KADER HOLDINGS COMPANY LIMITED

ANNUAL REPORT 2004

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Corporate Information

DIRECTORS

Executive Directors:
Kenneth Ting Woo-shou, JP *(Managing Director)*
Patrick Leung Shing-cheung

Non-Executive Directors:
Dr. 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
Patrick Leung Shing-cheung

AUTHORISED REPRESENTATIVES
Kenneth Ting Woo-shou
Patrick Leung Shing-cheung

SOLICITORS
P.C. Woo & Co.

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

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

PRINCIPAL BANKERS
Liu Chong Hing Bank Limited
KBC Bank N. V.
Citic Ka Wah Bank Limited
Hang Seng Bank Limited

AUDITORS
KPMG
Certified Public Accountants

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

HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Kader Holdings Company Limited (the "Company") will be held at 12/F, 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong on Wednesday, 18th May, 2005 at 10:30 a.m. for the following purposes:–

1. To receive and consider the Audited Financial Statements and Reports of the Directors and Auditors for the year ended 31st December, 2004.

2. To elect directors and fix their remuneration.

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

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

(A) "**THAT:–**

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

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

(c) for the purposes of this Resolution:

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

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

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

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

Notice of Annual General Meeting *(Continued)*

(B) "**THAT:–**

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

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

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

(d) for the purposes of this Resolution:

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

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

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

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

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

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

By Order of the Board
Patrick Leung Shing-cheung
Company Secretary

Hong Kong, 12th April, 2005

Notes:

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

(2) To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, shall be deposited at the Principal Place of Business of the Company at 22 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjourned meeting.

(3) An explanatory statement giving the details of item no. 4 of this Notice in relation to the proposed grant of general mandates to repurchase shares and to issue and allot shares of the Company will be sent to Shareholders of the Company together with the 2004 Annual Report.

Chairman's Statement

I have pleasure in presenting to our shareholders the annual report of Kader Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December, 2004.

The Board of Directors of the Company ("the Board") announces that the audited consolidated results of the Group for the year ended 31st December, 2004 recorded an operating turnover of approximately HK$501 million. Profit from ordinary activities before taxation was HK$8,990,000, a remarkable improvement as compared with last year's profit of HK$879,000. In pursuing a prudent financial management strategy, the Board has resolved not to recommend any payment of dividend to the shareholders for the financial year under review.

In 2004, the economy of Hong Kong has exhibited a solid, broad-based upturn. Total exports and imports of goods grew by 15.9% and 16.9% respectively. This satisfactory performance was led by both external and internal sectors. Externally, robust growth in exports of goods and services benefited from the global economic growth especially China as well as improved competitiveness from the weak dollar. Internally, the upsurge of renewed consumer spending and business investment has a positive impact on the sound performance. There has been a major turnaround of asset prices in Hong Kong resulting from a strong inflow of capital funds and the improving economy. As a result, Hong Kong's fiscal account for 2004 returned to a balance from the previous deficit. Deflation is also coming to an end, consumer prices rose again, and the unemployment rate fell.

Looking ahead, the economies of both the PRC and the United States remain optimistic. The coming inauguration of the Disney project during this summer is seen as a catalyst to the continued economic growth in Hong Kong. However, the fluctuations in crude oil and raw material prices, as well as the foreseeable trend of an increasing interest rates will cast some uncertainties over the world economy and hence Hong Kong's continued economic growth. The Board is closely monitoring the situation. Meanwhile, the Group will continue the strategy of seeking attractive development opportunities and is confident to maintain a steady business growth in 2005.

On behalf of the Board, I would like to welcome Mr. Floyd Chan and Mr. Andrew Yao who joined the Board as independent non-executive directors during the second half of 2004. On the other hand, during the year, Mr. William Li resigned as executive director of the Company. On behalf of the Board, I would like to express my sincere thanks to Mr. Li for his invaluable contribution during his service on the Board. At the same time, I welcome Mr. Patrick Leung who succeeded Mr. Li to be the executive director of the Company.

Taking the opportunity, I would like to express my appreciation and thanks to all my fellow directors and staff of the Group for their hard work and contribution to the Group in the past year.

Dennis Ting Hok-shou
Chairman

Hong Kong, 12th April, 2005

Management Discussion and Analysis

RESULTS

The Group's turnover for the financial year ended 31st December, 2004 amounted to approximately HK$501.1 million, representing a slight increase of 1.17% over that reported in the previous financial year. The turnaround profit attributable to shareholders in the financial year of 2004 is approximately HK$3 million. (2003: loss of HK$5 million).

The economic recovery that started in 2003 continues to gain momentum in 2004. Global economic climate remains positive and Hong Kong continues to benefit from the strong economic situation in both the PRC and the United States.

While operating conditions remained difficult, with both labour cost in PRC and prices of raw materials kept increasing and sometimes fluctuating widely, the Group benefited internally from its implementation of various cost effective measures and externally from the weak US dollar that boosted exports.

BUSINESS REVIEW

Toys

During the year under review, the turnover for the OEM/ODM toys business amounted to HK$157.1 million, representing a decrease of 21% as compared to the corresponding period of last year.

The operating condition for manufacturers in 2004 was not much better than that in 2003. Fierce competition and difficult operating conditions had not improved. Raw material prices and other operational costs remained high. To improve profit margin, the Group remained prudent and cautious when taking proposed business orders. As a result, the turnover of OEM business dropped during the year under review. To cope with this situation and to remain competitive, the Group adopted strict policies on cost control, and strived to increase its market share of the OEM products with high profit margin.

Model Trains

The Group is proud to report that during the year under review, the model trains section achieved brilliant performance. Turnover in model trains increased by 18.20% as compared to the corresponding period of last year, amounting to HK$319.6 million.

During the year under review, the Group's model trains continued to be the most favourable products in the field of model train collectors in both the United Kingdom and the United States. In the European market, over the years, the Group has placed considerable efforts in developing its own brand name product lines, Bachmann Branchline, Graham Farish and Lilliput. As such, the Group's efforts have begun to bear fruit. The Graham Farish line, in particular, is well received in the market, and this product dominated 90% of the N-scale market in the United Kingdom. Looking ahead, efforts will continue to be placed in expanding all our product lines further, and enhancing the accessories to strengthen this expansion.

Management Discussion and Analysis *(Continued)*

Another exciting event the Group would like to report is that in 2004, our model train products succeeded in incorporating the latest digital technology into the Bachmann E-Z Command – Digital Command Control (DCC) System, which is both easy to use and affordable for novice and experienced hobbyists alike. The E-Z command allows modelers to digitally control speed, lighting, and direction of multiple locomotives on a single track. Also, unlike other complicated DCC systems, E-Z command simplifies the programming process by using main-track programming.

The Group is confident that the new range of products with this new technology will attract the youngsters to join the railroading fever together with traditional hobbyists. The Group is ambitious to have our railroading products ready to penetrate into the younger population group, thus foreseeing possible promising performance in the coming year.

Property Investment

During the year under review, the Group managed to secure new tenancies both for existing vacant premises and expired tenancies of Kader Building during the year. The occupancy rate increased to 85% as at the year-end as compared with 80% during the corresponding period of last year. One of the tactics to increase occupancy rate was to offer favourable rate to new tenants. This has slightly affected the Group's rental income. The rental income of the Group dropped by 6.98% as compared to the corresponding period of last year.

