# KADER HOLDINGS COMPANY LIMITED

(Stock Code : 180)

ANNUAL REPORT 2006

# Contents

# Corporate Information

BOARD OF DIRECTORS
**Executive Directors:**
Kenneth Ting Woo-shou *SBS, JP (Managing Director)*
Ivan Ting Tien-li

**Non-executive Directors:**
Dennis Ting Hok-shou *OBE, JP (Chairman)*
Moses Cheng Mo-chi *GBS, OBE, JP*

**Independent Non-executive Directors:**
Liu Chee-ming
Floyd Chan Tsoi-yin
Andrew Yao Cho-fai

COMPANY SECRETARY
Tang Yu-ming

AUDIT COMMITTEE
Liu Chee-ming *(Chairman)*
*(Independent Non-executive Director)*
Moses Cheng Mo-chi
*(Non-executive Director)*
Floyd Chan Tsoi-yin
*(Independent Non-executive Director)*
Andrew Yao Cho-fai
*(Independent Non-executive Director)*

REMUNERATION COMMITTEE
Kenneth Ting Woo-shou *(Chairman)*
*(Executive Director)*
Floyd Chan Tsoi-yin
*(Independent Non-executive Director)*
Andrew Yao Cho-fai
*(Independent Non-executive Director)*

AUTHORISED REPRESENTATIVES
Kenneth Ting Woo-shou
Ivan Ting Tien-li

QUALIFIED ACCOUNTANT
Tang Yu-ming

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
Chong Hing Bank Limited
Citic Ka Wah Bank Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
KBC Bank N.V.

INDEPENDENT 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
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

# 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 2006.

On behalf of the Board of Directors of the Company, I am pleased to report that the profit attributable to shareholders for the year ended 31st December 2006 was approximately HK$29.97 million, representing a decrease of 62.70% over last year's figure of HK$80.35 million. The Group's turnover for the year ended 31st December 2006 was approximately HK$643.22 million, representing an increase of 19.16% over that reported last year.

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

The Directors recommend the payment of a final dividend of HK1.5 cents per share for the year ended 31st December 2006 (2005: Nil) to those shareholders whose names appear on the register of members of the Company on 7th June 2007. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting.

2006 continued to be a challenging year. Both global and local economies were promising. Nonetheless, most toys manufacturers, in particular whose production facilities were in Mainland China, were experiencing tough impact of the drastic increase in statutory minimum wages in the Guangdong province. This impact has been further accelerated by the appreciation of Renminbi Yuan and the spiralling raw material costs. At the same time, keen competition in the toys business has constrained the manufacturers to lift prices. Accordingly, the burden of increased costs had to be absorbed at the manufacturers' side and the profit margin had been reduced.

Without exception, being a leading player in the toys industry, the Group was facing all these harsh operating conditions. Nonetheless, to combat this challenge, the Group was undertaking a series of measures to improve the operational efficiency. The Group has also followed its strategy of producing high quality toys with competitive pricing, aiming to expand its market share and widen its customer base. Eventually, the Group succeeded in obtaining various new bulk orders and the sales turnover in respect of the toys and model trains business for 2006 increased substantially by 19.89%, especially in respect of the ODM business. The improvement in sales volume overcame the impact on the profit margin cut, and enabled the Group to achieve good performance even under such harsh conditions.

Looking ahead, although the growth in the global economy has healthily decelerated, the outlook for year 2007 is still promising. Given the encouraging growth in the toys market in emerging countries, despite the expectation that manufacturing costs will continue to rise, the Group remains cautiously optimistic in its ability to sustain a steady growth in its toys business. The Group will endeavour to seek opportunities in bringing positive returns to shareholders.

On behalf of the Board of Directors, I would like to take this opportunity to express my appreciation to all employees who devoted themselves to the Group during the past year. Their contributions are recognised and they are the most valuable assets to the Group. In addition, I would also like to extend our gratitude to our customers, suppliers, business partners and shareholders for their continuous support to the Group.

**Dennis Ting Hok-shou**
*Chairman*

Hong Kong, 23rd April 2007

# Management Discussion and Analysis

## RESULTS

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

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

## BUSINESS REVIEW

**Toys**

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

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

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

**Model Trains**

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

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

# Management Discussion and Analysis *(Continued)*

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

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

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

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

The Group is committed to maintaining its competitiveness in terms of productivity, quality, reliability and delivery. Efforts have also been placed in enhancing safety precautions and quality control. Safety standards, regulations and code of practices are the Group's major concern. The Group is always adhering to the Code of Business Practice of the International Council of Toy Industries ("ICTI") and has passed and satisfied the ICTI audit, namely, the ICTI CARE Process.

**Property Investment**

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

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

# Management Discussion and Analysis *(Continued)*

**Investment in Associates**

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

## FINANCIAL REVIEW

**Liquidity and Financial Resources**

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

**Capital Structure**

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

### Charges on Group Assets

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

### Material Acquisitions and Disposals

There are no material acquisitions and disposals during the year ended 31st December 2006.

Subsequent to the balance sheet date, on 12th March 2007, a subsidiary of the Company, Bachmann Industries Inc., acquired a 16.5% interest in The Robot Factory, LLC ("Robotgalaxy") in the United States for cash consideration of approximately HK$7.80 million. An additional HK$7.80 million was invested in Robotgalaxy via a convertible note issued by Robotgalaxy to the Group. Robotgalaxy is principally engaged in the sale of toys.

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

### Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated in Hong Kong Dollars, United States Dollars, Sterling Pounds, Renminbi Yuan and Canadian Dollars. During the period under review, the majority of the Group's sales revenues were denominated in Hong Kong Dollars, United States Dollars and Sterling Pounds while the majority of its raw materials and equipment purchases were settled in Hong Kong Dollars. As such, the Group was facing a certain degree of exchange risk; mainly arising from Sterling Pounds denominated sales transactions of which the exchange rate volatility is relatively high. Meanwhile, forward contracts were arranged and the exchange risk in this respect was substantially covered.

# Management Discussion and Analysis *(Continued)*

**Contingent Liabilities**

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

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

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

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

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

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

## EMPLOYEES AND REMUNERATION POLICIES

As at 31st December 2006, the Group employed approximately 6,646 (2005: 6,960) full time management, administrative and production staff in Hong Kong SAR, Mainland China, the United States and Europe. The Group had seasonal fluctuation in the number of workers employed in its production plant while the number of other management and administrative staff remained stable. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In the area of staff training, the Group encourages staff to participate in courses on technical skills improvement and personal development.

## PROSPECTS

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

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

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

Hong Kong, 23rd April 2007

# Corporate Governance Report

The Board regularly reviews and adopts corporate governance guidelines and developments. Throughout the year under review, the Group has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except the CG Code A.4.2, that requires every director, including those appointed for a specific term, to be subject to retirement by rotation at least once every three years. Steps are being taken to amend the bye-laws of the Company with a view to ensuring full compliance with the requirements of this CG Code. One of the major steps required is to amend or repeal The Kader Holdings Company Limited Company Act 1990 of Bermuda, which is a private Act pursuant to which the Company was incorporated. The Company has retained a firm of legal advisers in Bermuda to advise on and undertake this exercise. The required documents are ready and scheduled for submission to the Legislature in Bermuda in early May 2007.

The corporate governance practices adopted by the Group are as follows:–

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the directors' securities transactions. All of the Directors have confirmed, following specific enquiry by the Company, that they were in compliance with the Model Code throughout the year under review.

## BOARD OF DIRECTORS

The Board comprises two executive directors (one of whom is the Managing Director), two non-executive directors (one of whom is the Chairman of the Board) and three independent non-executive directors ("INEDs"). The biographical details of all directors of the Company, including the relationship amongst them, are set out on pages 21 to 23 of the annual report.

All non-executive directors are engaged on a term of service of two years renewable for another two years upon expiry. The Board believes the non-executive directors are well qualified and competent in advising the Group on the business strategy, finance and management issues.

The INEDs are explicitly identified in all corporate communications, and one of them has significant financial and accounting expertise. Moreover, the Board also reviews the independence of INEDs on an annual basis and each INED has confirmed their independence as at the end of 2006.

As mentioned above, the Company has taken steps to amend the bye-laws of the Company with a view to ensuring full compliance with the requirements of CG Code A.4.2. Upon the completion of the amendment of the bye-laws, all directors are subject to re-election by shareholders at the annual general meeting following their appointment and at least every three years on a rotational basis. Where vacancies exist at the Board, candidates are proposed and put forward to the Board for consideration and approval. Upon their appointment, the new directors receive a package of orientation materials and attend extensive presentations given by senior executives to review the Group's businesses. Training and information are provided to directors regularly to help and ensure that the directors are aware of the latest changes in the commercial and regulatory environment in which the Group carries out its businesses.

As from January 2006, an insurance policy on directors' and officers' liability was in force to ensure our directors and senior management are protected from any liability arising from the performance of their duties.

## THE BOARD AND THE MANAGEMENT

The functions normally reserved to the Board are steering the Group on strategic directions; setting up any Board committee for issues the Board deem appropriate; overseeing the effectiveness of the internal control system; evaluating major corporate, strategic and operational issues that have significant impact on the Group; and evaluating major investment opportunities which management has not already identified and/or, if the investment is so major, requires the Board to make a decision.

The management, led by the Managing Director, is responsible for the management and day-to-day operation of the Group.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group. The directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and all applicable disclosure provisions of the Listing Rules. The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has a clear division of responsibilities for its top management and adopts a dual leadership structure where the role of Chairman, Dr. Dennis Ting Hok-shou is separate from that of Chief Executive Officer and Managing Director, Mr. Kenneth Ting Woo-shou. The Chairman is responsible for managing the operations of the Board and to provide leadership for the Board, ensuring that good corporate governance practices and procedures are established and that the Board acts in the best interests of the Company. The Chief Executive Officer is responsible for the running of the Group's business. Dr. Dennis Ting Hok-shou and Mr. Kenneth Ting Woo-shou are brothers.

# Corporate Governance Report *(Continued)*



## COMMUNICATION BETWEEN THE BOARD AND THE MANAGEMENT

The Board meets regularly, and at least four times a year. Between scheduled meetings, senior management of the Group provide to the directors information on a timely basis on the activities and development in the businesses of the Group and when required, additional Board meetings are held. In addition, directors have full access to information on the Group and independent professional advice whenever deemed necessary by the directors. The Company Secretary is responsible for communications with Board members.

## MEETINGS AND ATTENDANCES

The Board held four meetings in 2006 with an average attendance rate of approximately 71%. Those absent directors were out of town or engaged in other meetings, thus they were not available to attend the respective board of directors meetings. In the meantime, they had rendered their views and comments to the Chairman and management prior to the meetings being held.

| Name of Directors | Title | Attendance |
|---|---|---|
| Dennis Ting Hok-shou | Non-executive Chairman | 2/4 |
| Kenneth Ting Woo-shou | Managing Director | 4/4 |
| Ivan Ting Tien-li | Executive Director | 4/4 |
| Moses Cheng Mo-chi | Non-executive Director | 1/4 |
| Liu Chee-ming | Independent Non-executive Director | 3/4 |
| Floyd Chan Tsoi-yin | Independent Non-executive Director | 4/4 |
| Andrew Yao Cho-fai | Independent Non-executive Director | 2/4 |

## REMUNERATION COMMITTEE

The Remuneration Committee was established in 2005 with written Terms of Reference posted on the Company's website. The role and function of the Committee is to make recommendations to the Board on the Company's policy and structure for the remuneration of all directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

Currently, the Remuneration Committee is chaired by Mr. Kenneth Ting Woo-shou. Other members of the Committee are Messrs Floyd Chan Tsoi-yin and Andrew Yao Cho-fai.

The Remuneration Committee met once in 2006 to review and approve directors' remuneration. A full attendance was recorded for the meeting held.

The directors' fees paid to the non-executive directors and the independent non-executive directors are subject to annual review and approval by the Remuneration Committee. Before proposing remuneration packages, the Remuneration Committee is responsible for reviewing all relevant remuneration data and market conditions in addition to considering the performance and responsibility of individual directors as well as the profitability of the Group. The primary objective is to retain and motivate directors by linking their compensation with performance and measure it against corporate goals. However, no director can approve his or her own remuneration.

