subsidiaries	**607,122**	583,780
Less: Impairment losses	**(241,938)**	(257,238)
	609,664	571,361

Details of the major subsidiaries at 31st December, 2003 which principally affect the results or assets of the Group are shown on pages 76 and 77.

13. INVESTMENTS IN ASSOCIATES

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Share of net assets	**82,323**	22,482
Amounts due from associates	**79,707**	66,335
Goodwill	**9,522**	–
	171,552	88,817

Details of the major associates at 31st December, 2003, which principally affect the results or assets of the Group, are as follows:

Name of associates	Form of business structure	Place of incorporation and operation	Proportion of ownership interest held by the Company	Proportion of ownership interest held by Subsidiary	Principal activities
Allman Holdings Limited	Incorporated	British Virgin Islands	–	36%	Investment holding
The Melville Street Trust	Incorporated	Canada	–	27.3%	Property investment
Mango Designs, LLC	Incorporated	USA	–	30%	Marketing and distribution
Squaw Creek Associates, LLC	Incorporated	USA	–	10% (See below)	Resort operation

During the past two years, the Group has been involved in a litigation arising from the termination of the agency in relation to the management of the resort owned by Squaw Creek Associates, LLC ("SCA"). The dispute has been settled during the year. On 19th August, 2003, the Group's ownership interest in Allman Holdings Limited ("Allman") decreased from 50% to 36% and Allman's ownership interest in SCA increased from 36% to 72%. Together with the ownership interest held by the Group's subsidiary of 10%, the Group's effective interest in SCA is approximately equal to 36%. On this date SCA became an associate of the Group.

Goodwill of HK$9,707,000 arose when the Group changed its ownership interest and SCA became an associate. The goodwill represents the excess of the carrying value of the investment immediately prior to the change over the Group's share of the fair value of the identifiable assets and liabilities acquired. In accordance with the Group's accounting policy, the goodwill is amortised through the consolidated income statement (included in "share of loss of associates") over its estimated useful life of 20 years.

13. INVESTMENTS IN ASSOCIATES *(Continued)*

Prior to becoming an associate, similar to the Group's interest in SCA held under investments (see Note 15), Allman's interest in SCA had been stated at market value in equity accounting for Allman's results. The valuation of the resort owned by SCA was performed by an independent firm of professional valuers using an income capitalisation approach. The resultant unrealised loss on revaluation attributable to Allman up to 19th August, 2003 was HK$5,936,000 (2002: HK$13,444,000). Of this loss attributable to Allman, the Group's 50% share, amounting to HK$2,968,000 (2002: HK$6,722,000), has been reflected in the share of loss of associates in the Group's consolidated income statement.

14. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	The Group		The Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Share of net assets	**–**	–		
Unlisted shares, at cost			**68,151**	68,151
Less: Impairment loss			**(68,151)**	(68,151)
			–	–

Details of the Group's investment in a jointly controlled entity are as follows:

Name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by Subsidiary	Principal activity
Jinlong Kader Electric Appliance Company Limited	Incorporated	China	Registered capital US$20,000,000	50%	–	Manufacture of electrical fans

15. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Interest in partnership	**1,634**	10,998
Investment securities		
Unlisted equity securities	**100**	100
Other securities – at market value		
Interest in Squaw Creek Associates, LLC ("SCA")	**–**	77,620
	1,734	88,718

SCA owns and operates a resort in USA. During the year, SCA became an associate of the Group as discussed in Note 13. Prior to this, the valuation of the resort owned by SCA was performed by an independent firm of professional valuers using an income capitalisation approach and the related share of the unrealised gain on revaluation attributable to the Group prior to SCA becoming an associate was HK$1,727,000 (2002: HK$685,000), which is reflected in the Group's consolidated income statement for the year.

16. INTANGIBLE ASSETS

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Patents acquired		
Cost at 1st January and 31st December	**12,464**	12,464
Accumulated amortisation		
At 1st January	**12,464**	9,968
Charge for the year	**–**	2,496
At 31st December	**12,464**	12,464
Net book value	**–**	–

Notes on the Financial Statements *(Continued)*

17. CURRENT INVESTMENTS

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Trading securities – at market value		
Equity securities listed in Hong Kong	**144**	158

18. INVENTORIES

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Raw materials	**32,072**	47,583
Work in progress	**5,395**	6,917
Finished goods	**106,671**	104,406
	144,138	158,906

The amount of inventories (included above) carried at net realisable value is HK$11,651,000 (2002: HK$937,000). In addition, finished goods inventories are stated net of a general provision of HK$4,180,000 (2002: HK$2,180,000) made in order to state those inventories at the lower of cost and estimated net realisable value.