Following the recent upturn in Hong Kong's property market, the rental market for commercial/ industrial buildings, especially in the Kowloon Bay district, is edging up. The Group is confident that its rental income will grow at a steady pace and provide steadily improving revenue to the Group in the long run.

Benefiting from the recent improvements in the global economy, the Group recorded an appreciation on the valuation of the Group's investment properties. In Hong Kong, the recent auction of the crown land in Kowloon Bay was well received. For this reason, the Group's major rental property in Kowloon Bay, the Kader Building, also appreciated in value as compared with last year.

In Canada, the property market remained active in 2004 and the Group's rental properties in Vancouver also appreciated in value. The Group plans to sell a portion of its properties in Vancouver to take advantage of the active market. Lastly, the property market continues to grow in Shanghai, PRC. Both rental income and property value had increased. The Group decided to hold its properties in Shanghai as a long-term investment.

Investment Holding

Following settlement of the litigation arising from the termination of the agency relating to the management of the Resort at Squaw Creek (the "Resort"), the Group's major investment in the United States, we have partnered with a reputable real estate and hospitality group.

With their expertise and ideas, the ownership was able to conduct a feasibility study on the opportunity for the condominium sale of existing hotel guest rooms. A decision was made thereafter to convert the Resort into a condominium hotel, where guest rooms will be structured as separate condominium units to be marketed and sold to individual owners. The condominium owners may then contribute their units to a rental program managed by the ownership.

Since the main structure of the hotel is already in place, a preliminary launch was planned during Spring 2005 and a second launch to occur in the Fall 2005. At the time of this report, the preliminary launch was extremely successful during which over 60% of the units were sold on the first day of the launch.

The condominium conversion strategy would reduce operating risk for the Resort and provides significant liquidity to the ownership.

Management Discussion and Analysis *(Continued)*

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2004, the Group's current ratio was 1.00 (2003: 0.80). The Group's total bank borrowings were reduced from approximately HK$250 million as reported last year to approximately HK$214 million as at year-end. The financial gearing of the Group, based on the total bank borrowings to the shareholder's equity, was reduced to 42% (2003: 57%). There is no significant seasonality of borrowing requirements except during peak sales period when the Group's trade loans will be comparatively higher.

Capital Structure

During the year ended 31st December, 2004, there were no movements in the Company's share capital. The Group's capital instruments are mainly composed of bank loans and directors' support, which are in HK dollars, sterling pound, US dollars and Canadian dollars at prevailing market rates.

Charges on Group Assets

As at 31st December, 2004, certain investment properties, leasehold land and buildings and other assets of the Group with a total net book value of approximately HK$659 million (2003: HK$621 million) were pledged to banks to secure banking facilities granted to the Group.

Material Acquisitions and Disposals

There are no material acquisitions and disposals during the year ended 31st December, 2004. At the moment, there are no major plans for material investments or capital assets.

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated either in sterling pound, U.S. dollars, Canadian dollars, Renminbi or Hong Kong dollars. During the year under review, the majority of the Group's sales proceeds were in Hong Kong dollars, U.S. dollars and sterling pound while the majority of its raw materials and equipment purchases were required to be settled in HK dollars. As at 31st December, 2004, the Group was not exposed to material exchange risk.

Contingent Liabilities

As at 31st December, 2004, the Group did not have any significant contingent liabilities except:–

a) As reported in the Group's 2003 Annual Report, around May 2003, a Group company was brought into litigation with a supplier of resin materials. The supplier has taken action against the Group company for settlement of a trading debt amounting to HK$643,980. However, the Group company has claimed against the supplier for US$590,000 as the resin materials supplied did not meet the required specifications. No trial dates have been fixed. The directors believe the Group will not suffer any material loss as a result of these claims.

b) As reported in the Group's 2003 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. It was disposed of in mid 1996. The plaintiffs allege claims against Sinomex and the Company of approximately US$5,000,000 for unpaid obligations of Sinomex under the Lease Agreement plus interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees.

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

   On 24th January, 2005, the Arizona court denied the initial motion submitted by the Company. The Company plans to continue to vigorously defend the Litigation, and to assert the defences available to it. This would eliminate or at least significantly reduce the exposure of the Company if those defences prove to be successful.

   Having considered the Litigation with legal counsel to the Company, the 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. In addition, the Company has filed counterclaims against the plaintiff and a cross-claim against Sinomex in the Litigation. On that basis, the Company has not made provision in relation to the Litigation.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2004, the Group employed approximately 5,150 (2003: 4,800) full time management, administrative and production staff in the United States, Europe, PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In the area of staff training, the Group encourages and supports staff to engage and participate in continuing studies and self-enhancement courses.

AUDIT COMMITTEE

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

Management Discussion and Analysis *(Continued)*

PROSPECTS

The year of 2004 witnessed relatively favourable global economic conditions. During the year, the Group managed to achieve its goal in delivering a good performance. In 2005, most determinants of the short-term prospects remain positive, though the rising interest rates may bring new challenges to keep up the economic growth. Fluctuating prices in crude oil and raw materials, together with shortage of labour and electricity in the Guangdong Province, are other challenges that may affect costing significantly. To meet these challenges, the Group will adhere to prudent precautionary policies on cost control, product quality enhancement and productivity improvements. The Group will also continue the strategy of adopting prudent approach on cash management and reducing stock level. While the Group will strengthen its core business, it will continue its drive to develop its own product designs and brand name further, explore new business opportunities and broaden its customer base.

The Board is cautiously optimistic that 2005 will be another prosperous year and is committed to achieving good performance. The ultimate goal is to lead the Group to fulfill its pledge in providing high quality products and maintaining the leading position in the toys industry.

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

Hong Kong, 12th April, 2005

Report of the Directors

The directors of the Company (the "Directors") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31st December, 2004.

PRINCIPAL ACTIVITES

The principal activity of the Company is investment holding.

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

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in Note 9 on the financial statements.

SUBSIDIARIES

Particulars of the Company's major subsidiaries at 31st December, 2004 are set out on pages 72 and 73 of the annual report.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2004.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31st December, 2004 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements of pages 24 to 73 of the annual report.

Movements in reserves during the year are set out in Note 25 on the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 75 and 76 of the annual report.

Report of the Directors *(Continued)*

MAJOR SUPPLIERS AND CUSTOMERS

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

	2004	2003
	%	%
Purchases		
– the largest supplier	**4**	5
– five largest suppliers combined	**16**	20
Sales		
– the largest customer	**10**	16
– five largest customers combined	**29**	35

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

DONATIONS

Donations made by the Group during the year amounted to HK$236,000 (2003: HK$46,000).

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 10 on the financial statements.

PROPERTIES

Particulars of the major properties of the Group are shown on page 74 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, 2004 are set out in Notes 20 and 21 on the financial statements.

SHARE CAPITAL

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

DIRECTORS

The Board of Directors during the financial year were:

Executive Directors:
Kenneth Ting Woo-shou
Patrick Leung Shing-cheung
(Appointed on 30th November, 2004)
William Li Kai-wan
(Resigned on 30th November, 2004)

Non-executive Directors:
Dennis Ting Hok-shou
Moses Cheng Mo-chi

Independent Non-executive Directors:
Liu Chee-ming
Floyd Chan Tsoi-yin *(Appointed on 30th September, 2004)*
Andrew Yao Cho-fai *(Appointed on 30th September, 2004)*

The Company has received from each of its Independent Non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers its Independent Non-executive Directors to be independent. Members of the Board clearly understand their responsibilities and obligations. Two 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 Independent Non-executive Directors.