The emoluments of each of the directors of the Company for 2006 are set out in note 7 to the financial statements.

## NOMINATION OF DIRECTORS

Since the composition of board of directors of the Company is not complicated, during the Board Meeting held on 12th April 2005, the Board resolved that "the setting up of a Nomination Committee be postponed and considered by the Board in due course". Currently, there is no Nomination Committee being formed.

Where vacancies exist at the Board or additional director is deemed necessary, the Managing Director is invited to make recommendations to the Board based on criteria endorsed by the Board. The criteria include relevant professional knowledge, proven financial and commercial experience, and personal ethics, of which the Board should consider the appropriateness. Candidates so proposed are then put forward to the Board for consideration and approval.

During the year under review, Mr. Patrick Leung Shing-cheung resigned as Executive Director of the Company, effective 4th April 2006. With the recommendation made by the Managing Director, an INED, Mr. Liu Chee-ming, nominated Mr. Ivan Ting Tien-li to join the Board as Executive Director and accordingly, Mr. Ivan Ting Tien-li was appointed as Executive Director of the Company, effective 4th April 2006. Mr. Ivan Ting Tien-li is the son of Mr. Kenneth Ting Woo-shou and the nephew of Dr. Dennis Ting Hok-shou.

## AUDITORS' REMUNERATION

Each year, the auditors are appointed in the Annual General Meeting ("AGM") and in the AGM held on 6th June 2006, directors were authorised to fix the auditors' remunerations for the auditing services rendered.

The fees for audit and audit related services provided by the Group's auditors, KPMG, for the year ended 31st December 2006 amounted to HK$1,626,000. In addition, certain subsidiaries were audited by other auditors for the year ended 31st December 2006 and the fees amounted to HK$403,000.

Save as disclosed above, the auditors have not so far performed any significant non-auditing service. Should any non-auditing service be considered to be conducted by our auditors, the Audit Committee would consider that based on the policy developed by them in this regard and would then make recommendations to the Board.

# Corporate Governance Report *(Continued)*

## AUDIT COMMITTEE

The Audit Committee was established in 1999. The respective written Terms of Reference are posted on the Company's website.

The Audit Committee comprises three INEDs and one non-executive director. All committee members have appropriate industry and/or financial experience to perform their role in the business of the Audit Committee. Currently, the Committee is chaired by Mr. Liu Chee-ming and the other members of the Committee are Messrs Moses Cheng Mo-chi, Floyd Chan Tsoi-yin and Andrew Yao Cho-fai.

Under its Terms of Reference, the duties of the Audit Committee, amongst other things, shall be to oversee the relationship with the external auditors, to be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, to consider any questions of resignation or dismissal of that auditor, and to review with senior management and external auditors on the accounting principles and practices adopted, listing rules and statutory compliances, internal control, related party transactions, risk management and financial reporting matters, including interim and annual financial statements and provide recommendations to the Board.

During the year under review, the Audit Committee has met with the management to review the interim and annual financial statements and to consider key accounting policies, and discussed with management the Group's internal controls, auditing and financial reporting matters.

There were two Audit Committee meetings held in 2006, with an average attendance rate of approximately 75%. The absent director was out of town and was not available to attend the meetings. In the meantime, he had rendered his views and comments to the chairman of the Committee prior to the meetings being held.

| **Name of Audit Committee Members** | **Title** | **Attendance** |
|---|---|---|
| Liu Chee-ming | Chairman | 2/2 |
| Moses Cheng Mo-chi | Committee Member | 0/2 |
| Floyd Chan Tsoi-yin | Committee Member | 2/2 |
| Andrew Yao Cho-fai | Committee Member | 2/2 |

In discharging their responsibilities in their review of the Group's financial results, and their other duties, the audit committee members would monitor the integrity of management in preparing the financial statements, and review significant financial reporting judgments contained in the financial statements. In this regard, in reviewing the financial statements in the annual report and the interim report, before submission to the Board, the Audit Committee always focus particularly on:

1. Any changes in accounting policies and practices;

2. Major judgmental areas;

3. Significant adjustments resulting from audit;

4. The going concern assumptions and any qualifications;

5. Compliance with accounting standards;

6. Compliance with the Listing Rules and other legal requirements in relation to financial reporting; and

7. Any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by senior management.

The Audit Committee would also discuss problems and reservations arising from the audit work performed, and any matters the auditors may wish to discuss (in the absence of management where necessary).

In discharging their responsibilities on internal control procedures, the Audit Committee has asked for formal internal control system on Compliance, Operational Control, Financial Control, and Risk Management be set up in writing and, at the appropriate time, would:–

1. Review the financial controls, internal control and risk management systems;

2. Discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

3. Consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

4. Review the draft representation letter prior to approval by the Board;

5. Review the external auditor's management letter and management's response, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

6. Ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and

7. Report to the Board on these matters as deemed appropriate.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and for the assessment and management of risk.

# Corporate Governance Report *(Continued)*

In meeting its responsibility the Board seeks to increase risk awareness across the Group's business operations and has put in place policies and procedures, including the parameters of delegated authority, which provide a framework for the identification and management of risk.

The Company has not appointed an internal auditor. Meanwhile, clear policies and procedures are well defined in written internal control manuals on compliance, operational control, financial control and risk management. The written internal control manuals had been tabled before and acknowledged by the Board. The policies and processes adopted for the implementation of risk management are monitored and reviewed regularly by appropriate senior management so as to ensure that the above-mentioned categories of risks are effectively managed.

The executive management team of each core business division is accountable for the conduct and performance of each business in the division within the agreed strategies. Business plans and budgets are prepared annually by management of individual businesses and subject to review and approval by the executive directors. The Executive Director and senior management are responsible for monitoring activities include the review and approval of business strategies, budgets, and plans, and the setting of key business performance targets. When setting budgets and forecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks. These are regularly reported to the Board at its regular meetings. The Board has, in compliance with the guidelines of the Code on Corporate Governance, commenced a comprehensive review on the effectiveness of the system of internal control, and the Operational and Internal Control Manuals of the Company, and is in the course of engaging professionals from a consulting firm to assist the Audit Committee in undertaking such review. The Board is not aware of any deficiency or major issue of concern in the internal control system of the Company.

Periodical management and operational meetings were held with executive management teams and senior management of business operations to review business performance against budgets and forecasts.

Currently, appropriate insurance coverage has been arranged to mininise the financial impact of risks that may be encountered.

## INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

To promote investor relations and communications, regular meetings are held when the interim and annual financial results are announced. Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. The Chairman and directors are available to answer questions on the Group's businesses at the meeting. All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda items for consideration by shareholders. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded.

The Board is committed to providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. In addition to dispatching circulars, notices, financial reports to shareholders, additional information is also available to shareholders from the Group's website at www.kaderholdings.com.

As at 31st December 2006, the Company had 665,411,594 shares in issue, with par value of HK$0.10 each. Share interests of directors and the chief executives of the Company are disclosed on the Report of the Directors set out on pages 18 to 27 of the annual report.

# Report of the Directors

The Board of Directors (the "Directors") of the Company have pleasure in submitting their annual report together with the audited financial statements for the year ended 31st December 2006.

## PRINCIPAL ACTIVITIES

The Company is a company incorporated in Bermuda under the Bermuda Companies Act 1981 with limited liability. 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, and investment holding and trading.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries (the "Group") during the financial year are set out in note 12 to the financial statements.

## SUBSIDIARIES

Particulars of the Company's major subsidiaries at 31st December 2006 are set out on pages 92 and 93 of the annual report.

## DIVIDEND

The Directors recommend the payment of a final dividend of HK1.5 cents per share for the year ended 31st December 2006 (2005 : Nil) to those shareholders whose names appear on the register of members of the Company on 7th June 2007. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting.

## FINANCIAL STATEMENTS

The profit of the Group for the year ended 31st December 2006 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 30 to 93 of the annual report.

## TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK$29,972,000 (2005: HK$80,347,000) have been transferred to reserves. Other movements in reserves during the year are set out in note 28 to 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 95 and 96 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:

| | **2006** | 2005 |
|---|---|---|
| | **%** | % |
| Purchases | | |
| – the largest supplier | **5** | 9 |
| – five largest suppliers combined | **20** | 19 |
| Sales | | |
| – the largest customer | **26** | 18 |
| – five largest customers combined | **39** | 36 |

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$103,560 (2005: HK$81,000).

## FIXED ASSETS

Movements in fixed assets during the year are set out in note 13 to the financial statements.

# Report of the Directors *(Continued)*

## PROPERTIES

Particulars of the major properties of the Group are shown on page 94 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 2006 are set out in notes 22 to 25 to the financial statements.

## SHARE CAPITAL

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

## 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 2006.

## PRE-EMPTIVE RIGHTS

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

## DIRECTORS

The Board of Directors during the financial year were:

**Executive Directors:**
Kenneth Ting Woo-shou *(Managing Director)*
Ivan Ting Tien-li *(appointed on 4th April 2006)*
Patrick Leung Shing-cheung *(resigned on 4th April 2006)*

**Non-executive Directors:**
Dennis Ting Hok-shou *(Chairman)*
Moses Cheng Mo-chi

**Independent Non-executive Directors:**
Liu Chee-ming
Floyd Chan Tsoi-yin
Andrew Yao Cho-fai

The Company has received from each of its Independent Non-executive Directors ("INEDs") a confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers its INEDs to be independent. Members of the Board clearly understand their responsibilities and obligations. Four meetings of the Board were convened during the financial year to review the Group's management accounts, accounting procedures and internal control system, with the attendance of INEDs.

At the Annual General Meeting, Mr. Moses Cheng Mo-chi and Mr. Liu Chee-ming will retire by rotation in accordance with the Company's Bye-laws 109(A) and 189(ix), and being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

### Non-executive Chairman

**Dr. Dennis Ting Hok-shou, OBE, JP**, aged 73, 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 the brother of Mr. Kenneth Ting Woo-shou and uncle of Mr. Ivan Ting Tien-li.

### Managing Director

**Mr. Kenneth Ting Woo-shou, SBS, JP**, aged 64, 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 Chairman of the Federation of Hong Kong Industries, the Non-executive Director of the Mandatory Provident Fund Schemes Authority, the Chairman of the Vocational Training Council – Plastics Training Board, the President of the Hong Kong Plastics Manufacturers' Association Limited, 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 also serves as a member of a number of other trade organisations and public committees such as Hong Kong General Chamber of Commerce, Hong Kong Trade Development Council, Manpower Development Council, Economic and Employment Council, the Hong Kong Polytechnic University Court and the Hong Kong University of Science and Technology Court. He also serves as member of Jiangsu Provincial Committee of Chinese People's Political Consultative Conference and Guangdong Provincial Committee of the Chinese People's Political Consultative Conference (Yue Xiu District).

# Report of the Directors *(Continued)*

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

**Executive Director**

**Mr. Ivan Ting Tien-li** *(appointed on 4th April 2006)*, aged 32, holds a Bachelor's Degree in International Politics and Economics. He has been the Executive Director of Kader Industrial Company Limited, the major subsidiary of the Company since 1998. Apart from this, he also serves as director of certain other subsidiaries of the Company. Mr. Ting currently serves as the Vice Chairman of the Hong Kong Exporters' Association. He is also the Vice Chairman of Young Entrepreneurs' Organization - Hong Kong Chapter. He is the son of Mr. Kenneth Ting Woo-shou, the Managing Director and Chief Executive Officer of the Company, and the nephew of Dr. Dennis Ting Hok-shou, the Non-executive Chairman of the Company.

**Non-executive Director**

**Mr. Moses Cheng Mo-chi, GBS, OBE, JP**, aged 57, was appointed as an Independent Non-executive Director of the Company in March 1999, and was re-designated as Non-executive Director of the Company in September 2004.

Mr. Cheng is the senior partner of P. C. Woo & Co., a firm of solicitors and notaries in Hong Kong, and also one of the Company's solicitors. He is the Chairman of the Betting and Lotteries Commission and Deputy Chairman of the Council of the Hong Kong Academy for Performing Arts. He is also the Founder Chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Mr. Cheng served as a member of the Legislative Council of Hong Kong from 1991 to 1995 and Chairman of the Council and Court of the Hong Kong Baptist University between 1997 and 2006. Mr. Cheng also serves on the boards of various listed companies both as independent non-executive director and non-executive director.