Finished goods inventories of HK97,464,000 (2002: HK$52,265,000) were pledged to banks to secure banking facilities granted to the Group. See Note 23.

19. PROPERTIES HELD FOR RESALE

During 2002, certain land held for resale was sold for cash consideration of RMB30,000,000 and residential units in the PRC initially valued at RMB5,000,000. These residential units are included in "properties held for resale" as at 31st December, 2002 and 2003. There was no gain or loss on the sale.

20. TRADE AND OTHER RECEIVABLES

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Debtors and prepayments	**71,860**	72,304
Amount due from a related party	**–**	300
	71,860	72,604

The amount due from a related party is unsecured, interest free and has no fixed repayment terms. During the year, the Group has made full provision against the amount due from this related party.

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

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

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Current	**50,584**	55,741
1 to 3 months overdue	**10,530**	7,147
More than 3 months overdue but less than 12 months overdue	**2,344**	922
More than 12 months overdue	**774**	490
	64,232	64,300

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.

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts due to directors	**12,160**	11,392	**–**	–
Amounts due to shareholders	**2,174**	1,648	**–**	–
Amounts due to related companies	**3,355**	799	**–**	–
Amounts due to related parties	**2,130**	2,130	**–**	–
Creditors and accrued charges	**61,940**	46,603	**660**	580
Rental deposits	**1,778**	5,421	**–**	–
Amounts due to subsidiaries	**–**	–	**365,908**	330,318
	83,537	67,993	**366,568**	330,898

Amounts due to directors and amounts due to shareholders represent interest on advances from them included under non-current interest-bearing borrowings (Note 22) and are repayable semi-annually or monthly.

Amounts due to related companies and related parties are unsecured, interest free and have no fixed term of repayments.

All trade and other payables are expected to be settled within one year.

Included in creditors and accrued charges are trade creditors with the following ageing analysis:

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Due within 1 month or on demand	**14,219**	8,718
Due after 1 month but within 3 months	**6,909**	3,458
Due after 3 months but within 6 months	**383**	735
Due after 6 months but within 12 months	**833**	64
	22,344	12,975

22. NON-CURRENT INTEREST-BEARING BORROWINGS

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Bank loans *(Note 23)*	**39,273**	57,875
Advances from directors	**75,573**	68,554
Advances from shareholders	**47,206**	47,206
Amounts due to related companies	**5,155**	5,155
Amount due to a related party	**151**	151
	167,358	178,941

Amounts due to directors, shareholders, related companies and related party are unsecured, interest bearing at 3% or prime less 0.5% to prime plus 0.5% and repayable after 31st December, 2004.

23. BANK LOANS AND OVERDRAFTS

At 31st December, 2003, bank loans and overdrafts were repayable as follows:

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Within 1 year or on demand	**210,299**	219,941
After 1 year but within 2 years	**13,389**	18,440
After 2 years but within 5 years	**20,328**	33,858
After 5 years	**5,556**	5,577
	39,273	57,875
	249,572	277,816

23. BANK LOANS AND OVERDRAFTS *(Continued)*

At 31st December, 2003, bank loans and overdrafts were secured as follows:

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Bank overdrafts		
– secured	**46,489**	36,086
– unsecured	**13,775**	17,557
	60,264	53,643
Bank loans		
– secured	**144,216**	197,459
– unsecured	**45,092**	26,714
	189,308	224,173
	249,572	277,816

At 31st December, 2003, certain investment properties, leasehold land and buildings and other assets of the Group with net book value of HK$621,170,000 (2002: HK$502,108,000) were mortgaged to various banks to secure banking facilities granted to the Group. Details are as follows:

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Investment properties	**402,801**	395,781
Land and buildings	**25,712**	25,363
Inventories	**97,464**	52,265
Other assets	**95,193**	28,699
	621,170	502,108

24. OBLIGATIONS UNDER FINANCE LEASES

At 31st December, 2003, the Group had obligations under finance leases repayable as follows:

	2003			2002		
	Present value of minimum lease payments	**Interest expense relating to future periods**	**Total minimum lease payments**	Present value of minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	**6,019**	**162**	**6,181**	5,871	502	6,373
After 1 year but within 2 years	**1,163**	**10**	**1,173**	6,022	211	6,233
After 2 years but within 5 years	**–**	**–**	**–**	1,171	12	1,183
	1,163	**10**	**1,173**	7,193	223	7,416
	7,182	**172**	**7,354**	13,064	725	13,789

25. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	**963**	1,135
Provisional Profits Tax paid	**(932)**	(525)
	31	610
Overseas taxation payable	**5,798**	4,336
	5,829	4,946
Representing:		
Tax recoverable	**(2,978)**	(3,191)
Tax payable	**8,807**	8,137
	5,829	4,946

Notes on the Financial Statements *(Continued)*

25. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Depreciation allowance in excess of related depreciation	Revaluation of properties	Revaluation of other securities	Investments in partnership /associates	Provisions and allowances	Future benefit of tax losses	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2002								
– as previously reported	10	–	–	–	(1,263)	(1,873)	(2,682)	(5,808)
– prior period adjustments	1,675	9,953	13,895	–	–	–	(1,513)	24,010
– as restated	1,685	9,953	13,895	–	(1,263)	(1,873)	(4,195)	18,202
Charged/(credited) to consolidated income statement	(281)	391	274	(959)	(617)	939	2,112	1,859
Charged to reserves *(Note 27)*	45	–	–	–	–	–	–	45
Exchange difference	7	–	–	–	–	(2)	–	5
At 31st December, 2002 (restated)	1,456	10,344	14,169	(959)	(1,880)	(936)	(2,083)	20,111
At 1st January, 2003								
– as previously reported	**70**	**–**	**–**	**(959)**	**(1,880)**	**(936)**	**(25)**	**(3,730)**
– prior period adjustments	**1,386**	**10,344**	**14,169**	**–**	**–**	**–**	**(2,058)**	**23,841**
– as restated	**1,456**	**10,344**	**14,169**	**(959)**	**(1,880)**	**(936)**	**(2,083)**	**20,111**
Charged/(credited) to consolidated income statement	**(415)**	**1,225**	**691**	**(1,068)**	**(759)**	**936**	**(2,976)**	**(2,366)**
Transfer	**–**	**–**	**(14,860)**	**14,860**	**–**	**–**	**–**	**–**
Charged to reserves *(Note 27)*	**206**	**–**	**–**	**–**	**–**	**–**	**–**	**206**
Exchange difference	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**1**
At 31st December, 2003	**1,248**	**11,569**	**–**	**12,833**	**(2,639)**	**–**	**(5,059)**	**17,952**

25. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

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

	The Group	
	2003	2002 Restated
	HK$'000	*HK$'000*
Net deferred tax asset recognised on the balance sheet	**(9,334)**	(5,856)
Net deferred tax liability recognised on the balance sheet	**27,286**	25,967
	17,952	20,111

(c) Deferred tax assets not recognised

The Group and the Company have tax losses of HK$158,427,000 (2002: HK$179,065,000) and $3,795,000 (2002: $3,306,000) which have not been recognised as deferred tax assets. The tax losses do not expire under current tax legislation in Hong Kong.

26. SHARE CAPITAL

	2003		2002	
	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 1st January and 31st December	**665,412**	**66,541**	665,412	66,541

Notes on the Financial Statements *(Continued)*

27. RESERVES

	The Group		The Company	
	2003	2002 Restated	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Investment properties revaluation reserve				
At 1st January				
– as previously reported	**13,264**	12,545	**–**	–
– prior year adjustment in respect of deferred tax *(Note 9)*	**(3,735)**	(3,690)	**–**	–
– as restated	**9,529**	8,855	**–**	–
Surplus arising on revaluation *(Note 11(b))*, net of deferred tax *(Note 25(b))* (2002: restated)	**8,189**	674	**–**	–
At 31st December	**17,718**	9,529	**–**	–
Exchange reserves				
At 1st January	**234**	(4,202)	**–**	–
Exchange translation differences on translation of financial statements of overseas subsidiaries	**4,810**	4,436	**–**	–
At 31st December	**5,044**	234	**–**	–
Contributed surplus				
At 1st January and 31st December	**169,994**	169,994	**175,594**	175,594
Capital reserve				
At 1st January	**10,816**	10,867	**9,347**	9,347
Write off of goodwill	**(1)**	(51)	**–**	–
At 31st December	**10,815**	10,816	**9,347**	9,347
Share premium				
At 1st January and 31st December	**109,942**	109,942	**109,942**	109,942
Revenue reserves				
At 1st January				
– as previously reported	**86,914**	126,570	**(161,863)**	(135,179)
– prior year adjustment in respect of deferred tax *(Note 9)*	**(20,106)**	(20,320)	**–**	–
– as restated	**66,808**	106,250	**(161,863)**	(135,179)
(Loss)/profit for the year (2002: restated)	**(5,330)**	(39,442)	**3,510**	(26,684)
At 31st December	**61,478**	66,808	**(158,353)**	(161,863)
Total reserves at 31st December	**374,991**	367,323	**136,530**	133,020