In accordance with clause 189(ix) of the Company's Bye-laws, Mr. Patrick Leung Shing-cheung, Mr. Moses Cheng Mo-chi, Mr. Liu Chee-ming, Mr. Floyd Chan Tsoi-yin and Mr. Andrew Yao Cho-fai shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Chairman

Dr. Dennis Ting Hok-shou, OBE, JP, aged 71, has been the Non-executive Chairman of the Company since its incorporation in 1989. He has been a director of Kader Industrial Company Limited since 1961.

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

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

Report of the Directors *(Continued)*

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Executive Directors

Mr. Kenneth Ting Woo-shou, JP, aged 62, 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 the Hong Kong General Chamber of Commerce, the Hong Kong Trade Development Council, the Manpower Development Council, the Economic and Employment Council, and the Hong Kong Polytechnic University Court. He also serves as member of the Jiangsu Provincial Committee of the Chinese People's Political Consultative Conference and the Guangdong Provincial Committee of the Chinese People's Political Consultative Conference (Dong Shan District).

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

Mr. Patrick Leung Shing-cheung *(Appointed on 30th November, 2004),* aged 49, holds a Master's Degree in Business Administration and is an associate member of the Chartered Institute of Management Accountants, the Hong Kong Institute of Certified Public Accountants, the Chartered Institute of Bankers and the Institute of Chartered Secretaries and Administrators. Mr. Leung was previously an executive director of the Company but had resigned in 2000 and left for Canada. Mr. Leung then returned to Hong Kong and re-joined the Board in November, 2004. Mr. Leung was also appointed as the company secretary of the Company in November, 2004.

Mr. William Li Kai-wan *(Resigned on 30th November, 2004),* aged 42, is a Fellow Member of the Chartered Association of Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Li was appointed to the Board in 1994 and was responsible for strategic planning and investments of the Group.

Non-executive Director

Mr. Moses Cheng Mo-chi, GBS, OBE, JP, aged 55, 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. He is the senior partner of P.C. Woo & Co., a firm of solicitors and notaries in Hong Kong, the Chairman of the Council and Court of the Hong Kong Baptist University and the Football Betting and Lotteries Commission. 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 was appointed a member of the Legislative Council of Hong Kong from 1991 to 1995.

Mr. Cheng serves on the boards of various listed companies both as independent non-executive director and non-executive director.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Independent Non-executive Directors

Mr. Liu Chee-ming, aged 54, has been an Independent Non-Executive Director of the Company since June 1998. Mr. Liu is the Managing Director of Platinum Securities Company Limited. Prior to setting up Platinum, Mr. Liu was a member of the Executive Committee of Jardine Fleming Holdings Limited where he had worked for 19 years. He was the head of Corporate Finance Division between 1992 and 1996.

Mr. Liu was also a Governor of the Singapore International School between 1991 and 1994, a member of the Takeovers Appeal Committee and Takeovers Panel of the Securities and Futures Commission since May 1995. In 2004, he was appointed as an Independent Non-executive Director of StarHub Limited and China Yuchai International Limited, listed on the Singapore Exchange Limited and the New York Stock Exchange respectively.

Mr. Floyd Chan Tsoi-yin, aged 61, 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 & Co'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. Save as disclosed above, Mr. Chan has not held any other directorship in other listed companies during the past three years or had other major appointments. Mr. Chan joined the Board as independent non-executive director on 30th September, 2004.

Mr. Andrew Yao Cho-fai, aged 39, is a member of Hong Kong Housing Society and the chairman of the Group Two for Federation of Hong Kong Industries. Mr. Yao graduated from the University of California, Berkeley and Harvard Graduate School of Business. He also sits on the Shanghai People's Political Consultative Committee and is the deputy chairman of Shanghai Youths Federation, the deputy chairman of the Hong Kong United Youth Association Limited and a director of the Shanghai Fudan University. Mr. Yao is the chairman and chief executive officer of Van Shung Chong Holdings Limited, the chairman of iSteelAsia Holdings Limited and the independent non-executive director of Grand Investment International Ltd. Save as disclosed above, Mr. Yao did not hold any other directorship in other listed companies during the past three years or had other major appointments. Mr. Yao joined the Board as independent non-executive director on 30th September, 2004.

Report of the Directors *(Continued)*

DIRECTORS' SERVICE CONTRACTS

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

DISCLOSURE OF INTERESTS

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

As at 31st December, 2004, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Interests in the Company

	Number of Ordinary Shares @ 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	94,065,385	586,629 *(i)*	244,175,800 *(ii)*	338,827,814	50.92%
Dennis Ting Hok-shou	9,692,817	275,000 *(iii)*	236,969,800 *(iv)*	246,937,617	37.11%
Patrick Leung Shing-cheung	40,338	–	–	40,338	0.006%
William Li Kai-wan	–	–	–	–	–
Moses Cheng Mo-chi	11,000	–	–	11,000	0.002%
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.

DISCLOSURE OF INTERESTS *(continued)*

Interests in associated corporations

Name of associated corporation	Beneficial interests	Class of shares	No. of shares held Personal Interests	Family Interests	Corporate Interests	% of interests in associated corporation
Allman Holdings Limited	Kenneth Ting Woo-shou	Ordinary shares of US$1.00 each	–	–	920 *(i)*	63.89%
Pacific Squaw Creek, Inc.	Kenneth Ting Woo-shou	Ordinary shares of US$1.00 each	–	–	1,000 *(ii)*	100%
Squaw Creek Associates, LLC	Kenneth Ting Woo-shou	Not applicable *(iii)*	–	–	–	62% *(iv)*
Squaw Creek Associates, LLC	Kenneth Ting Woo-shou	Not applicable *(iii)*	–	–	–	8% *(v)*

Notes:

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

(ii) These interests are held by Allman Holdings Limited. Mr. Kenneth Ting Woo-shou's beneficial interest in Allman Holdings Limited was 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., Mr. Kenneth Ting Woo-shou's beneficial interests in Pacific Squaw Creek, Inc. was disclosed above.

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

All the interests stated above represent long positions. As at 31st December, 2004, 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, 2004, none of the directors or chief executives of the Company nor their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Report of the Directors *(Continued)*

DISCLOSURE OF INTERESTS *(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 Interests

As at 31st December, 2004, save for certain directors' interests in the share capital of the Company as disclosed above, no other person was recorded in the register kept by the Company under section 336 of the SFO, as having an interest of 5% or more of the issued share capital of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

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

During the year, the Group had dealings in packaging printing with New Island Printing Company Limited ("New Island") which are carried out at arm's length and in the ordinary course of business of the Group. Mr. Kenneth Ting Woo-shou was interested in these transactions as a non-executive director and shareholder of New Island. Purchases from New Island during the year amounted to HK$6,401,000 which accounted for approximately 4.0% of the Group's total purchases.

DIRECTORS' INTERESTS IN COMPETING BUSINESS(ES)

During the year and up to the date of this report, Messrs Kenneth Ting Woo-shou and Dennis Ting Hok-shou, Shareholders and Directors of the Company, are considered to have interests in Qualidux Industrial Company Limited, a company engaging in toys manufacturing long before the listing of the Company on The Stock Exchange of Hong Kong Limited, which competes or is likely to compete with the business of the Group pursuant to the Listing Rules on The Stock Exchange of Hong Kong Limited.