**Independent Non-executive Directors**

**Mr. Liu Chee-ming**, aged 56, 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 is an independent non-executive director of Singapore listed companies, StarHub Limited and Robinson & Company Limited and Hong Kong listed company, L. K. Technology Holdings Limited. He is a non-executive director of Singapore listed company, Media Asia Entertainment Group Limited. In addition, he is also a director of Yantai Raffles Shipyard Limited, listed on the Oslo OTC Exchange. He has been a member of the Takeovers Appeal Committee and Takeovers and Mergers Panel of the Securities and Futures Commission in Hong Kong since May 1995.

**Mr. Floyd Chan Tsoi-yin**, aged 63, has been an Independent Non-executive Director of the Company since 30th September 2004. Mr. Chan is a member of the American Institute of Certified Public Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants. He has been a partner of BDO Seidman in the United States for many years. He is the Asia Pacific Regional Coordinator of BDO International and a member of BDO McCabe Lo Limited's executive committee in Hong Kong. He has significant experience in assisting clients in exploring business opportunities in the Asia Pacific region, particularly the Southeast Asian developing countries and the People's Republic of China. He is also closely involved with assisting clients in developing business in North America and Europe and avoiding some of the pitfalls associated with international business.

**Mr. Andrew Yao Cho-fai**, aged 41, has been an Independent Non-executive Director of the Company since 30th September 2004. Mr. Yao graduated from the University of California, Berkeley and Harvard Graduate School of Business, is Chairman & CEO of Van Shung Chong Holdings Ltd ("VSC"), Hong Kong listed company 1001, also the founder and director of iSteelAsia Holdings Limited (now renamed North Asia Strategic Holdings Ltd). He is married with 3 children aged 9 (daughter) and 6 (twin sons).

VSC, founded in 1961, is a leading distributor and processor of quality construction and industrial materials, playing a significant role in the building, the infrastructure development and the manufacturing industries in Hong Kong and Mainland China.

Mr. Yao is the General Committee Member of Federation of Hong Kong Industries and he is also a Member of the Shanghai Municipal Committee of the 10th Session of China People's Political Consultative Conference, Committee Member of the 10th Session of China Youth Federation, Vice Chairman of Shanghai Youth Federation, Director and First Vice Chairman of Hong Kong United Youth Association, Director of Fudan University in Shanghai, Director of Harvard Business School, Chairman of HBS Global Alumni Conference 2004 in Shanghai, Founder of Young Presidents' Organization (YPO) Shanghai Chapter, General Committee Member of Young Presidents' Organization (YPO) Hong Kong Chapter. He was awarded "Young Industrialist Awards of Hongkong" in the year of 2004. He is also appointed as a member of the University Court of The University of Hong Kong by the Secretary for Education and Manpower for a period of three years until November 2008. He is also recently appointed as member of Central Policy Unit of HKSAR.

## DIRECTORS' SERVICE CONTRACTS

All Non-executive Directors are engaged on a term of service of two years renewable for another two years upon expiry, and subject to re-election upon retirement by rotation at the forthcoming Annual General Meeting under the Company's Bye-laws 109(A) and 189(ix).

# Report of the Directors *(Continued)*

DISCLOSURE OF INTERESTS

**Directors' and Chief Executives' Interests and Short Positions in the Shares and Underlying Shares of the Company and the Associated Corporations**

The Directors of the Company who held office at 31st December 2006 had the following interests in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Listing Rules:

**Interests in the Company**

| | Number of ordinary shares of HK$0.10 each | | | | |
|---|---|---|---|---|---|
| Name of directors | Personal interests | Family interests | Corporate interests | Total number of shares held | % of total issued shares |
| Kenneth Ting Woo-shou | 105,085,385 | 586,629 *(i)* | 244,175,800 *(ii)* | 349,847,814 | 52.58% |
| Dennis Ting Hok-shou | 9,692,817 | 275,000 *(iii)* | 236,969,800 *(iv)* | 246,937,617 | 37.11% |
| Ivan Ting Tien-li | 423,903 | – | 13,042,400 | 13,466,303 | 2.02% |
| Moses Cheng Mo-chi | 11,000 | – | – | 11,000 | 0.00% |
| Liu Chee-ming | – | – | 1,000,000 | 1,000,000 | 0.15% |
| Floyd Chan Tsoi-yin | – | – | – | – | – |
| Andrew Yao Cho-fai | – | – | – | – | – |

*Notes:*

(i) The spouse of Mr. Kenneth Ting Woo-shou is the beneficial shareholder.

(ii) Included in the "Corporate Interests" above were 209,671,000 shares of the Company held by its substantial shareholder, H.C. Ting's Holdings Limited, in which Messrs. Dennis Ting Hok-shou and Kenneth Ting Woo-shou together have a controlling interest; and 34,504,800 shares of the Company held by its substantial shareholder, Glory Town Limited, in which Mr. Kenneth Ting Woo-shou has a controlling interest.

(iii) The spouse of Dr. Dennis Ting Hok-shou is the beneficial shareholder.

(iv) Included in the "Corporate Interests" above were 209,671,000 shares of the Company held by its substantial shareholder, H.C. Ting's Holdings Limited, in which Messrs. Dennis Ting Hok-shou and Kenneth Ting Woo-shou together have a controlling interest.

**Interests in Associated Corporations**

| Name of associated corporation | Beneficial interests | Class of shares | Number of shares held: Personal interests | Family interests | Corporate interests | % of interests in associated corporation |
|---|---|---|---|---|---|---|
| Allman Holdings Limited | Kenneth Ting Woo-shou | Ordinary shares of US$1.00 each | – | – | 920 *(i)* | 63.89% |
| Pacific Squaw Creek, Inc. | Kenneth Ting Woo-shou | Ordinary shares of US$1.00 each | – | – | 1,000 *(ii)* | 100.00% |
| Squaw Creek Associates, LLC | Kenneth Ting Woo-shou | Not applicable *(iii)* | – | – | – | 62.00% *(iv)* |
| Squaw Creek Associates, LLC | Kenneth Ting Woo-shou | Not applicable *(iii)* | – | – | – | 8.00% *(v)* |

*Notes:*

(i) These interests are held by Tyrol Investments Limited which is wholly owned by Mr. Kenneth Ting Woo-shou.

(ii) These interests are held by Allman Holdings Limited ("Allman"), Mr. Kenneth Ting Woo-shou's beneficial interests in Allman are disclosed in note (i) above.

(iii) Squaw Creek Associates, LLC ("SCA") does not have issued share capital, percentage of interest in SCA represents interest in capital account balance.

(iv) These interests are held by Pacific Squaw Creek, Inc. ("PSC"), Mr. Kenneth Ting Woo-shou's beneficial interests in PSC are disclosed above.

(v) These interests are held by Ting Corporation which is wholly owned by Mr. Kenneth Ting Woo-shou.

All the interests stated above represent long positions. As at 31st December 2006, 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 2006, 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.

# Report of the Directors *(Continued)*

**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.

**Substantial Shareholder's and Other Person's Interests**

As at 31st December 2006, 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.

**Sufficiency of Public Float**

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

## 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$3,723,000 which accounted for approximately 1.60% of the Group's total purchases.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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 ("Qualidux"), 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 Listing Rules. Qualidux employs a total workforce of over 8,000 employees.

As the Board of Directors of the Company is independent from the boards of the abovementioned company and none of the above Directors can control the Board of the Company, the Group is capable of carrying on its business independently of, and at arm's length from, the business of such company.

## INDEPENDENT AUDITORS

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

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

Hong Kong, 23rd April 2007

# Independent Auditor's Report

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

We have audited the consolidated financial statements of Kader Holdings Company Limited (the "Company") set out on pages 30 to 93, which comprise the consolidated and company balance sheets as at 31st December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Bermuda Companies Act 1981. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITIES

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23rd April 2007

# Consolidated Income Statement

*For the year ended 31st December 2006*

| | Note | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|---|
| **Turnover** | 3 & 12 | **643,216** | 539,814 |
| Valuation gains on investment property | 13 | **36,341** | 58,279 |
| Net gain on disposal of investment property | | **–** | 216 |
| Other revenue | 4(a) | **13,412** | 9,480 |
| Other net expense | 4(b) | **(1,526)** | (3,133) |
| Changes in inventories of finished goods and work in progress | | **12,892** | (3,273) |
| Cost of purchase of finished goods | | **(25,928)** | (23,206) |
| Raw materials and consumables used | | **(216,982)** | (150,828) |
| Staff costs | 5(b) | **(180,988)** | (165,005) |
| Depreciation expenses | 5(b) | **(22,795)** | (32,165) |
| Amortisation of land lease premium | 13 | **(22)** | (53) |
| Other operating expenses | | **(152,235)** | (127,703) |
| **Profit from operations** | | **105,385** | 102,423 |
| Finance costs | 5(a) | **(12,582)** | (17,062) |
| Share of profits less losses of associates | 16 | **(34,908)** | 10,891 |
| Share of profit of a jointly controlled entity | 17 | **597** | – |
| **Profit before taxation** | 5 | **58,492** | 96,252 |
| Income tax | 6 | **(28,520)** | (15,905) |
| **Profit for the year** | 28(a) | **29,972** | 80,347 |
| **Attributable to equity shareholders of the Company** | 9 | **29,972** | 80,347 |
| **Dividend payable to equity shareholders of the Company attributable to the year:** | | | |
| Final dividend proposed after the balance sheet date | 10 | **9,981** | – |
| **Earnings per share** | | | |
| Basic | 11(a) | **4.50¢** | 12.07¢ |
| Diluted | 11(b) | **N/A** | N/A |

The notes on pages 37 to 93 form part of these financial statements.

# Consolidated Balance Sheet

*At 31st December 2006*

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| – Investment property | 13 | **541,212** | 504,871 |
| – Other property, plant and equipment | 13 | **124,255** | 127,005 |
| – Interest in leasehold land held for own use under operating lease | 13 | **898** | 920 |
| | | **666,365** | 632,796 |
| Intangible assets | 14 | **603** | 637 |
| Interests in associates | 16 | **51,040** | 161,205 |
| Interest in a jointly controlled entity | 17 | **3,554** | 2,536 |
| Other non-current financial assets | 18 | **8,349** | 100 |
| Deferred tax assets | 27(b) | **22,768** | 18,202 |
| | | **752,679** | 815,476 |
| **Current assets** | | | |
| Inventories | 19 | **135,203** | 116,799 |
| Properties held for resale | 20 | **–** | 4,509 |
| Current tax recoverable | 27(a) | **1,317** | 1,386 |
| Trade and other receivables | 21 | **104,326** | 86,122 |
| Cash and cash equivalents | 22 | **24,440** | 36,491 |
| | | **265,286** | 245,307 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **(140,819)** | (95,775) |
| Bank loans and overdrafts | 25 | **(106,841)** | (140,485) |
| Obligations under finance leases | 26 | **(1,380)** | (1,318) |
| Current tax payable | 27(a) | **(9,973)** | (4,123) |
| | | **(259,013)** | (241,701) |
| **Net current assets** | | **6,273** | 3,606 |
| **Total assets less current liabilities carried forward** | | **758,952** | 819,082 |

# Consolidated Balance Sheet *(Continued)*

*At 31st December 2006*

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **Total assets less current liabilities brought forward** | | **758,952** | 819,082 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 24 | **(34,283)** | (147,700) |
| Rental deposits | | **(3,516)** | (4,738) |
| Obligations under finance leases | 26 | **(1,080)** | (2,460) |
| Deferred tax liabilities | 27(b) | **(65,432)** | (51,667) |
| Accrued employee benefits | | **(1,273)** | (1,498) |
| | | **(105,584)** | (208,063) |
| **NET ASSETS** | | **653,368** | 611,019 |
| **CAPITAL AND RESERVES** | 28 | | |
| Share capital | | **66,541** | 66,541 |
| Reserves | | **586,827** | 544,478 |
| **TOTAL EQUITY** | | **653,368** | 611,019 |

Approved and authorised for issue by the Board of Directors on 23rd April 2007

**Kenneth Ting Woo-shou**
*Director*

**Ivan Ting Tien-li**
*Director*

The notes on pages 37 to 93 form part of these financial statements.