27. RESERVES *(Continued)*

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

	The Group			
	Exchange reserves		**Revenue reserves**	
	2003	2002	**2003**	2002 Restated
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By the Company and its subsidiaries	**5,021**	(716)	**129,034**	124,723
By associates	**23**	950	**9,887**	19,528
By a jointly controlled entity	**–**	–	**(77,443)**	(77,443)
Total at 31st December	**5,044**	234	**61,478**	66,808

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

The capital reserve, contributed surplus, exchange reserves and investment properties revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill/discount arising on subsidiaries, associates and jointly controlled entities, foreign currency translation and the revaluation of investment properties (Note 1).

The Company's reserves available for distribution to shareholders at 31st December, 2003 are as follows:

	The Company	
	2003	2002
	HK$'000	*HK$'000*
Contributed surplus	**175,594**	175,594
Revenue reserves	**(158,353)**	(161,863)
	17,241	13,731

28. COMMITMENTS

(a) Capital commitments outstanding at 31st December, 2003 not provided for in the financial statements were as follows:

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Contracted for	**159**	449

At 31st December, 2003 and 2002, the Company did not have any capital commitments.

(b) At 31st December, 2003, the total future lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	Land and buildings		Others	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**11,691**	4,298	**124**	212
After 1 year but within 5 years	**6,760**	4,756	**294**	423
After 5 years	**–**	296	**–**	–
	18,451	9,350	**418**	635

At 31st December, 2003 and 2002, the Company did not have any commitments under operating leases.

The Group leases a number of properties and 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.

29. CONTINGENT LIABILITIES

At 31st December, 2003, there were contingent liabilities in respect of the following:

(a) The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK$449,798,000 (2002: HK$416,898,000).

(b) The Company has issued letters of support in connection with certain wholly owned subsidiaries with deficiencies in shareholders' funds of HK$198,006,000 (2002: HK$179,509,000) as at 31st December, 2003.

(c) Litigation

(i) Around May 2003, a Group company was bought into litigation with a supplier of resin materials. The supplier has taken action against the Group company for settlement of a trading debt amounting to HK$643,980. However, the Group company has counter claimed for US$590,000 as the resin materials supplied did not meet the required specifications. The directors believed the Group will not suffer any material loss as a result of these claims.

(ii) During the last quarter of 2003, a Mexican company commenced a law suit in the State of Arizona against the Company based on their claims 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 ("Litigation"). Sinomex was a member company of the Group that was disposed in mid 1996. The plaintiffs allege claims against Sinomex and the Company of approximately US$5,000,000 for unpaid obligations of Sinomex under the Lease Agreement.

In early January of 2004, the Company's legal counsel filed a Motion to Dismiss the complaint in the Litigation based upon the applicable law of Arizona and that of the location of the property, Hermosillo, Mexico. In that Motion, the Company argues that the Arizona court has insufficient 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 against the Company. Plaintiffs have not responded to the Company's Motion to dismiss as of this date.

Management having considered the Litigation with legal counsel to the Company, the Directors believe that the Company's Motion to Dismiss plaintiffs' complaint is meritorious, and that the Company has valid defenses to the claims of the plaintiffs. As such, the Company intends to vigorously defend the matter. On that basis, the Company has not made provision in relation to this claim.

30. EMPLOYEE RETIREMENT BENEFITS

In Hong Kong, the Group has a defined contribution pension scheme ("ORSO scheme") for all qualifying employees. Effective from 1st December, 2000, all Hong Kong based employees are also covered under a Mandatory Provident Fund ("MPF") scheme, and the existing ORSO scheme has been 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 are varied 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. At the balance sheet date, the total amount of forfeited contributions which are available to reduce the contributions payable in the future years was HK$Nil (2002: HK$ Nil).