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.

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

As at 31st December, 2004, the Group had certain financial assistance to affiliated companies which is disclosed below in accordance with Chapter 13 of the Listing Rules.

Advances to Affiliated Companies

As at 31st December, 2004, the Company advanced a total sum of HK$79,266,000 to its affiliated companies, the details of which are as follows:–

Affiliated Companies	Interest Rate of Advances	Amount of Advances as at 31/12/2004 *(HK$'000)*
Allman Holdings Limited and its subsidiaries	Interest-free	63,500
Mango Designs, LLC	Interest-free	864
Hip Wah Industrial (Development) Limited	Interest-free	7,462
The Melville Street Trust	Interest-free	7,440
		79,266

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

Set out below is a proforma combined balance sheet of the above affiliated companies as at 31st December, 2004 (being the latest practicable date for determining the relevant figures) required to be disclosed under Chapter 13 of the Listing Rules:–

Proforma Combined Balance Sheet as at 31st December, 2004

	HK$'000
Fixed assets	842,160
Net current assets	30,174
Bank loans and shareholders' loans – long term	(593,435)
Surplus in shareholders' funds	278,899

The aggregate of the Group's advances to affiliated companies as at 31st December, 2004 amounted to HK$ 79,266,000 which represents approximately 8.0% of the Group's total assets as at 31st December, 2004.

Report of the Directors *(Continued)*

PURCHASE, SALE OR REDEMPTION OF SHARES

There has been no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year ended 31st December, 2004.

PRE-EMPTIVE RIGHTS

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

CODE OF BEST PRACTICE

The Company complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on The Stock Exchange of Hong Kong Limited except that Independent Non-executive Directors are not appointed for a specific term as they are subject to retirement by rotation at Annual General Meetings in accordance with clause 189 (ix) of the Company's Bye-laws. Arrangements have been made where fixed term appointments of all Non-executive Directors will commence on 1st May, 2005.

AUDITORS

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

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

Hong Kong, 12th April, 2005

Report of the Auditors

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

We have audited the financial statements on pages 24 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 12th April, 2005

Consolidated Income Statement

For the year ended 31st December, 2004

	Note	2004 HK$'000	2003 HK$'000
Turnover	2 & 9	**501,106**	495,325
Other revenue	3(a)	**15,734**	7,391
Other net expense	3(b)	**(5,281)**	(2,880)
Cost of listed investments		**(144)**	–
Changes in inventories of finished goods and work in progress		**(14,718)**	743
Cost of purchase of finished goods		**(18,256)**	(13,254)
Raw materials and consumables used		**(150,155)**	(172,269)
Staff costs		**(142,514)**	(137,352)
Depreciation expenses		**(20,951)**	(21,057)
Other operating expenses		**(130,633)**	(129,664)
Profit from operations		**34,188**	26,983
Finance costs	4(a)	**(13,767)**	(16,731)
Share of loss of associates		**(11,431)**	(9,373)
Profit from ordinary activities before taxation	4	**8,990**	879
Income tax	5	**(5,592)**	(6,209)
Profit/(loss) from ordinary activities after taxation		**3,398**	(5,330)
Minority interests		**–**	–
Profit/(loss) attributable to shareholders	7	**3,398**	(5,330)
Earnings/(loss) per share			
Basic	8(a)	**0.51¢**	(0.80¢)
Diluted	8(b)	**N/A**	N/A

The notes on pages 32 to 73 form part of these financial statements.

Consolidated Balance Sheet

At 31st December, 2004

	Note	2004 HK$'000	2003 HK$'000
Non-current assets			
Fixed assets			
– Investment properties	10	**464,030**	412,801
– Other property, plant and equipment	10	**108,491**	112,535
		572,521	525,336
Investments in associates	12	**166,538**	171,552
Investment in a jointly controlled entity	13	**–**	–
Other non-current financial assets	14	**2,487**	1,734
Deferred taxation	23(b)	**12,444**	9,334
		753,990	707,956
Current assets			
Current investments	15	**–**	144
Inventories	16	**120,710**	144,138
Properties held for resale	17	**1,547**	4,672
Tax recoverable	23(a)	**1,496**	2,978
Trade and other receivables	18	**89,414**	71,860
Cash and cash equivalents		**18,814**	21,796
		231,981	245,588
Current liabilities			
Bank loans and overdrafts	21	**(152,184)**	(210,299)
Trade and other payables	19	**(71,434)**	(83,537)
Obligations under finance leases	22	**(1,410)**	(6,019)
Tax payable	23(a)	**(7,930)**	(8,807)
		(232,958)	(308,662)
Net current liabilities		**(977)**	(63,074)
Total assets less current liabilities carried forward		**753,013**	644,882

Consolidated Balance Sheet *(Continued)*

At 31st December, 2004

	Note	2004 HK$'000	2003 HK$'000
Total assets less current liabilities brought forward		**753,013**	644,882
Non-current liabilities			
Interest-bearing borrowings	20	**(212,111)**	(167,358)
Rental deposits		**(5,685)**	(5,656)
Obligations under finance leases	22	**(898)**	(1,163)
Deferred taxation	23(b)	**(26,820)**	(27,286)
Accrued employee benefits		**(1,531)**	(1,887)
		(247,045)	(203,350)
Minority interests		**–**	–
NET ASSETS		**505,968**	441,532
CAPITAL AND RESERVES			
Share capital	24	**66,541**	66,541
Reserves	25	**439,427**	374,991
		505,968	441,532

Approved and authorised for issue by the Board of Directors on 12th April, 2005.

Kenneth Ting Woo-shou
Director

Patrick Leung Shing-cheung
Director

The notes on pages 32 to 73 form part of these financial statements.

Balance Sheet

At 31st December, 2004

	Note	2004 HK$'000	2003 HK$'000
Non-current assets			
Investments in subsidiaries	11	**620,359**	609,664
Investment in a jointly controlled entity	13	**–**	–
		620,359	609,664
Current assets			
Cash and cash equivalents		**19**	61
Current liabilities			
Trade and other payables	19	**(580)**	(366,568)
Net current liabilities		**(561)**	(366,507)
Total assets less current liabilities		**619,798**	243,157
Non-current liabilities			
Amounts due to subsidiaries		**–**	(39,821)
Accrued employee benefits		**(63)**	(265)
		(63)	(40,086)
NET ASSETS		**619,735**	203,071
CAPITAL AND RESERVES			
Share capital	24	**66,541**	66,541
Reserves	25	**553,194**	136,530
		619,735	203,071

Approved and authorised for issue by the Board of Directors on 12th April, 2005.