# Balance Sheet

*At 31st December 2006*

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | *15* | **718,961** | 623,454 |
| **Current assets** | | | |
| Trade and other receivables | *21* | **169** | – |
| Cash and cash equivalents | *22* | **5,457** | 287 |
| | | **5,626** | 287 |
| **Current liabilities** | | | |
| Trade and other payables | *23* | **(28,143)** | (12,392) |
| **Net current liabilities** | | **(22,517)** | (12,105) |
| **Total assets less current liabilities** | | **696,444** | 611,349 |
| **Non-current liability** | | | |
| Accrued employee benefits | | **(63)** | (98) |
| **NET ASSETS** | | **696,381** | 611,251 |
| **CAPITAL AND RESERVES** | *28(b)* | | |
| Share capital | | **66,541** | 66,541 |
| Reserves | | **629,840** | 544,710 |
| **TOTAL EQUITY** | | **696,381** | 611,251 |

Approved and authorised for issue by the Board of Directors on 23rd April 2007

**Kenneth Ting Woo-shou**
*Director*

**Ivan Ting Tien-li**
*Director*

The notes on pages 37 to 93 form part of these financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31st December 2006*

| | Note | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|---|
| **Total equity at 1st January** | 28 | **611,019** | 505,502 |
| **Net income/(expenses) recognised directly in equity:** | | | |
| Exchange differences on translation of the financial statements of overseas subsidiaries | 28 | **12,169** | (9,835) |
| Share of exchange reserve of associates | 28 | **(351)** | – |
| Share of exchange reserve of a jointly controlled entity | 28 | **110** | – |
| Changes in fair value of available-for-sale securities | 28 | **449** | – |
| Surplus on revaluation of land and building held for own use, net of deferred tax | 28 | **–** | 35,005 |
| Net income for the year recognised directly in equity | | **12,377** | 25,170 |
| **Net profit for the year** | 28 | **29,972** | 80,347 |
| **Total recognised income and expense for the year** | | | |
| Attributable to equity shareholders of the Company | | **42,349** | 105,517 |
| **Total equity at 31st December** | 28 | **653,368** | 611,019 |

The notes on pages 37 to 93 form part of these financial statements.

# Consolidated Cash Flow Statement

*For the year ended 31st December 2006*

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **58,492** | 96,252 |
| Adjustments for: | | | |
| Valuation gain on investment property | *13* | **(36,341)** | (58,279) |
| Depreciation of fixed assets | *13* | **22,795** | 32,165 |
| Amortisation of land lease premium for property held for own use | *13* | **22** | 53 |
| Amortisation of intangible assets | *14* | **34** | 33 |
| Impairment of fixed assets | *13* | **4,834** | 3,195 |
| Finance costs | *5(a)* | **12,582** | 17,062 |
| Dividends from unlisted investments | *3* | **(5)** | (4) |
| Waiver of amounts due from related party and related companies | *4(a)* | **(2,960)** | – |
| Interest income | *4(a)* | **(586)** | (222) |
| Share of profits less losses of associates | | **34,908** | (10,891) |
| Share of profit of a jointly controlled entity | | **(597)** | – |
| Net gain on disposal of investment property | | **–** | (216) |
| Net gain on disposal of properties held for resale | *4(b)* | **(80)** | – |
| Net gain on disposal of fixed assets | *4(b)* | **(220)** | (101) |
| Foreign exchange loss/(gain) | | **8,459** | (7,119) |
| **Operating profit before changes in working capital** | | **101,337** | 71,928 |
| (Increase)/decrease in inventories | | **(18,404)** | 3,911 |
| (Increase)/decrease in trade and other receivables | | **(18,026)** | 2,622 |
| Increase in creditors and accrued charges | | **31,073** | 13,767 |
| Increase in rental deposits received | | **455** | 249 |
| Decrease in accrued employee benefits | | **(225)** | (33) |
| **Cash generated from operations** | | **96,210** | 92,444 |
| Tax paid | | | |
| Hong Kong Profits Tax paid | | **(43)** | (240) |
| Hong Kong Profits Tax refunded | | **482** | – |
| Overseas tax paid | | **(14,375)** | (8,119) |
| **Net cash generated from operating activities** | | **82,274** | 84,085 |

# Consolidated Cash Flow Statement *(Continued)*

*For the year ended 31st December 2006*

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Payment for investment in jointly controlled entity | | **(311)** | (2,536) |
| Payment for purchase of fixed assets | | **(21,973)** | (27,205) |
| Payment for purchase of available-for-sale securities | | **(7,800)** | – |
| Proceeds from sale of investment properties | | **–** | 28,776 |
| Proceeds from disposal of fixed assets | | **573** | 2,598 |
| Proceeds from sale of properties held for resale | | **4,589** | – |
| Interest received | | **588** | 222 |
| Dividend received | | **5** | 4 |
| Distributions received from investment in partnership | | **–** | 2,387 |
| Decrease in investments in associates | | **21,956** | 16,068 |
| Decrease in amounts due from associates | | **52,950** | 155 |
| **Net cash generated from investing activities** | | **50,577** | 20,469 |
| **Financing activities** | | | |
| Proceeds from new bank loans | | **141,566** | 246,649 |
| Repayment of bank loans | | **(179,784)** | (294,310) |
| Capital element of finance lease rentals paid | | **(1,318)** | (2,285) |
| Repayment of loans from shareholders and directors | | **(93,814)** | (38,902) |
| Increase in amounts due to related companies | | **13,286** | 10 |
| Proceeds from new advances from directors | | **312** | – |
| Interest paid | | **(14,184)** | (21,507) |
| Interest element of finance lease rentals paid | | **(148)** | (187) |
| **Net cash used in financing activities** | | **(134,084)** | (110,532) |
| **Net decrease in cash and cash equivalents** | | **(1,233)** | (5,978) |
| **Cash and cash equivalents at 1st January** | | **(12,650)** | (5,485) |
| **Effect of foreign exchange rate changes** | | **1,183** | (1,187) |
| **Cash and cash equivalents at 31st December** | *22* | **(12,700)** | (12,650) |

The notes on pages 37 to 93 form part of these 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 ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

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

**(b) Basis of preparation of the financial statements**

The consolidated financial statements for the year ended 31st December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a jointly controlled entity.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investment property (see note 1(g)) and financial instruments classified as available-for-sale (see note 1(f)) are stated at their fair value as explained in the accounting policies set out below.

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

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 35.

# Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(c) Subsidiaries and minority interest**

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

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

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

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

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

**(d) Associates and jointly controlled entities**

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(d) Associates and jointly controlled entities** *(Continued)*

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

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

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

**(e) Goodwill**

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

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

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

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

# Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(f) Other investments in securities**

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

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

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

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

**(g) Investment property**

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(h) Other property, plant and equipment**

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

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

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

– other items of plant and equipment.

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

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

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

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

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

(ii) 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 |

# Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(h) Other property, plant and equipment** *(Continued)*

(iii) No depreciation is provided in respect of construction in progress until it is ready for its intended use.

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

**(i) Intangible assets (other than goodwill)**

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

**(j) Leased assets**

*(i) Classification of assets leased to the Group*

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(j) Leased assets** *(Continued)*

*(ii) Assets acquired under finance leases*

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

*(iii) Operating lease charges*

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

**(k) Impairment of assets**

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

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(k) Impairment of assets** *(Continued)*

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

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

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

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

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

*(ii) Impairment of other assets*

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

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

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

– intangible assets;

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(k) Impairment of assets** *(Continued)*

*(ii) Impairment of other assets (Continued)*

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

– goodwill

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

# Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(k) Impairment of assets** *(Continued)*

*(iii) Interim financial reporting and impairment*

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

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

**(l) Inventories**

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

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

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

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

**(m) Properties held for resale**

Properties held for resale are stated at the lower of specific identified cost and estimated net realisable value. Net realisable value represents the estimated selling price less estimated costs to be incurred in selling the property.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(n) Trade and other receivables**

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

**(o) Interest-bearing borrowings**

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

**(p) Trade and other payables**

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

**(q) Cash and cash equivalents**

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

**(r) Employee benefits**

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

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

# Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(r) Employee benefits** *(Continued)*

*(ii) Termination benefits*

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

**(s) Income tax**

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(s) 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 profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(t) Financial guarantees issued, provisions and contingent liabilities**

*(i) Financial guarantees issued*

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(t) Financial guarantees issued, provisions and contingent liabilities** *(Continued)*

*(i) Financial guarantees issued (Continued)*

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

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

*(ii) Other provisions and contingent liabilities*

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(u) Revenue recognition**

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

*(i) Sale of goods*

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

*(ii) Sale of properties*

Revenue arising from the sale of properties held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later.

*(iii) Rental income from operating leases*

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

*(iv) Dividends*

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

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

*(v) Interest income*

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

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

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

# Notes to the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(v) Translation of foreign currencies**

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

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

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

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

**(w) Borrowing costs**

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

**(x) Related parties**

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(x) Related parties** *(Continued)*

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

(v) the party is a close family member of a party referred to note 1(x)(i) or is an entity under the control, joint control or significant influence of such individuals; or

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

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

**(y) Segment reporting**

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

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment.

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

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

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

## 2. CHANGES IN ACCOUNTING POLICIES

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

Note 1 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The adoption of these developments did not result in significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements, except as follows.

**Financial guarantees issued (Amendments to HKAS 39, Financial instruments: recognition and measurement: financial guarantee contracts)**

In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities in accordance with HKAS 37, Provisions, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

With effect from 1st January 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Further details of the new policy are set out in note 1(t)(i).

The adoption of this accounting policy has not affected the Group's profit for the years ended 31st December 2005 and 2006, or the Company's and the Group's net assets as at those year end dates.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 36).

## 3. TURNOVER

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

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sale of goods | **617,833** | 515,319 |
| Gross rentals from investment properties | **25,378** | 24,491 |
| Investment income – dividends from unlisted investments | **5** | 4 |
| | **643,216** | 539,814 |

## 4. OTHER REVENUE AND NET EXPENSE

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(a) Other revenue** | | |
| Interest income | **586** | 222 |
| Air conditioning, management and maintenance service charges from tenants | **5,339** | 4,965 |
| Waiver of amounts due to related party and related companies | **2,960** | – |
| Others | **4,527** | 4,293 |
| | **13,412** | 9,480 |
| **(b) Other net expense** | | |
| Net gain on disposal of properties held for resale | **80** | – |
| Net gain on disposal of fixed assets | **220** | 101 |
| Net exchange loss | **(1,826)** | (3,234) |
| | **(1,526)** | (3,133) |

# Notes to the Financial Statements *(Continued)*

5. PROFIT BEFORE TAXATION

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(a) Finance costs** | | |
| Interest on bank borrowings repayable within 5 years | **9,100** | 8,688 |
| Interest on advances from directors | **1,808** | 4,913 |
| Interest on advances from shareholders | **1,325** | 2,897 |
| Interest on amounts due to related companies | **55** | 130 |
| Interest on other loans | **146** | 247 |
| Finance charges on obligations under finance leases | **148** | 187 |
| | **12,582** | 17,062 |
| **(b) Other items** | | |
| Salaries, wages and other benefits | **176,006** | 159,274 |
| Employer's contributions to defined contribution retirement plans, net of forfeited contributions of HK$115,000 (2005: HK$58,000) *(note 32)* | **4,982** | 5,731 |
| | **180,988** | 165,005 |
| Cost of inventories | **409,865** | 339,902 |
| Amortisation of intangible assets | **34** | 33 |
| Depreciation | | |
| – owned assets | **21,787** | 31,394 |
| – assets held under finance leases | **1,008** | 771 |
| Impairment | | |
| – fixed assets | **4,834** | 3,195 |
| – goodwill (included in share of profits less losses of associates) | **–** | 9,037 |
| Auditors' remuneration | **1,856** | 1,758 |
| Operating lease charges | | |
| – rental on land and buildings | **11,251** | 12,505 |
| – other rental | **157** | 513 |
| Rentals receivable from investment properties less direct outgoings of HK$2,131,000 (2005: HK$2,333,000) | **(23,247)** | (21,503) |

Cost of inventories includes HK$129,822,000 (2005: HK$123,314,000) relating to staff costs, depreciation charges, impairment loss in respect of fixed assets and operating lease charges, which amount is also included in the respective total amounts disclosed separately above and in the income statement for each of these types of expenses.