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

Employees in 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.

31. MATERIAL RELATED PARTY TRANSACTIONS

(a) 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 under the same terms as those available to other customers in the ordinary course of business. Total purchases from the supplier amounted to HK$6,486,000 (2002: HK$5,944,000) during the year. The amount due to the supplier at the year end amounted to HK$1,325,000 (2002: HK$224,000).

(b) During the year, the Group had net interests in certain associates and certain investments amounting to HK$177,459,000 (2002: HK$86,607,000) and HK$Nil (2002: HK$77,620,000) respectively in which a director of the Company has beneficial interests. The investment became an associate during the year and further details are given in Notes 13 and 15 on the financial statements.

(c) 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 Notes 4, 21 and 22 on the financial statements.

(d) During the year, the Group has provided funding to a related party. Details of the terms of the advances and the balance outstanding are disclosed in Note 20 on the financial statements.

(e) The Group has provided funding to associates. Details of the balance outstanding are disclosed in Note 13 on the financial statements.

(f) In 1998, the Group agreed to pay HK$12,464,000 to a company controlled by a director and shareholders of the Company for obtaining the licence to use certain technologies and know-how for the manufacture and sale of car battery products according to an agreement signed in 1996. As at 31st December, 2002, this related company waived the outstanding balance of HK$4,056,000 due by the Group. Thus, the income from waiver of amount due to related company of HK$4,056,000 was taken up by the Group during the year of 2002.

32. COMPARATIVE FIGURES

Certain comparative figures have also been adjusted as a result of change in accounting policy for deferred taxation, details of which are set out in Note 9.

Principal Subsidiaries

At 31st December, 2003

Name	Place/ country of incorporation	Place/ country of operation	Issued and fully paid up share capital (all being ordinary shares except otherwise stated)	Principal activities	Proportion of ownership interest held by Company	Proportion of ownership interest held by Subsidiaries
Bachmann Asia Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	Agent for sale of toys	100%	–
Bachmann (China) Limited	Hong Kong	China	10,000 shares of HK$1 each	Marketing and distribution	–	100%
Bachmann Europe Plc	UK	UK	2,050,000 shares of £1 each	Marketing and distribution	100%	–
* Bachmann Industries, Inc.	USA	USA	4,010,100 shares of US$1 each	Marketing and distribution	–	100%
* Bachmann International Trading (Shanghai) Company Limited *(Note)*	China	China	Registered capital US$500,000	Marketing and distribution	–	100%
Bridge Duke Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Bridge Shine Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Deltahill Company Limited	Hong Kong	Hong Kong	100 shares of HK$1 each 1,001,000 non-voting deferred shares of HK$1 each	Property investment	–	100%
* Dongguan Kader Electronics Company Limited *(Note)*	China	China	Registered capital HK$10,000,000	Manufacture of toys	–	70%
* Emission Test Cell Company Limited	Hong Kong	Hong Kong	4,000 shares of HK$1 each	Car testing services	–	86%
Express Tech Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Extend Charm Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
* GHI, Inc.	USA	USA	1,000 shares of US$1 each	Investment holding	–	100%
Grafar Limited	UK	UK	5,000 shares of £1 each	Manufacture and sale of model trains	–	100%

Principal Subsidiaries *(Continued)*

At 31st December, 2003

Name	Place/ country of incorporation	Place/ country of operation	Issued and fully paid up share capital (all being ordinary shares except otherwise stated)	Principal activities	Proportion of ownership interest held by Company	Proportion of ownership interest held by Subsidiaries
Graham Farish Limited	UK	UK	4,439 shares of £1 each	Investment holding	–	100%
Great Hope Investments Limited	British Virgin Islands	British Virgin Islands	1 share of US$1 each	Investment holding	100%	–
Intertrans 148 Limited	UK	UK	2 shares of £1 each	Development of model trains	–	100%
Joy Gain Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Kader Enterprises Limited	Hong Kong	China	1,500,000 shares of HK$10 each	Property investment	–	100%
Kader Industrial Company Limited	Hong Kong	Hong Kong	412,532,000 shares of HK$0.5 each	Manufacture of toys and property investment	100%	–
Nice Cheer Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Noble Fine Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Starrex Investment Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	Investment holding	–	100%
Sun Marsh Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
* Tentdraft Holdings Limited	British Virgin Islands	British Virgin Islands	25,000 shares of US$1 each	Property investment	–	100%
Tinco Toys Company Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	Investment holding and manufacture of soft toys	–	100%

Note: The form of business structure of Bachmann International Trading (Shanghai) Company Limited and Dongguan Kader Electronics Company Limited is wholly foreign owned enterprise and cooperative joint venture respectively.