Kenneth Ting Woo-shou
Director

Patrick Leung Shing-cheung
Director

The notes on pages 32 to 73 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2004

	Note	2004 HK$'000	2003 HK$'000
Shareholders' equity at 1st January		**441,532**	433,864
Surplus on revaluation of investment properties, net of deferred tax	25	**52,322**	8,189
Exchange differences on translation of the financial statements of foreign entities	25	**5,313**	4,810
Net gains not recognised in the income statement		**57,635**	12,999
Net profit/(loss) for the year		**3,398**	(5,330)
Movements in contributed surplus: Write off of goodwill	25	**3,403**	–
Movements in capital reserve: Write off of goodwill	25	**–**	(1)
Shareholders' equity at 31st December		**505,968**	441,532

The notes on pages 32 to 73 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	Note	2004 HK$'000	2003 HK$'000
Operating activities			
Profit from ordinary activities before taxation		**8,990**	879
Adjustments for:			
Depreciation of fixed assets		**20,951**	21,057
Impairment loss in respect of fixed assets		**10,078**	2,984
Finance costs		**13,767**	16,731
Dividend income		**(5)**	(1)
Interest income		**(172)**	(51)
Share of loss of associates		**11,431**	9,373
(Gain)/loss from partnership		**(753)**	1,853
Net loss/(gain) on disposal of fixed assets		**1,844**	(203)
Gain on sales of listed investments		**(94)**	–
Unrealised loss on listed investments		**–**	14
Unrealised gain on revaluation of investment in Squaw Creek Associates, LLC	(b)	**–**	(1,727)
Write off of goodwill		**3,403**	(1)
Foreign exchange loss		**4,761**	5,518
Operating profit before changes in working capital		**74,201**	56,426
Decrease in inventories		**23,428**	14,768
(Increase)/decrease in trade and other receivables		**(17,554)**	744
(Decrease)/increase in creditors and accrued charges		**(3,867)**	16,889
Decrease in rental deposits received		**(341)**	(443)
Decrease in accrued employee benefits		**(356)**	(502)
Cash generated from operations		**75,511**	87,882
Tax paid			
Hong Kong Profits Tax paid		**(753)**	(1,542)
Overseas tax paid		**(9,260)**	(6,178)
Net cash from operating activities		**65,498**	80,162

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31st December, 2004

	Note	2004 HK$'000	2003 HK$'000
Investing activities			
Payment for purchase of fixed assets	(a)	**(24,194)**	(18,406)
Proceeds from disposal of fixed assets		**418**	215
Decrease in properties held for resale		**3,125**	–
Proceeds from sales of listed investments		**238**	–
Interest received		**172**	51
Dividend received		**5**	1
Capital element of distributions from partnership		**–**	7,511
Increase in investments in associates	(b)	**(7,197)**	–
Decrease/(increase) in amounts due from associates		**441**	(13,372)
Increase in interest in Squaw Creek Associates, LLC	(b)	**–**	(584)
Net cash used in investing activities		**(26,992)**	(24,584)
Financing activities			
Proceeds from new bank loans		**338,322**	291,796
Repayment of bank loans		**(338,513)**	(328,406)
Net (decrease)/increase in bank overdrafts		**(35,965)**	6,621
Capital element of finance lease rentals paid		**(6,078)**	(5,882)
Proceeds from new loans from shareholders		**49,715**	–
Repayment of loans from shareholders		**(38,800)**	–
Increase in amounts due to related companies and related parties		**–**	2,437
Proceeds from new loans from directors		**11,122**	7,019
Interest paid		**(21,455)**	(16,396)
Interest element of finance lease rentals paid		**(179)**	(474)
Net cash used in financing activities		**(41,831)**	(43,285)
Net (decrease)/increase in cash and cash equivalents		**(3,325)**	12,293
Cash and cash equivalents at 1st January		**21,796**	9,090
Effect of foreign exchange rates changes		**343**	413
Cash and cash equivalents at 31st December		**18,814**	21,796

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31st December, 2004

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(a) During the year, the Group entered into finance leases amounting to HK$1,204,000 for the purchase of fixed assets.

(b) During the year ended 31st December, 2003, the Group's associate company purchased additional shareholding in Squaw Creek Associates, LLC ("SCA") and SCA also became an associate of the Group. At this point, the Group's investment in SCA was reclassified from other investments to investments in associates. Further details are set out in Note 12.

Notes on the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("New HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(c) Basis of preparation of the financial statements

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

(d) Subsidiaries

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

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

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

(e) Associates and jointly controlled entities

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

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

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with Note 1(f).

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

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

(f) Goodwill

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

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

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

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

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Goodwill *(Continued)*

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

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Other investments in securities

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

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

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

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

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

(h) Interest in partnership

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Fixed assets

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

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

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

(c) construction in progress is stated in the balance sheet at cost less impairment losses (see Note 1(k)); and

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Depreciation

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

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

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

(iv) Depreciation is provided on the written down value of other fixed assets at the following rates:

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

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

(k) Impairment of assets

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

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

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

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

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Leased assets

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

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 1(j). 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 the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Assets held for use in operating leases

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

(iii) Operating lease charges

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

(m) Inventories

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

Cost is calculated using the FIFO cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Inventories *(Continued)*

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

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

(n) Properties held for resale

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

(o) Cash equivalents

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

(p) Employee benefits

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

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

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

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

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

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

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

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

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

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

  - the same taxable entity; or

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

(r) Provisions and contingent liabilities

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition

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

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

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

(iii) Dividends

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

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

(iv) Interest income

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

(t) Translation of foreign currencies

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

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

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

Notes on the Financial Statements *(Continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Borrowing costs

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

(v) Related parties

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

(w) Segment reporting

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

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

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

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

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

2. TURNOVER

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

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

	2004	2003
	HK$'000	*HK$'000*
Sale of goods	**476,744**	469,395
Rental income	**24,119**	25,929
Proceeds from disposal of listed investments	**238**	–
Investment income	**5**	1
	501,106	495,325

3. OTHER REVENUE AND NET EXPENSE

	2004	2003
	HK$'000	*HK$'000*
(a) Other revenue		
Interest income	**172**	51
Air conditioning, management and maintenance service charges from tenants	**4,546**	4,124
Service income	**4**	910
Waive of amount due to related parties and related companies	**1,257**	–
Compensation received for withdrawal from joint venture *(Note 13)*	**4,717**	–
Others	**5,038**	2,306
	15,734	7,391
(b) Other net expense		
Unrealised gain on revaluation of investment in Squaw Creek Associates, LLC *(Note 12)*	**–**	1,727
Net (loss)/gain on disposal of fixed assets	**(1,844)**	203
Net exchange loss	**(4,190)**	(2,943)
Unrealised loss on listed investments	**–**	(14)
Income/(loss) from partnership	**753**	(1,853)
	(5,281)	(2,880)

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2004	2003
	HK$'000	*HK$'000*
(a) Finance costs		
Interest on bank advances repayable within 5 years	**5,882**	9,545
Interest on advances from directors	**4,022**	3,857
Interest on advances from shareholders	**3,098**	2,327
Interest on amounts due to related parties/ related companies	**126**	122
Interest on other loans	**460**	406
Finance charges on obligations under finance leases	**179**	474
	13,767	16,731
(b) Other items		
Cost of inventories sold	**341,641**	342,503
Write off of goodwill	**3,403**	(1)
Amortisation of positive goodwill included in the share of loss of associates	**485**	185
Depreciation		
– owned assets	**20,430**	20,568
– assets held under finance leases	**521**	489
Impairment loss in respect of fixed assets	**10,078**	2,984
Auditors' remuneration	**1,638**	1,680
Operating lease charges		
– rental on land and buildings	**12,693**	11,891
– other rental	**488**	439
Employer's contributions to defined contribution retirement plans, net of forfeited contributions of HK$100,000 (2003: HK$241,000) *(Note 28)*	**5,573**	5,008
Dividend income from listed investments	**(1)**	(1)
Dividend income from unlisted investments	**(4)**	–
Gross rental income from investment properties less direct outgoings of HK$3,107,000 (2003: HK$3,649,000)	**(21,012)**	(22,280)

Cost of inventories includes HK$99,706,000 (2003: HK$102,804,000) 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.