## 6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Current tax – Hong Kong Profits Tax** | | |
| Provision for the year | **–** | 17 |
| Under-provision in respect of prior years | **4** | – |
| | **4** | 17 |
| **Current tax – Overseas including the PRC** | | |
| Provision for the year | **19,033** | 7,446 |
| Under/(over)-provision in respect of prior years | **249** | (2,311) |
| | **19,282** | 5,135 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences *(note 27(b))* | **9,234** | 10,753 |
| | **28,520** | 15,905 |

The provision for Hong Kong Profits Tax for 2006 is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profits before taxation | **58,492** | 96,252 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned | **14,220** | 15,043 |
| Tax effect of non-deductible expenses | **14,957** | 8,563 |
| Tax effect of non-taxable income | **(1,970)** | (5,762) |
| Tax effect of tax losses utilised | **–** | (19) |
| Tax effect of unused tax losses not recognised | **662** | – |
| Under/(over)-provision in prior years | **253** | (2,311) |
| Others | **398** | 391 |
| Actual tax expense | **28,520** | 15,905 |

# Notes to the Financial Statements *(Continued)*

## 7. DIRECTORS' REMUNERATION

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

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

| | Directors' fees *HK$'000* | Salaries, allowances and benefits in kind *HK$'000* | Discretionary bonuses *HK$'000* | Retirement scheme contributions *HK$'000* | 2005 Total *HK$'000* |
|---|---|---|---|---|---|
| Executive Directors: | | | | | |
| Kenneth Ting Woo-shou | 70 | 588 | – | 59 | 717 |
| Patrick Leung Shing-cheung | 60 | 1,200 | 100 | 68 | 1,428 |
| Non-executive Directors: | | | | | |
| Dennis Ting Hok-shou | 60 | 334 | – | 33 | 427 |
| Moses Cheng Mo-chi | 50 | – | – | – | 50 |
| Independent Non-executive Directors: | | | | | |
| Liu Chee-ming | 100 | – | – | – | 100 |
| Floyd Chan Tsoi-yin | 100 | – | – | – | 100 |
| Andrew Yao Cho-fai | 100 | – | – | – | 100 |
| | 540 | 2,122 | 100 | 160 | 2,922 |

## 8. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none are (2005: one is) a Director whose emoluments are set out in note 7. The aggregate of the emoluments in respect of the five (2005: other four) individuals are as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other emoluments | **6,175** | 4,754 |
| Discretionary bonuses | **1,044** | 766 |
| Pension scheme contributions | **821** | 330 |
| | **8,040** | 5,850 |

The emoluments of the five (2005: four) individuals with the highest emoluments are within the following bands:

| | **2006** | 2005 |
|---|---|---|
| | **Number of employees** | Number of employees |
| Nil to HK$1,000,000 | **–** | – |
| HK$1,000,001 to HK$1,500,000 | **2** | 3 |
| HK$1,500,001 to HK$2,000,000 | **3** | 1 |

## 9. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$85,130,000 (2005: loss HK$8,484,000) which has been dealt with in the financial statements of the Company.

# Notes to the Financial Statements *(Continued)*

## 10. DIVIDEND

Dividend payable to equity shareholders of the Company attributable to the year

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Final dividend proposed after the balance sheet date of HK1.5 cents per ordinary share (2005: HK nil cents per ordinary share) | **9,981** | – |

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

## 11. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$29,972,000 (2005: HK$80,347,000) and the weighted average of 665,412,000 ordinary shares (2005: 665,412,000 ordinary shares) in issue during the year.

### (b) Diluted earnings per share

The diluted earnings per share is not presented as the Company does not have dilutive potential ordinary shares outstanding during both 2005 and 2006.

# Notes to the Financial Statements *(Continued)*

## 12. SEGMENT REPORTING

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

**Business segments**

The Group comprises the following main business segments:

| | | |
|---|---|---|
| Toys and model trains | : | The manufacture and sale of plastic, electronic and stuffed toys and model trains. |
| Property investment | : | The leasing of office premises, industrial building and residential units to generate rental income and to gain from the appreciation in the properties' value in the long-term. |
| Investment holding and trading | : | The investment in and trading of listed securities. |

| | Toys and model trains | | Property investment | | Investment holding and trading | | Unallocated | | Inter-segment elimination | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | ***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 | **617,833** | 515,319 | **25,378** | 24,491 | **5** | 4 | **–** | – | **–** | – | **643,216** | 539,814 |
| Inter-segment revenue | **–** | – | **979** | 892 | **–** | – | **–** | – | **(979)** | (892) | **–** | – |
| Other revenue from external customers | **3,304** | 2,350 | **5,908** | 5,525 | **481** | 82 | **173** | 1,301 | **–** | – | **9,866** | 9,258 |
| Total | **621,137** | 517,669 | **32,265** | 30,908 | **486** | 86 | **173** | 1,301 | **(979)** | (892) | **653,082** | 549,072 |
| Segment result | **64,544** | 33,783 | **63,922** | 82,723 | **(21,934)** | (14,214) | **(1,953)** | (408) | | | **104,579** | 101,884 |
| Unallocated operating income and expenses | | | | | | | | | | | **806** | 539 |
| Profit from operations | | | | | | | | | | | **105,385** | 102,423 |
| Finance costs | | | | | | | | | | | **(12,582)** | (17,062) |
| Share of profits less losses of associates | | | | | | | **(34,908)** | 10,891 | | | **(34,908)** | 10,891 |
| Share of profit of a jointly controlled entity | | | | | | | **597** | – | | | **597** | – |
| Income tax | | | | | | | | | | | **(28,520)** | (15,905) |
| Profit after taxation | | | | | | | | | | | **29,972** | 80,347 |
| Depreciation and amortisation for the year | **22,817** | 28,184 | **–** | 3,347 | **34** | 33 | **–** | 687 | **–** | – | **22,851** | 32,251 |
| Impairment of fixed assets | **4,834** | 3,195 | **–** | – | **–** | – | **–** | – | **–** | – | **4,834** | 3,195 |

# Notes to the Financial Statements *(Continued)*

## 12. 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 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | ***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 | **368,672** | 347,423 | **555,244** | 525,423 | **8,960** | 739 | **314,978** | 273,762 | **(308,568)** | (269,895) | **939,286** | 877,452 |
| Interests in associates and jointly controlled entity | | | | | | | | | | | **54,594** | 163,741 |
| Unallocated assets | | | | | | | | | | | **24,085** | 19,590 |
| Total assets | | | | | | | | | | | **1,017,965** | 1,060,783 |
| Segment liabilities | **361,475** | 307,759 | **42,079** | 43,168 | **77,418** | 51,729 | **116,788** | 261,211 | **(308,568)** | (269,895) | **289,192** | 393,972 |
| Unallocated liabilities | | | | | | | | | | | **75,405** | 55,792 |
| Total liabilities | | | | | | | | | | | **364,597** | 449,764 |
| Capital expenditure incurred during the year | **21,973** | 30,960 | **–** | – | **–** | – | **–** | – | **–** | – | **21,973** | 30,960 |

**Geographical segments**

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

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

| | Hong Kong and China | | North America | | Europe | | Others | |
|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **75,408** | 62,182 | **355,454** | 171,649 | **172,440** | 289,604 | **39,914** | 16,379 |
| Segment assets | **999,749** | 913,240 | **137,718** | 144,334 | **110,387** | 89,773 | **–** | – |
| Capital expenditure incurred during the year | **18,816** | 26,585 | **695** | 525 | **2,462** | 3,850 | **–** | – |

13. FIXED ASSETS

**The Group**

| | Land and buildings held for own use carried at cost: In Hong Kong | Land and buildings held for own use carried at cost: Outside Hong Kong | Construction in progress | Equipment | Sub-total | Investment property: In Hong Kong | Investment property: Outside Hong Kong | Sub-total | Interests in leasehold land held for own use under operating lease | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cost or valuation: | | | | | | | | | | |
| At 1st January 2005 | 5,368 | 28,438 | 2,679 | 447,566 | 484,051 | 393,961 | 73,402 | 467,363 | 6,963 | 958,377 |
| Exchange adjustments | – | (1,948) | – | (2,652) | (4,600) | – | 107 | 107 | – | (4,493) |
| Transfer | 26,359 | 4,734 | (4,734) | – | 26,359 | 17,311 | (2,962) | 14,349 | (5,622) | 35,086 |
| Additions | – | 155 | 2,055 | 28,750 | 30,960 | – | – | – | – | 30,960 |
| Disposals | – | – | – | (34,511) | (34,511) | (1,680) | (33,547) | (35,227) | – | (69,738) |
| Surplus on revaluation | – | – | – | – | – | 57,279 | 1,000 | 58,279 | – | 58,279 |
| At 31st December 2005 | 31,727 | 31,379 | – | 439,153 | 502,259 | 466,871 | 38,000 | 504,871 | 1,341 | 1,008,471 |
| Representing: | | | | | | | | | | |
| Cost | 1,038 | 31,379 | – | 439,153 | 471,570 | – | – | – | 1,341 | 472,911 |
| Valuation – 2005 | 30,689 | – | – | – | 30,689 | 466,871 | 38,000 | 504,871 | – | 535,560 |
| | 31,727 | 31,379 | – | 439,153 | 502,259 | 466,871 | 38,000 | 504,871 | 1,341 | 1,008,471 |
| **At 1st January 2006** | **31,727** | **31,379** | **–** | **439,153** | **502,259** | **466,871** | **38,000** | **504,871** | **1,341** | **1,008,471** |
| **Exchange adjustments** | **–** | **2,668** | **–** | **3,643** | **6,311** | **–** | **–** | **–** | **–** | **6,311** |
| **Additions** | **–** | **390** | **–** | **21,583** | **21,973** | **–** | **–** | **–** | **–** | **21,973** |
| **Disposals** | **–** | **–** | **–** | **(4,688)** | **(4,688)** | **–** | **–** | **–** | **–** | **(4,688)** |
| **Surplus on revaluation** | **–** | **–** | **–** | **–** | **–** | **34,341** | **2,000** | **36,341** | **–** | **36,341** |
| **At 31st December 2006** | **31,727** | **34,437** | **–** | **459,691** | **525,855** | **501,212** | **40,000** | **541,212** | **1,341** | **1,068,408** |
| **Representing:** | | | | | | | | | | |
| **Cost** | **31,727** | **34,437** | **–** | **459,691** | **525,855** | **–** | **–** | **–** | **1,341** | **527,196** |
| **Valuation – 2006** | **–** | **–** | **–** | **–** | **–** | **501,212** | **40,000** | **541,212** | **–** | **541,212** |
| | **31,727** | **34,437** | **–** | **459,691** | **525,855** | **501,212** | **40,000** | **541,212** | **1,341** | **1,068,408** |
| Accumulated amortisation and depreciation: | | | | | | | | | | |
| At 1st January 2005 | 3,282 | 9,621 | – | 367,113 | 380,016 | – | 3,333 | 3,333 | 2,072 | 385,421 |
| Exchange adjustments | – | (237) | – | (1,859) | (2,096) | – | – | – | – | (2,096) |
| Transfer | (2,678) | – | – | – | (2,678) | – | – | – | (1,704) | (4,382) |
| Charge for the year | 532 | 765 | – | 27,534 | 28,831 | – | 3,334 | 3,334 | 53 | 32,218 |
| Impairment loss | – | – | – | 3,195 | 3,195 | – | – | – | – | 3,195 |
| Written back on disposals | – | – | – | (32,014) | (32,014) | – | (6,667) | (6,667) | – | (38,681) |
| At 31st December 2005 | 1,136 | 10,149 | – | 363,969 | 375,254 | – | – | – | 421 | 375,675 |
| **At 1st January 2006** | **1,136** | **10,149** | **–** | **363,969** | **375,254** | **–** | **–** | **–** | **421** | **375,675** |
| **Exchange adjustments** | **–** | **333** | **–** | **2,719** | **3,052** | **–** | **–** | **–** | **–** | **3,052** |
| **Charge for the year** | **762** | **702** | **–** | **21,331** | **22,795** | **–** | **–** | **–** | **22** | **22,817** |
| **Impairment loss** | **–** | **–** | **–** | **4,834** | **4,834** | **–** | **–** | **–** | **–** | **4,834** |
| **Written back on disposals** | **–** | **–** | **–** | **(4,335)** | **(4,335)** | **–** | **–** | **–** | **–** | **(4,335)** |
| **At 31st December 2006** | **1,898** | **11,184** | **–** | **388,518** | **401,600** | **–** | **–** | **–** | **443** | **402,043** |
| **Net book value:** | | | | | | | | | | |
| **At 31st December 2006** | **29,829** | **23,253** | **–** | **71,173** | **124,255** | **501,212** | **40,000** | **541,212** | **898** | **666,365** |
| At 31st December 2005 | 30,591 | 21,230 | – | 75,184 | 127,005 | 466,871 | 38,000 | 504,871 | 920 | 632,796 |

13. FIXED ASSETS *(Continued)*

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At valuation: | | |
| In Hong Kong | | |
| Medium-term leases | **501,212** | 466,871 |
| Outside Hong Kong | | |
| Medium-term leases | **40,000** | 38,000 |

All investment properties of the Group were revalued as at 31st December 2006 on an open market value basis, by either making reference to the comparable sales evidence in the relevant locality, or otherwise, by capitalising the current rent passing derived from the existing tenancies with the provision for any reversionary income potential. The valuations were carried out by an independent firm of surveyors, DTZ Debenham Tie Leung, who have among their staff, Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being revalued.