* *Companies not audited by the primary auditors. The total net assets and turnover of these companies constitute approximately 19.2% and 25.7% respectively of the Group totals.*

Major Properties

Details of the major properties of the Group are as follows:

	Location	Existing use	Term of lease
1.	The whole building 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong.	Industrial	Medium-term
2.	Huajian Standard Industrial Block No.1, Xinghua Road, CMSN Shekou Industrial Zone, Shekou, Nan Shan District, Shenzhen, Guangdong, The People's Republic of China.	Industrial	Short-term
3.	Suite Nos 403, 404, 503, 704, 1905, 2005, 2006, 2206, 2804, 3004 and 3101, No. 1238 Melville Street, Vancouver, B.C., Canada.	Residential	Freehold
4.	Workshop No. A15 on 9th floor, Block A, Tonic Industrial Centre, 26 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong.	Industrial	Medium-term
5.	Whole of Level 16 of China Merchants Tower, 161 Lujiazui Dong Lu, Lujiazui Finance & Trade Zone, Pudong, Shanghai, The People's Republic of China.	Commercial	Medium-term
6.	Flat B on first floor, No. 53 Caperidge Drive, Crestmont Villa, Peninsula Village, Discovery Bay City, Lantau Island, Hong Kong.	Residential	Medium-term
7.	House 29,31 & 32 Bauhinia Court, New Centruy Lijiang Villas, Phase II, Guanlong Road, Jingshan Section, Chashan Town, Dongguan City, Guangdong Province, The People's Republic of China.	Residential	Medium-term

Five Year Summary

	1999	2000	2001	2002	**2003**
				Restated	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
CONSOLIDATED INCOME STATEMENT					
Turnover	346,739	319,966	430,637	353,049	**495,325**
Profit from operations	29,847	1,781	23,365	5,230	**26,983**
Finance costs	(30,091)	(34,611)	(31,390)	(19,959)	**(16,731)**
Share of (loss)/profit of associates	(3,879)	39,627	(2,035)	(13,979)	**(9,373)**
Profit/(loss) from ordinary activities before taxation	(4,123)	6,797	(10,060)	(28,708)	**879**
Income tax *(Note 1)*	(2,610)	(1,765)	(14,779)	(10,734)	**(6,209)**
Profit/(loss) from ordinary activities after taxation	(6,733)	5,032	(24,839)	(39,442)	**(5,330)**
Minority interests	300	–	–	–	**–**
Profit/(loss) attributable to shareholders	(6,433)	5,032	(24,839)	(39,442)	**(5,330)**
EARNINGS/(LOSS) PER SHARE	(1.0¢)	0.76¢	(3.73¢)	(5.93¢)	**(0.80¢)**
DIVIDEND PER SHARE	Nil	Nil	Nil	Nil	**Nil**

Five Year Summary *(Continued)*

	1999	2000	2001	2002	**2003**
				Restated	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
CONSOLIDATED BALANCE SHEET					
Fixed assets	509,982	505,988	525,732	520,740	**525,336**
Interest in associates	146,160	186,329	94,928	88,817	**171,552**
Interest in a jointly controlled entity	–	–	–	–	**–**
Other non-current financial assets	66,561	93,179	94,948	88,718	**1,734**
Other non-current assets	7,675	4,992	2,496	5,856	**9,334**
Net current assets/(liabilities)	454	(18,078)	(64,602)	(53,321)	**(63,074)**
Total assets less current liabilities	730,832	772,410	653,502	650,810	**644,882**
Non-current liabilities	(213,164)	(265,103)	(161,245)	(216,946)	**(203,350)**
Minority interests	–	–	–	–	**–**
	517,668	507,307	492,257	433,864	**441,532**
Share capital	65,721	66,508	66,541	66,541	**66,541**
Reserves	451,947	440,799	425,716	367,323	**374,991**
	517,668	507,307	492,257	433,864	**441,532**

Note:

1. In order to comply with Hong Kong Statement of Standard Accounting Practice 12 (revised) "Income taxes", the Group adopted a new policy for deferred tax in 2003. Figures for the year 2002 have been adjusted, however it is not practicable to restate earlier years for comparison purposes.