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2004	2003
	HK$'000	*HK$'000*
Current tax-Provision for Hong Kong Profits Tax		
Tax for the year	**480**	963
Current tax-Overseas including the PRC		
Tax for the year	**9,874**	7,341
(Over)/under-provision in respect of prior years	**(36)**	3
	9,838	7,344
Deferred tax		
Origination and reversal of temporary differences	**(4,772)**	(3,137)
Adjustments in respect of previous years	**46**	(27)
Effect of increase in tax rate on deferred tax balances at 1st January	**–**	798
	(4,726)	(2,366)
Share of associates' taxation	**–**	268
	5,592	6,209

The provision for Hong Kong Profits Tax is calculated at 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.

Notes on the Financial Statements *(Continued)*

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

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

	2004	2003
	HK$'000	*HK$'000*
Profits before tax	**8,990**	879
Notional tax on profits before tax, calculated at the rates applicable to profits in the countries concerned	**1,635**	108
Tax effect on non-deductible expenses	**13,497**	9,009
Tax effect of non-taxable revenue	**(3,957)**	(14)
Tax effect of tax losses not recognised	**1,100**	759
Tax effect of unrecognised tax losses utilised this year	**(6,548)**	(4,438)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	**–**	798
Under/(over)-provision in prior years	**11**	(24)
Others	**(146)**	11
Actual tax expense	**5,592**	6,209

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

	2004	2003
	HK$'000	*HK$'000*
(i) Executive directors		
Fees	**80**	80
Other emoluments:		
Salaries and other benefits	**2,644**	2,503
Pension scheme contributions	**197**	203
	2,841	2,706
	2,921	2,786
(ii) Non-executive directors		
Fees	**90**	80
Other emoluments:		
Salaries and other benefits	**334**	334
Pension scheme contributions	**33**	33
	367	367
	457	447

The remuneration of the directors is within the following bands:

	2004 Number of directors	2003 Number of directors
HK$Nil to HK$1,000,000	**7**	4
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**–**	1

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

(b) Employees' emoluments

During the year ended 31st December, 2004, the five highest paid individuals included one (2003: one) director, details of whose emoluments are set out in Note 6(a). The emoluments of the remaining of the five highest paid individuals, excluding commissions on sales generated by the employees, are as follows:

	2004	2003
	HK$'000	*HK$'000*
Salaries and other benefits	**4,302**	4,004
Bonus	**626**	138
Pension scheme contributions	**492**	154
	5,420	4,296

The emoluments of the four (2003: four) individuals with the highest emoluments are within the following band:

	2004	2003
	Number of employees	Number of employees
HK$1,000,001 to HK$1,500,000	**4**	4

7. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit/(loss) attributable to shareholders includes a profit of HK$416,664,000 (2003: HK$3,510,000) which has been dealt with in the financial statements of the Company.

8. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of HK$3,398,000 (2003 : loss of HK$5,330,000) and the weighted average of 665,412,000 ordinary shares (2003: 665,412,000 shares) in issue during the year.

(b) Diluted earnings/(loss) per share

The diluted earnings/(loss) per share is not presented as the Company does not have dilutive potential ordinary shares outstanding during both 2003 and 2004.

9. SEGMENT REPORTING

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

Business segments

The Group comprises the following main business segments:

Toys and model trains: The manufacture and sale of plastic, electronic and stuffed toys and model trains.

Property investment: The leasing of office premises, industrial building and residential units to generate rental income and to gain from the appreciation in the properties' value in the long-term.

Investment holding and trading: The investment in partnership and trading of listed securities.

	Toys and model trains		Property investment		Investment holding and trading		Unallocated		Inter-segment elimination		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	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	**476,744**	469,395	**24,119**	25,929	**243**	1	**–**	–	**–**	–	**501,106**	495,325
Inter-segment revenue	**–**	–	**687**	687	**–**	–	**–**	–	**(687)**	(687)	**–**	–
Other revenue from external customers	**3,229**	1,640	**4,558**	4,462	**–**	325	**6,518**	913	**–**	–	**14,305**	7,340
Total	**479,973**	471,035	**29,364**	31,078	**243**	326	**6,518**	913	**(687)**	(687)	**515,411**	502,665
Segment result	**19,672**	15,729	**20,131**	22,514	**(6,852)**	(3,944)	**2,156**	(5,717)	**–**	–	**35,107**	28,582
Unallocated operating income and expenses											**(919)**	(1,599)
Profit from operations											**34,188**	26,983
Finance costs											**(13,767)**	(16,731)
Share of loss of associates							**(11,431)**	(9,373)			**(11,431)**	(9,373)
Taxation											**(5,592)**	(6,209)
Profit/(loss) attributable to shareholders											**3,398**	(5,330)
Depreciation for the year	**16,759**	17,129	**3,419**	2,982	**–**	–	**773**	946	**–**	–	**20,951**	21,057
Impairment loss in respect of fixed assets	**10,078**	2,984	**–**	–	**–**	–	**–**	–	**–**	–	**10,078**	2,984

Notes on the Financial Statements *(Continued)*

9. 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	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	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	**330,291**	339,928	**468,888**	423,163	**2,487**	1,938	**315,296**	356,677	**(311,469)**	(352,026)	**805,493**	769,680
Investments in associates											**166,538**	171,552
Unallocated assets											**13,940**	12,312
Total assets											**985,971**	953,544
Segment liabilities	**310,659**	360,855	**46,610**	101,343	**68,989**	59,501	**330,464**	306,246	**(311,469)**	(352,026)	**445,253**	475,919
Unallocated liabilities											**34,750**	36,093
Total liabilities											**480,003**	512,012
Capital expenditure incurred during the year	**25,398**	18,406	**–**	–	**–**	–	**–**	–	**–**	–	**25,398**	18,406

9. SEGMENT REPORTING *(Continued)*

Geographical segments

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

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

	Hong Kong and China		North America		Europe		Others	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**73,367**	79,108	**216,545**	251,529	**191,139**	134,710	**20,055**	29,978
Segment assets	**867,088**	885,975	**138,284**	134,617	**111,590**	101,114	**–**	–
Capital expenditure incurred during the year	**18,003**	15,593	**1,607**	219	**5,788**	2,594	**–**	–