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Medium-term leases in Hong Kong | **30,727** | 31,511 |
| Freehold outside Hong Kong | **23,253** | 21,230 |
| | **53,980** | 52,741 |
| Representing: | | |
| Land and buildings carried at cost | **53,082** | 51,821 |
| Interest in leasehold land held for own use under operating lease | **898** | 920 |
| | **53,980** | 52,741 |

During the year ended 31st December 2005, certain land and buildings held for own use by the Group were leased out to third parties for rental income. In accordance with HKAS 16 and HKAS 40, the property was transferred from land and buildings to investment property at fair value with the surplus on revaluation net of deferred tax of HK$35,005,000 being recognised in the land and buildings revaluation reserve, see note 28.

13. FIXED ASSETS *(Continued)*

**(c) Impairment loss**

During the year, the Group assessed the recoverable amount of the Group's moulds and equipment. Based on this assessment, the carrying amount of certain moulds and equipment was written down by HK$4,834,000 (2005: HK$3,195,000) (included in "Other operating expenses"). The estimates of recoverable amount were based on the moulds' and equipments' fair value less costs to sell, determined by reference to anticipated future use.

**(d) Secured assets**

Certain fixed assets of the Group were mortgaged to various banks to secure banking facilities granted to the Group. Details are disclosed in note 25.

**(e) Fixed assets held under finance leases**

The Group leases production plant and machinery under finance leases expiring in four to five years. At the end of the lease term the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. During the year, additions to plant and machinery financed by new finance leases amounted to HK$Nil (2005: HK$3,755,000). At the balance sheet date, the net book value of plant and machinery held under finance leases of the Group was HK$3,177,000 (2005: HK$4,409,000).

**(f) Fixed assets leased out under operating leases**

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

The carrying amount of the investment properties of the Group held for use in operating leases was HK$541,212,000 (2005: HK$504,871,000). All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

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

| | **The Group** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **19,930** | 18,551 |
| After 1 year but within 5 years | **12,144** | 10,354 |
| | **32,074** | 28,905 |

# Notes to the Financial Statements *(Continued)*

## 14. INTANGIBLE ASSETS

| | Club memberships |
|---|---|
| | *HK$'000* |
| **Cost:** | |
| At 1st January 2005, 31st December 2005, 1st January 2006 and 31st December 2006 | 670 |
| **Accumulated amortisation:** | |
| At 1st January 2005 | – |
| Charge for the year | 33 |
| At 31st December 2005 | 33 |
| **At 1st January 2006** | **33** |
| **Charge for the year** | **34** |
| **At 31st December 2006** | **67** |
| **Net book value:** | |
| **At 31st December 2006** | **603** |
| At 31st December 2005 | 637 |

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

## 15. INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **244,285** | 244,480 |
| Add: amounts due from subsidiaries | **657,464** | 612,041 |
| Less: impairment losses | **(182,788)** | (233,067) |
| | **718,961** | 623,454 |

Details of the major subsidiaries at 31st December 2006 which principally affected the results, assets or liabilities of the Group are listed on pages 92 and 93.

## 16. INTERESTS IN ASSOCIATES

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Share of net assets | **25,744** | 82,959 |
| Amounts due from associates | **25,296** | 78,246 |
| | **51,040** | 161,205 |

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

| **Name of associate** | **Form of business structure** | **Place of incorporation and operation** | **Proportion of ownership interest held by a subsidiary** | **Principal activity** |
|---|---|---|---|---|
| Allman Holdings Limited ("Allman") | Incorporated | British Virgin Islands | 36.11% | Investment holding |
| Melville Street Trust | Incorporated | Canada | 27.27% | Property investment |
| Squaw Creek Associates, LLC ("SCA") | Limited liability company | USA | 10.00% (see below) | Resort operation, and the sale and management of condominium apartments |

The Group's effective interest in SCA as at 31st December 2006 was approximately 32% (2005: 32%).

Goodwill of HK$9,707,000 arose when the Group changed its ownership interest and SCA became an associate. The goodwill represented 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. During the year ended 31st December 2005 based on a discounted cash flow forecast prepared by management, an impairment loss on goodwill of HK$9,037,000 was recognised.

SCA engaged an external professional valuer to value the SCA's property, plant and equipment as at 31st December 2006 (the "Valuation"). As a result of the Valuation, the Group recognised an impairment charge in respect the property, plant and equipment of SCA of approximately HK$53,075,000 for the year ended 31st December 2006. The Valuation did not take into account potential phase two land development at the resort operated by SCA because, at the balance sheet date, full approval from the relevant local authorities for the phase two development has not been obtained.

# Notes to the Financial Statements *(Continued)*

16. INTERESTS IN ASSOCIATES *(Continued)*

Summary financial information on associates

| | Assets | Liabilities | Equity | Revenue | (Loss)/ profit |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **2006** | | | | | |
| **100 per cent** | **560,111** | **(428,741)** | **131,370** | **710,460** | **(63,808)** |
| **Group's effective interest** | **184,869** | **(159,125)** | **25,744** | **304,531** | **(34,908)** |
| 2005 | | | | | |
| 100 per cent | 1,155,235 | (590,794) | 564,441 | 1,081,364 | 282,773 |
| Group's effective interest | 326,717 | (243,758) | 82,959 | 491,968 | 19,928 |

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted equity, at cost | **–** | 2,536 |
| Share of net assets | **3,554** | – |
| | **3,554** | 2,536 |

Details of the Group's interest in a jointly controlled entity as at 31st December 2006 is as follows:

| Name | Form of business structure | Place of and operation | Particulars of issued and paid up capital | Proportion of ownership interest held by a subsidiary | Principal activity |
|---|---|---|---|---|---|
| Precise Moulds (Shenzhen) Company Limited 精機模具(深圳)有限公司 | Registered | PRC | RMB4,580,000 | 64.69% | Manufacture and sale of moulds |

17. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Summary financial information on jointly controlled entity – Group's effective interest

| | **2006** |
|---|---|
| | ***HK$'000*** |
| Non-current assets | **2,428** |
| Current assets | **1,437** |
| Current liabilities | **(311)** |
| Net assets | **3,554** |
| Income | **4,212** |
| Expenses | **(3,615)** |
| Profit for the year | **597** |

The Group acquired the interest in a jointly controlled entity during the year ended 31st December 2005, and as the Group did not have joint control or significant influence over the jointly controlled entity, the jointly controlled entity was stated at cost less impairment losses as at 31st December 2005. During the year ended 31st December 2006 the Group acquired significant influence over the jointly controlled entity, and accordingly, the jointly controlled entity has been accounted for in accordance with the equity method as detailed in the accounting policy set out in note 1(d).

18. OTHER NON-CURRENT FINANCIAL ASSETS

| | **The Group** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Available-for-sale equity securities: | | |
| – Unlisted equity securities | **100** | 100 |
| – Listed outside Hong Kong | **8,249** | – |
| | **8,349** | 100 |

## 19. INVENTORIES

**(a) Inventories in the balance sheet comprise:**

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **22,874** | 27,326 |
| Work in progress | **5,867** | 3,579 |
| Finished goods | **106,462** | 85,894 |
| | **135,203** | 116,799 |

Finished goods amounting to HK$97,832,000 (2005: HK$76,849,000) were pledged to banks to secure banking facilities granted to the Group, see note 25.

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

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Carrying amount of inventories sold | **411,161** | 333,472 |
| (Write back)/write down of inventories | **(1,296)** | 6,430 |
| | **409,865** | 339,902 |

## 20. PROPERTIES HELD FOR RESALE

During the year ended 31st December 2002, certain land held for resale was sold for cash consideration of RMB30,000,000 and three residential units in the PRC initially valued at RMB5,000,000. Two of these residential units were sold to third parties in prior years and the remaining residential unit was sold during the year ended 31st December 2006.

During the year ended 31st December 2005, a residential unit in Canada with a net carrying value of HK$2,926,000 was reclassified from "investment property" to "properties held for resale" and the unit was sold during the year ended 31st December 2006.

## 21. TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Debtors and prepayments | **104,326** | 86,122 | **169** | – |

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

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

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Current | **89,019** | 67,116 |
| 1 to 3 months overdue | **2,064** | 10,519 |
| More than 3 months overdue but less than 12 months overdue | **547** | 630 |
| More than 12 months overdue | **–** | 202 |
| | **91,630** | 78,467 |

The Group's credit policy is set out in note 29(a). Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | | The Group | |
|---|---|---|---|
| | | **2006** | 2005 |
| United States Dollars | USD'000 | **1,201** | 790 |
| Renminbi Yuan | RMB'000 | **1,164** | 1,643 |

# Notes to the Financial Statements *(Continued)*

## 22. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and cash equivalents in the balance sheet | **24,440** | 36,491 | **5,457** | 287 |
| Bank overdrafts *(note 25)* | **(37,140)** | (49,141) | | |
| Cash and cash equivalents in the consolidated cash flow statement | **(12,700)** | (12,650) | | |

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | | The Group | |
|---|---|---|---|
| | | **2006** | 2005 |
| United States Dollars | USD'000 | **703** | 123 |
| Sterling Pounds | GBP'000 | **297** | 361 |
| Renminbi Yuan | RMB'000 | **2,038** | 7,198 |

## 23. TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Advances from directors | **16,312** | 14,653 | **–** | – |
| Advances from shareholders | **–** | 319 | **–** | – |
| Amounts due to related companies | **15,733** | 3,314 | **–** | – |
| Amount due to related party | **–** | 1,200 | **–** | – |
| Amounts due to subsidiaries | **–** | – | **–** | 3,298 |
| Creditors and accrued charges | **104,493** | 73,685 | **28,143** | 9,094 |
| Rental deposits | **4,281** | 2,604 | **–** | – |
| | **140,819** | 95,775 | **28,143** | 12,392 |

All trade and other payables are expected to be settled within one year. The principal amounts outstanding not expected to be settled within one year as at 31st December 2005 are included under non-current interest-bearing borrowings *(note 24)*.

23. TRADE AND OTHER PAYABLES *(Continued)*

Advances from directors of HK$16,000,000 (2005: HK$14,653,000) are unsecured, bear interest at Hong Kong dollar prime rate less 2% (2005: prime rate less 0.5%) and has no fixed terms of repayment. The balance of advance from directors is unsecured, interest free and has no fixed terms of repayment.

Amounts due to related companies of HK$15,733,000 (2005: HK$1,447,000) and amount due to related party are unsecured, interest free and have no fixed terms of repayment.