Notes on the Financial Statements *(Continued)*

10. FIXED ASSETS

The Group

	Land and buildings		Construction			Investment properties			
	In Hong Kong	Outside Hong Kong	in progress	Equipment	Sub-total	In Hong Kong	Outside Hong Kong	Sub-total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:									
At 1st January, 2004	14,131	26,691	–	439,588	480,410	345,950	66,851	412,801	893,211
Exchange differences	–	1,205	–	1,758	2,963	–	–	–	2,963
Reclassification	(1,800)	–	–	–	(1,800)	1,800	–	1,800	–
Additions	–	542	2,679	22,177	25,398	–	–	–	25,398
Disposals	–	–	–	(15,957)	(15,957)	–	–	–	(15,957)
Surplus on revaluation *(Note (b) below)*	–	–	–	–	–	46,211	6,551	52,762	52,762
At 31st December, 2004	12,331	28,438	2,679	447,566	491,014	393,961	73,402	467,363	958,377
Representing:									
Cost	12,331	28,438	2,679	447,566	491,014	–	10,000	10,000	501,014
Valuation – 2004	–	–	–	–	–	393,961	63,402	457,363	457,363
	12,331	28,438	2,679	447,566	491,014	393,961	73,402	467,363	958,377
Accumulated depreciation:									
At 1st January, 2004	6,202	8,908	–	352,765	367,875	–	–	–	367,875
Exchange differences	–	156	–	1,201	1,357	–	–	–	1,357
Reclassification	(710)	–	–	–	(710)	710	–	710	–
Charge for the year	297	557	–	16,764	17,618	–	3,333	3,333	20,951
Impairment loss *(Note (c) below)*	–	–	–	10,078	10,078	–	–	–	10,078
Written back on disposals	–	–	–	(13,695)	(13,695)	–	–	–	(13,695)
Written back on revaluation *(Note (b) below)*	–	–	–	–	–	(710)	–	(710)	(710)
At 31st December, 2004	5,789	9,621	–	367,113	382,523	–	3,333	3,333	385,856
Net book value:									
At 31st December, 2004	**6,542**	**18,817**	**2,679**	**80,453**	**108,491**	**393,961**	**70,069**	**464,030**	**572,521**
At 31st December, 2003	7,929	17,783	–	86,823	112,535	345,950	66,851	412,801	525,336

10. FIXED ASSETS *(Continued)*

(a) Land and buildings comprise:

	2004	2003
	HK$'000	*HK$'000*
At net book value:		
Medium-term leases in Hong Kong	**6,542**	7,929
Freehold outside Hong Kong	**18,817**	17,783

(b) Investment properties comprise:

	2004	2003
	HK$'000	*HK$'000*
At valuation:		
In Hong Kong		
Medium-term leases	**393,961**	345,950
Outside Hong Kong		
Short-term leases	**6,667**	10,000
Medium-term leases	**37,000**	34,841
Freehold	**26,402**	22,010
	70,069	66,851

The investment properties of the Group at 31st December, 2004 were revalued by DTZ Debenham Tie Leung and Johnston, Ross & Cheng Limited, external professional valuers, on an open market 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 net revaluation surplus of HK$53,472,000 (2003: HK$8,395,000) was credited to the investment properties revaluation reserve (Note 25).

(c) Impairment loss

During the year, the Group's directors assessed the recoverable amount of the Group's moulds and equipments. Based on this assessment, the carrying value of certain of those moulds and equipments was written down by HK$10,078,000 (included in "Other operating expenses").

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

10. FIXED ASSETS *(Continued)*

(e) Certain fixed assets of the Group were mortgaged to various banks to secure banking facilities granted to the Group. Details are disclosed in Note 21.

(f) The Group leases production plant and machinery under finance leases expiring in three 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. The net book value of fixed assets included an amount of HK$2,736,000 (2003: HK$1,955,000) in respect of assets held under finance leases.

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

The carrying amount of the investment properties of the Group held for use in operating leases was HK$464,030,000 (2003: HK$412,801,000).

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

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Within 1 year	**19,513**	16,713
After 1 year but within 5 years	**19,601**	16,633
	39,114	33,346

11. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**244,480**	244,480
Add: Amounts due from subsidiaries	**617,817**	607,122
Less: Impairment losses	**(241,938)**	(241,938)
	620,359	609,664

Details of the major subsidiaries at 31st December, 2004 which principally affect the results or assets of the Group are shown on pages 72 and 73.

12. INVESTMENTS IN ASSOCIATES

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets	**78,235**	82,323
Amounts due from associates	**79,266**	79,707
Goodwill	**9,037**	9,522
	166,538	171,552

Details of the major associates at 31st December, 2004, which principally affect the results or assets of the Group, are as follows:

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

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

In January 2004, Allman disposed of 10% ownership interest in SCA to a third party, as a result of the disposal, the Group's effective interest in SCA decreased from approximately 36% to 32%.

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

12. INVESTMENTS IN ASSOCIATES *(Continued)*

Prior to becoming an associate, the Group's ownership interest of 10% in SCA held by the Group's subsidiary was classified as other investments under "Other non-current financial assets". The valuation of the resort owned by SCA was performed by an independent firm of professional valuers using an income capitalisation approach and the related share of the unrealised gain on the revaluation attributable to the Group prior to SCA becoming an associates was HK$1,727,000, which was reflected in the Group's consolidated income statement for the year ended 31st December, 2003 (see Note 3(b)). Similar to the Group's interest in SCA held under investments, Allman's interest in SCA had been stated at market value in equity accounting for Allman's results. The resultant unrealised loss on revaluation attributable to Allman up to 19th August, 2003 was HK$5,936,000. Of this loss attributable to Allman, the Group's 50% share, amounting to HK$2,968,000, had been reflected in the share of loss of associates in the Group's consolidated income statement for the year ended 31st December, 2003.

13. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	The Group		**The Company**	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Share of net assets	**–**	–		
Unlisted shares, at cost			**–**	68,151
Less: Impairment loss			**–**	(68,151)
			–	–

Details of the Group's investment in a jointly controlled entity as at 31st December, 2003 were as follows:

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

During the year, the Group withdrew from the joint venture and received a compensation of RMB5,000,000 (approximately HK$4,717,000) which has been reflected in the consolidated income statement under "Other revenue" (see Note 3(a)).

14. OTHER NON-CURRENT FINANCIAL ASSETS

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Interest in partnership	**2,387**	1,634
Investment securities		
Unlisted equity securities	**100**	100
	2,487	1,734

15. CURRENT INVESTMENTS

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Trading securities – at market value		
Equity securities listed in Hong Kong	**–**	144

16. INVENTORIES

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	**23,362**	32,072
Work in progress	**3,568**	5,395
Finished goods	**93,780**	106,671
	120,710	144,138

The amount of inventories (included above) carried at net realisable value is HK$1,293,000 (2003: HK$11,651,000). In addition, finished goods inventories are stated net of a general provision of HK$6,285,000 (2003: HK$4,180,000) made in order to state those inventories at the lower of cost and estimated net realisable value.

Finished goods inventories of HK$86,769,000 (2003: HK$97,464,000) were pledged to banks to secure banking facilities granted to the Group. See Note 21.

17. PROPERTIES HELD FOR RESALE

During the year 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. These residential units are included in "properties held for resale" as at 31st December, 2003 and 2004. Two of these residential units were sold to third parties during the year and there was no material gain or loss on the sale.

18. TRADE AND OTHER RECEIVABLES

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Debtors and prepayments	**89,414**	71,860

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

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

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Current	**71,821**	50,584
1 to 3 months overdue	**7,854**	10,530
More than 3 months overdue but less than 12 months overdue	**963**	2,344
More than 12 months overdue	**799**	774
	81,437	64,232

Debtors are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

19. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts due to directors	**5,427**	12,160	**–**	–
Amounts due to shareholders	**859**	2,174	**–**	–
Amounts due to related companies	**3,174**	3,355	**–**	–
Amounts due to related parties	**1,200**	2,130	**–**	–
Creditors and accrued charges	**59,366**	61,940	**580**	660
Rental deposits	**1,408**	1,778	**–**	–
Amounts due to subsidiaries	**–**	–	**–**	365,908
	71,434	83,537	**580**	366,568

Amounts due to directors and shareholders and amounts due to related companies of HK$383,000 (2003: HK$237,000) represent interest on advances from them included under non-current interest-bearing borrowings (Note 20) and are repayable semi-annually or monthly.