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

| | **The Group** | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Due within 1 month or on demand | **20,695** | 8,218 |
| Due after 1 month but within 3 months | **2,630** | 8,812 |
| Due after 3 months but within 6 months | **109** | 264 |
| Due after 6 months | **885** | 1,239 |
| | **24,319** | 18,533 |

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | | **The Group** | |
|---|---|---|---|
| | | **2006** | 2005 |
| United States Dollars | USD'000 | **264** | 238 |

# Notes to the Financial Statements *(Continued)*

## 24. NON-CURRENT INTEREST-BEARING BORROWINGS

The analysis of the carrying amount of non-current interest-bearing borrowings is as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Bank loans *(note 25)* | **34,283** | 50,480 |
| Advances from directors | **–** | 45,293 |
| Advances from shareholders | **–** | 46,621 |
| Amounts due to related companies | **–** | 5,306 |
| | **34,283** | 147,700 |

None of the non-current interest-bearing borrowings are expected to be settled within one year.

## 25. BANK LOANS AND OVERDRAFTS

At 31st December 2006 bank loans and overdrafts were repayable as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 year or on demand | **106,841** | 140,485 |
| After 1 year but within 2 years | **8,178** | 16,387 |
| After 2 years but within 5 years | **25,709** | 33,228 |
| After 5 years | **396** | 865 |
| | **34,283** | 50,480 |
| | **141,124** | 190,965 |

## 25. BANK LOANS AND OVERDRAFTS *(Continued)*

At 31st December 2006 bank loans and overdrafts were secured as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Bank overdrafts *(note 22)* | | |
| – secured | **35,730** | 48,428 |
| – unsecured | **1,410** | 713 |
| | **37,140** | 49,141 |
| Bank loans | | |
| – secured | **103,984** | 141,526 |
| – unsecured | **–** | 298 |
| | **103,984** | 141,824 |
| | **141,124** | 190,965 |

At 31st December 2006, certain investment properties, leasehold land and buildings and other assets of the Group with net book value of HK$746,205,000 (2005: HK$732,762,000) were mortgaged to various banks to secure banking facilities granted to the Group. Details of the secured assets are as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Investment properties | **501,212** | 504,871 |
| Land and buildings | **53,980** | 52,741 |
| Inventories | **97,832** | 76,849 |
| Property held for resale | **–** | 2,962 |
| Other assets | **93,181** | 95,339 |
| | **746,205** | 732,762 |

## 25. BANK LOANS AND OVERDRAFTS *(Continued)*

Included in bank loans and overdrafts are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | | The Group | |
|---|---|---|---|
| | | **2006** | 2005 |
| United States Dollars | USD'000 | **–** | 417 |

## 26. OBLIGATIONS UNDER FINANCE LEASES

At 31st December 2006, the Group had obligations under finance leases repayable as follows:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Present value of minimum lease payments** | **Total minimum lease payments** | Present value of minimum lease payments | Total minimum lease payments |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Within 1 year | **1,380** | **1,465** | 1,318 | 1,465 |
| After 1 year but within 2 years | **582** | **618** | 1,380 | 1,465 |
| After 2 years but within 5 years | **498** | **513** | 1,080 | 1,132 |
| | **1,080** | **1,131** | 2,460 | 2,597 |
| | **2,460** | **2,596** | 3,778 | 4,062 |
| Less: total future interest expenses | | **(136)** | | (284) |
| Present value of lease obligations | | **2,460** | | 3,778 |

## 27. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

### (a) Current taxation in the balance sheet represents:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Provision for Hong Kong Profits Tax for the year | **–** | 17 |
| Provisional Profits Tax paid | **(22)** | – |
| | **(22)** | 17 |
| Balance of Profits Tax provision relating to prior years | **–** | (482) |
| | **(22)** | (465) |
| Overseas taxation payable | **8,678** | 3,202 |
| | **8,656** | 2,737 |
| Representing: | | |
| Tax recoverable | **(1,317)** | (1,386) |
| Tax payable | **9,973** | 4,123 |
| | **8,656** | 2,737 |

27. 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 investment property | Revaluation of land and buildings | Interests in associates | Provisions and allowances | Future benefit of tax losses | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st January 2005 | 15,430 | 21,614 | 124 | 12,004 | (10,718) | (23,177) | 15,277 |
| Charged/(credited) to profit or loss *(note 6(a))* | 2,342 | 10,015 | – | 1,873 | (6,780) | 3,303 | 10,753 |
| Charged to reserves *(note 28)* | – | – | 7,425 | – | – | – | 7,425 |
| Exchange difference | – | – | – | – | 10 | – | 10 |
| At 31st December 2005 | 17,772 | 31,629 | 7,549 | 13,877 | (17,488) | (19,874) | 33,465 |
| **At 1st January 2006** | **17,772** | **31,629** | **7,549** | **13,877** | **(17,488)** | **(19,874)** | **33,465** |
| **Charged/(credited) to profit or loss *(note 6(a))*** | **408** | **6,988** | **–** | **(13,645)** | **(4,157)** | **19,640** | **9,234** |
| **Exchange difference** | **(35)** | **–** | **–** | **–** | **–** | **–** | **(35)** |
| **At 31st December 2006** | **18,145** | **38,617** | **7,549** | **232** | **(21,645)** | **(234)** | **42,664** |

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

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

Representing:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Net deferred tax asset recognised on the balance sheet | **(22,768)** | (18,202) |
| Net deferred tax liability recognised on the balance sheet | **65,432** | 51,667 |
| | **42,664** | 33,465 |

**(c) Deferred tax assets not recognised**

In accordance with the accounting policy set out in note 1(s), the Group and the Company have not recognised deferred tax assets in respect of respective cumulative tax losses of HK$53,848,000 (2005: HK$44,652,000) and HK$8,243,000 (2005: HK$7,473,000). The tax losses do not expire under current tax legislation.

# Notes to the Financial Statements *(Continued)*

## 28. CAPITAL AND RESERVES

### (a) The Group

| | Attributable to equity shareholders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserve | Contributed surplus | Exchange reserve | Land and buildings revaluation reserve | Fair value reserve | Revenue reserves | Total equity |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st January 2005 | 66,541 | 109,942 | 10,815 | 173,397 | 10,357 | 586 | – | 133,864 | 505,502 |
| Exchange difference on translation of financial statements of overseas subsidiaries | – | – | – | – | (9,835) | – | – | – | (9,835) |
| Revaluation surplus, net of deferred tax | – | – | – | – | – | 35,005 | – | – | 35,005 |
| Profit for the year | – | – | – | – | – | – | – | 80,347 | 80,347 |
| At 31st December 2005 | 66,541 | 109,942 | 10,815 | 173,397 | 522 | 35,591 | – | 214,211 | 611,019 |
| **At 1st January 2006** | **66,541** | **109,942** | **10,815** | **173,397** | **522** | **35,591** | **–** | **214,211** | **611,019** |
| **Exchange difference on translation of financial statements of overseas subsidiaries** | **–** | **–** | **–** | **–** | **12,169** | **–** | **–** | **–** | **12,169** |
| **Share of exchange reserve of associates** | **–** | **–** | **–** | **–** | **(351)** | **–** | **–** | **–** | **(351)** |
| **Share of exchange reserve of a jointly controlled entity** | **–** | **–** | **–** | **–** | **110** | **–** | **–** | **–** | **110** |
| **Changes in fair value of available-for-sale securities** | **–** | **–** | **–** | **–** | **–** | **–** | **449** | **–** | **449** |
| **Profit for the year** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **29,972** | **29,972** |
| **At 31st December 2006** | **66,541** | **109,942** | **10,815** | **173,397** | **12,450** | **35,591** | **449** | **244,183** | **653,368** |

28. CAPITAL AND RESERVES *(Continued)*

**(a) The Group** *(Continued)*

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

| | The Group | | | |
|---|---|---|---|---|
| | Exchange reserve | | Revenue reserves | |
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| By the Company and its subsidiaries | **13,009** | 840 | **266,331** | 202,048 |
| By associates | **(669)** | (318) | **(22,745)** | 12,163 |
| By a jointly controlled entity | **110** | – | **597** | – |
| Total at 31st December | **12,450** | 522 | **244,183** | 214,211 |

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

**(b) The Company**

| | Share capital | Share premium | Capital reserve | Contributed surplus | Retained profits | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st January 2005 | 66,541 | 109,942 | 9,347 | 175,594 | 258,311 | 619,735 |
| Loss for the year | – | – | – | – | (8,484) | (8,484) |
| At 31st December 2005 | 66,541 | 109,942 | 9,347 | 175,594 | 249,827 | 611,251 |
| **At 1st January 2006** | **66,541** | **109,942** | **9,347** | **175,594** | **249,827** | **611,251** |
| **Profit for the year** | **–** | **–** | **–** | **–** | **85,130** | **85,130** |
| **At 31st December 2006** | **66,541** | **109,942** | **9,347** | **175,594** | **334,957** | **696,381** |

# Notes to the Financial Statements *(Continued)*

28. CAPITAL AND RESERVES *(Continued)*

**(c) Share capital**

| | **2006** Number of shares *('000)* | **2006** *HK$'000* | 2005 Number of shares *('000)* | 2005 *HK$'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 |

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

**(d) Nature and purpose of reserves**

*(i) Share premium*

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

*(ii) Capital reserve and contributed surplus*

The capital reserve and contributed surplus have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill, and discounts arising on subsidiaries, associates and jointly controlled entities.

*(iii) Exchange reserve*

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

*(iv) Revaluation reserve*

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

## 28. CAPITAL AND RESERVES *(Continued)*

### (d) Nature and purpose of reserves *(Continued)*

*(v) Fair value reserve*

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

### (e) Distributability of reserves

At 31st December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$510,551,000 (2005: HK$425,421,000).

## 29. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

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

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. Debtors are due within 30 to 60 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### (b) Liquidity risk

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

# Notes to the Financial Statements *(Continued)*

29. FINANCIAL INSTRUMENTS *(Continued)*

## (c) Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the following indicates the effective interest rate at the balance sheet date and the periods in which they reprice or the maturity date if earlier.

***The Group***

| | 2006 | | | | | | 2005 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Effective interest rate % | Total HK$'000 | One year or less HK$'000 | 1-2 years HK$'000 | 2-5 years HK$'000 | More than 5 years HK$'000 | Effective interest rate % | Total HK$'000 | One year or less HK$'000 | 1-2 years HK$'000 | 2-5 years HK$'000 | More than 5 years HK$'000 |
| **Repricing dates for assets/(liabilities) which reprice before maturity** | | | | | | | | | | | | |
| Cash and cash equivalents | 1.61% | 24,440 | 24,440 | - | - | - | 3.23% | 36,491 | 36,491 | – | – | – |
| Bank overdrafts | 7.14% | (37,140) | (37,140) | - | - | - | 7.32% | (49,141) | (49,141) | – | – | – |
| Bank loans | 5.33% | (103,984) | (69,701) | (8,178) | (25,709) | (396) | 5.60% | (141,824) | (91,344) | (16,387) | (33,228) | (865) |
| Advances from directors | 5.64% | (16,312) | (16,312) | - | - | - | 7.25% | (59,946) | (14,653) | (45,293) | – | – |
| Advances from shareholders | - | - | - | - | - | - | 6.82% | (46,940) | (319) | (46,621) | – | – |
| | | (132,996) | (98,713) | (8,178) | (25,709) | (396) | | (261,360) | (118,966) | (108,301) | (33,228) | (865) |
| **Repricing dates for liabilities which do not reprice before maturity** | | | | | | | | | | | | |
| Amount due to related company | - | - | - | - | - | - | 3.00% | (5,820) | (514) | (5,306) | – | – |
| Finance lease liabilities | 4.64% | (2,460) | (1,380) | (582) | (498) | - | 4.64% | (3,778) | (1,318) | (1,380) | (1,080) | – |
| | | (2,460) | (1,380) | (582) | (498) | - | | (9,598) | (1,832) | (6,686) | (1,080) | – |

***The Company***

The Company did not have any income-earning financial assets or interest-bearing financial liabilities as at 31st December 2006 and 2005.

29. FINANCIAL INSTRUMENTS *(Continued)*

**(d) Foreign currency risk**

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

As the HKD is pegged to the USD, and the RMB pegged to the USD within a narrow band, the Company does not expect any significant movements in the USD/HKD or RMB/HKD exchange rate.

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

**(e) Fair values**

All significant financial assets and liabilities are carried at amounts not materially different from their fair values as at 31st December 2006 and 2005.

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

30. COMMITMENTS

**(a) Capital commitments outstanding at 31st December 2006 not provided for in the financial statements were as follows:**

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Contracted for | **1,173** | 1,669 |

At 31st December 2006 and 2005, the Company did not have any capital commitments.

30. COMMITMENTS *(Continued)*

**(b) At 31st December 2006, the total future lease payments under non-cancellable operating leases are payable as follows:**

| | The Group | | | |
|---|---|---|---|---|
| | Land and buildings | | Others | |
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Within 1 year | **3,328** | 10,203 | **209** | 267 |
| After 1 year but within 5 years | **1,995** | 2,493 | **334** | 429 |
| After 5 years | **287** | – | **–** | – |
| | **5,610** | 12,696 | **543** | 696 |

At 31st December 2006 and 2005, the Company did not have any commitments under operating leases.

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

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

31. CONTINGENT LIABILITIES

At 31st December 2006, there were contingent liabilities in respect of the following:

**(a) Financial guarantees issued**

(i) The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK$327,600,000 (2005: HK$363,760,000).

(ii) The Company has issued letters of support in connection with certain wholly owned subsidiaries with deficiencies in shareholders' funds of HK$89,989,000 (2005: HK$265,230,000) as at 31st December 2006.

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

31. CONTINGENT LIABILITIES *(Continued)*

**(a) Financial guarantees issued** *(Continued)*

As at the balance sheet date, the directors do not consider to be probable that a claim will be made against the Company under any of the guarantees issued. The maximum liability of the company at the balance sheet date under the guarantees issued is the amount of banking facilities drawn down by the relevant subsidiaries of HK$134,313,000 (2005: HK$183,353,000), and the amount of the deficiencies in the shareholder's funds as noted above.

**(b) Litigation**

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

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

31. CONTINGENT LIABILITIES *(Continued)*

**(b) Litigation** *(Continued)*

(ii) *(Continued)*

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

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

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

32. 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 were also covered under a Mandatory Provident Fund ("MPF") scheme, and the existing ORSO scheme was modified to provide extra benefits for existing and new employees. The amount of employer's and employees' contributions to the ORSO scheme are reduced by the amount required to be paid to the MPF scheme. The contributions to the ORSO scheme are supplementary contributions, over and above the minimum MPF requirements. The assets of the ORSO scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the ORSO scheme, the employees are required to make contributions to the ORSO scheme calculated at 5% of their basic salaries on a monthly basis whilst the employer's contributions 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.

## 32. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

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

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

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

## 33. MATERIAL RELATED PARTY TRANSACTIONS

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

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

(b) One of the directors of the Company is also a director and shareholder of a supplier which sold packaging and printing materials to the Group. Total purchases from the supplier amounted to HK$3,723,000 (2005: HK$5,020,000) during the year. The amount due to the supplier at the year end amounted to HK$610,000 (2005: HK$1,311,000).

(c) During the year, the Group purchased moulds from a jointly-controlled entity amounting to HK$3,337,000 (2005: HK$Nil).

(d) During the year, the Group had net interests in certain associates amounting to HK$50,608,000 (2005: HK$158,584,000) in which a director of the Company has beneficial interests. Further details of the associates are given in note 16 to the financial statements.

(e) 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 23 and 24 to the financial statements.

(f) The Group has provided funding to associates. Details of the balance outstanding are disclosed in note 16 to the financial statements.

# Notes to the Financial Statements *(Continued)*

## 34. NON-ADJUSTING POST BALANCE SHEET EVENT

On 12th March 2007, a subsidiary of the Company, Bachmann Industries Inc., acquired a 16.5% interest in The Robot Factory, LLC ("Robotgalaxy") for cash consideration of approximately HK$7,800,000. An additional HK$7,800,000 was invested in Robotgalaxy via a convertible note issued by Robotgalaxy to the Group.

Robotgalaxy is a limited liability company incorporated under the laws of the State of Delaware, United States of America. Robotgalaxy is principally engaged in the sale of toys.

## 35. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

**Impairments**

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

## 36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December 2006 and which have not been adopted in these financial statements.

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

36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER 2006 *(Continued)*

In addition, the following developments may result in new or amended disclosures in the financial statements:

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendment to HKAS 1, Presentation of financial statements: capital disclosures | 1st January 2007 |
| HKFRS 7, Financial instruments: disclosures | 1st January 2007 |
| HKFRS 8, Operating segments | 1st January 2009 |
| HK(IFRIC) 7, Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies | 1st March 2006 |
| HK(IFRIC) 8, Scope of HKFRS 2 | 1st May 2006 |
| HK(IFRIC) 9, Reassessment of embedded derivatives | 1st June 2006 |
| HK(IFRIC) 11, HKFRS 2 – Group and treasury share transactions | 1st March 2007 |
| HK(IFRIC) 12, Service concession arrangements | 1st January 2008 |

# Principal Subsidiaries

*At 31st December 2006*

| | Name | Place of incorporation | Place of operation | Issued and fully paid up share capital (all being ordinary shares except where otherwise stated) | Principal activity | Proportion of ownership interest held by Company | Proportion of ownership interest held by Subsidiaries |
|---|---|---|---|---|---|---|---|
| | Allied Sheen Limited | Hong Kong | Hong Kong | 2 shares of HK$1 each | Property investment | – | 100% |
| | 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% |
| | 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<br>1,001,000 non-voting deferred shares of HK$1 each | Provision of management services | – | 100% |
| * | Dongguan Feng Da Electronics Company Limited *(Note 1)* | China | China | Registered capital HK$1,200,000 | Not commenced business | – | 100% |
| * | Dongguan Kader Electronics Company Limited *(Note 2)* | China | China | Registered capital HK$10,000,000 | Manufacture of toys | – | 100% |
| | 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% |
| * | Globe Fame Group Limited | British Virgin Islands | British Virgin Islands | 1 share of US$1 | Investment holding | 100% | – |

# Principal Subsidiaries *(Continued)*

*At 31st December 2006*

| Name | Place of incorporation | Place of operation | Issued and fully paid up share capital (all being ordinary shares except where otherwise stated) | Principal activity | Proportion of ownership interest held by Company | Proportion of ownership interest held by Subsidiaries |
|---|---|---|---|---|---|---|
| * Great Hope Investments Limited | British Virgin Islands | British Virgin Islands | 1 share of US$1 | Investment holding | – | 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 | Dormant | – | 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 and property investment | – | 100% |
| Sun Marsh Limited | Hong Kong | China | 2 shares of HK$1 each | Property investment | – | 100% |
| * Technic International Development Limited | Hong Kong | Hong Kong | 1 share of HK$1 | Investment holding | – | 100% |
| * Tentdraft Holdings Limited | British Virgin Islands | British Virgin Islands | 25,000 shares of US$1 each | Investment holding | – | 100% |
| Tinco Toys Company Limited | Hong Kong | Hong Kong | 2 shares of HK$1 each | Investment holding and manufacture of soft toys | – | 100% |

*Notes:*

1. Dongguan Feng Da Electronics Company Limited is a wholly foreign owned enterprise registered in the People's Republic of China.

2. Dongguan Kader Electronics Company Limited is a co-operative joint venture registered in the People's Republic of China.

* *Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total turnover constituting approximately 16.02% and 24.09% respectively of the related consolidated totals.*

# Group Properties

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

| Location | Existing use | Term of lease |
|---|---|---|
| Major properties held for investment | | |
| The whole building<br>22 Kai Cheung Road<br>Kowloon Bay, Kowloon<br>Hong Kong | Industrial | Medium-term |
| Flat B on first floor<br>No. 53 Caperidge Drive<br>Crestmont Villa, Peninsula Village<br>Discovery Bay City, Lantau Island<br>Hong Kong | Residential | Medium-term |
| Flat 1915, Block U<br>Telford Garden<br>Kowloon Bay, Kowloon<br>Hong Kong | Residential | Medium-term |
| Whole of Level 16 of<br>China Merchants Tower<br>161 Lujiazui Dong Lu<br>Lujiazui Finance & Trade Zone<br>Pudong, Shanghai<br>The People’s Republic of China | Commercial | Medium-term |

# Five Year Summary *(note 1 and 2)*

## CONSOLIDATED INCOME STATEMENT

| | Note | 2002<br>*HK$'000* | 2003<br>*HK$'000* | 2004<br>*HK$'000* | 2005<br>*HK$'000* | **2006**<br>***HK$'000*** |
|---|---|---|---|---|---|---|
| Turnover | *2* | 353,049 | 495,325 | 501,106 | 539,814 | **643,216** |
| Profit from operations | | 5,230 | 26,983 | 86,974 | 102,423 | **105,385** |
| Finance costs | | (19,959) | (16,731) | (13,767) | (17,062) | **(12,582)** |
| Share of profits less losses of associates | *1* | (13,979) | (9,373) | (11,431) | 10,891 | **(34,908)** |
| Share of profit of a jointly controlled entity | | – | – | – | – | **597** |
| (Loss)/profit before taxation | | (28,708) | 879 | 61,776 | 96,252 | **58,492** |
| Taxation | *2* | (10,734) | (6,209) | (23,023) | (15,905) | **(28,520)** |
| (Loss)/profit for the year | | (39,442) | (5,330) | 38,753 | 80,347 | **29,972** |
| **Attributable to equity shareholders of the Company** | | (39,442) | (5,330) | 38,753 | 80,347 | **29,972** |
| **(LOSS)/EARNINGS PER SHARE** | | (5.93¢) | (0.80¢) | 5.82¢ | 12.07¢ | **4.50¢** |
| **DIVIDEND PER SHARE** | | Nil | Nil | Nil | Nil | **1.50¢** |

# Five Year Summary *(note 1 and 2)* *(Continued)*

## CONSOLIDATED BALANCE SHEET

| | Note | 2002<br>*HK$'000* | 2003<br>*HK$'000* | 2004<br>*HK$'000* | 2005<br>*HK$'000* | **2006**<br>***HK$'000*** |
|---|---|---|---|---|---|---|
| **Assets and liabilities** | | | | | | |
| Fixed assets | | 520,740 | 525,336 | 572,956 | 632,796 | **666,365** |
| Intangible assets | | – | – | 670 | 637 | **603** |
| Interests in associates | *1* | 88,817 | 171,552 | 166,538 | 161,205 | **51,040** |
| Interest in a jointly controlled entity | | – | – | – | 2,536 | **3,554** |
| Other non-current financial assets | | 88,718 | 1,734 | 2,487 | 100 | **8,349** |
| Other non-current assets | | 5,856 | 9,334 | 12,444 | 18,202 | **22,768** |
| Net current (liabilities)/assets | | (53,321) | (63,074) | (1,647) | 3,606 | **6,273** |
| Total assets less current liabilities | | 650,810 | 644,882 | 753,448 | 819,082 | **758,952** |
| Non-current liabilities | | (216,946) | (203,350) | (247,946) | (208,063) | **(105,584)** |
| **NET ASSETS** | | 433,864 | 441,532 | 505,502 | 611,019 | **653,368** |
| **Capital and reserves** | | | | | | |
| Share capital | | 66,541 | 66,541 | 66,541 | 66,541 | **66,541** |
| Reserves | | 367,323 | 374,991 | 438,961 | 544,478 | **586,827** |
| **TOTAL EQUITY** | | 433,864 | 441,532 | 505,502 | 611,019 | **653,368** |
| **NET ASSET VALUE PER SHARE** | | HK$0.65 | HK$0.66 | HK$0.76 | HK$0.92 | **HK$0.98** |

### Notes to the five year summary

1. In order to comply with HKFRS 3, Business combinations and HKAS 36, Impairment of assets, the Group changed its accounting policies relating to goodwill with effect from 1st January 2005. In accordance with the transitional provisions of the standards, the changes have been applied prospectively from 1st January 2005. Figures in years earlier than 2005 are stated in accordance with the policies before the change on a consistent basis.

2. In order to comply with HKAS 40, Investment property and HK(SIC) Interpretation 21, Income taxes - Recovery of revalued non-depreciable assets, the Group changed its accounting policies related to movements in the fair value of investment property and deferred tax thereon with effect from 1st January 2005. In accordance with the transitional provisions of the standards, the changes have been applied retrospectively. Figures in years earlier than 2004 are stated in accordance with the policies before the change on a consistent basis.