Amounts due to related companies of HK$2,791,000 (2003: HK$3,118,000) and related parties are unsecured, interest free and have no fixed term of repayments.

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

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

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Due within 1 month or on demand	**12,708**	14,219
Due after 1 month but within 3 months	**6,417**	6,909
Due after 3 months but within 6 months	**780**	383
Due after 6 months but within 12 months	**123**	833
	20,028	22,344

Notes on the Financial Statements *(Continued)*

20. NON-CURRENT INTEREST-BEARING BORROWINGS

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Bank loans *(Note 21)*	**61,989**	39,273
Advances from directors	**86,695**	75,573
Advances from shareholders	**58,121**	47,206
Amounts due to related companies	**5,155**	5,155
Amount due to a related party	**151**	151
	212,111	167,358

Amounts due to directors, shareholders, related companies and related party are unsecured, interest bearing at 3% or prime less 1% to prime plus 0.5% and repayable after 31st December, 2005.

21. BANK LOANS AND OVERDRAFTS

At 31st December, 2004, bank loans and overdrafts were repayable as follows:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Within 1 year or on demand	**152,184**	210,299
After 1 year but within 2 years	**18,857**	13,389
After 2 years but within 5 years	**23,356**	20,328
After 5 years	**19,776**	5,556
	61,989	39,273
	214,173	249,572

21. BANK LOANS AND OVERDRAFTS *(Continued)*

At 31st December, 2004, bank loans and overdrafts were secured as follows:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Bank overdrafts		
– secured	**21,430**	46,489
– unsecured	**2,869**	13,775
	24,299	60,264
Bank loans		
– secured	**171,760**	144,216
– unsecured	**18,114**	45,092
	189,874	189,308
	214,173	249,572

At 31st December, 2004, certain investment properties, leasehold land and buildings and other assets of the Group with net book value of HK$659,157,000 (2003: HK$621,170,000) were mortgaged to various banks to secure banking facilities granted to the Group. Details are as follows:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Investment properties	**457,363**	402,801
Land and buildings	**25,359**	25,712
Inventories	**86,769**	97,464
Other assets	**89,666**	95,193
	659,157	621,170

22. OBLIGATIONS UNDER FINANCE LEASES

At 31st December, 2004, the Group had obligations under finance leases repayable as follows:

	2004			2003		
	Present value of minimum lease payments	**Interest expense relating to future periods**	**Total minimum lease payments**	Present value of minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	**1,410**	**49**	**1,459**	6,019	162	6,181
After 1 year but within 2 years	**255**	**29**	**284**	1,163	10	1,173
After 2 years but within 5 years	**643**	**31**	**674**	–	–	–
	898	**60**	**958**	1,163	10	1,173
	2,308	**109**	**2,417**	7,182	172	7,354

23. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	**480**	963
Provisional Profits Tax paid	**(722)**	(932)
	(242)	31
Overseas taxation payable	**6,676**	5,798
	6,434	5,829
Representing:		
Tax recoverable	**(1,496)**	(2,978)
Tax payable	**7,930**	8,807
	6,434	5,829

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

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Depreciation allowance in excess of related depreciation	Revaluation of properties	Revaluation of other securities	Investments in partnership /associates	Provisions and allowances	Future benefit of tax losses	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2003	1,456	10,344	14,169	(959)	(1,880)	(936)	(2,083)	20,111
Charged/(credited) to consolidated income statement	(415)	1,225	691	(1,068)	(759)	936	(2,976)	(2,366)
Transfer	–	–	(14,860)	14,860	–	–	–	-
Charged to reserves *(Note 25)*	206	–	–	–	–	–	–	206
Exchange difference	1	–	–	–	–	–	–	1
At 31st December, 2003	1,248	11,569	–	12,833	(2,639)	–	(5,059)	17,952
At 1st January, 2004	**1,248**	**11,569**	**–**	**12,833**	**(2,639)**	**–**	**(5,059)**	**17,952**
Charged/(credited) to consolidated income statement	**(876)**	**–**	**–**	**(829)**	**667**	**–**	**(3,688)**	**(4,726)**
Charged to reserves *(Note 25)*	**–**	**1,150**	**–**	**–**	**–**	**–**	**–**	**1,150**
At 31st December, 2004	**372**	**12,719**	**–**	**12,004**	**(1,972)**	**–**	**(8,747)**	**14,376**

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

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

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Net deferred tax asset recognised on the balance sheet	**(12,444)**	(9,334)
Net deferred tax liability recognised on the balance sheet	**26,820**	27,286
	14,376	17,952

(c) Deferred tax assets not recognised

The Group and the Company have tax losses of HK$125,895,000 (2003: HK$158,427,000) and $5,641,000 (2003: $3,795,000) which have not been recognised as deferred tax assets. The tax losses do not expire under current tax legislation in Hong Kong.

24. SHARE CAPITAL

	2004		2003	
	Number of shares *('000)*	***HK$'000***	Number of shares *('000)*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:				
At 1st January and 31st December	**665,412**	**66,541**	665,412	66,541

25. RESERVES

	The Group		The Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Investment properties revaluation reserve				
At 1st January	**17,718**	9,529	**–**	–
Surplus arising on revaluation *(Note 10(b))*, net of deferred tax *(Note 23(b))*	**52,322**	8,189	**–**	–
At 31st December	**70,040**	17,718	**–**	–
Exchange reserves				
At 1st January	**5,044**	234	**–**	–
Exchange translation differences on translation of financial statements of overseas subsidiaries	**5,313**	4,810	**–**	–
At 31st December	**10,357**	5,044	**–**	–
Contributed surplus				
At 1st January	**169,994**	169,994	**175,594**	175,594
Write off of goodwill	**3,403**	–	**–**	–
At 31st December	**173,397**	169,994	**175,594**	175,594
Capital reserve				
At 1st January	**10,815**	10,816	**9,347**	9,347
Write off of goodwill	**–**	(1)	**–**	–
At 31st December	**10,815**	10,815	**9,347**	9,347
Share premium				
At 1st January and 31st December	**109,942**	109,942	**109,942**	109,942
Revenue reserves				
At 1st January	**61,478**	66,808	**(158,353)**	(161,863)
Profit/(loss) for the year	**3,398**	(5,330)	**416,664**	3,510
At 31st December	**64,876**	61,478	**258,311**	(158,353)
Total reserves at 31st December	**439,427**	374,991	**553,194**	136,530

25. RESERVES *(Continued)*

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

	The Group			
	Exchange reserves		Revenue reserves	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By the Company and its subsidiaries	**10,673**	5,021	**139,146**	129,034
By associates	**(316)**	23	**(1,544)**	9,887
By a jointly controlled entity	**–**	–	**(72,726)**	(77,443)
Total at 31st December	**10,357**	5,044	**64,876**	61,478

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

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

The Company's reserves available for distribution to shareholders at 31st December, 2004 are as follows:

	The Company	
	2004	2003
	HK$'000	*HK$'000*
Contributed surplus	**175,594**	175,594
Revenue reserves	**258,311**	(158,353)
	433,905	17,241

26. COMMITMENTS

(a) Capital commitments outstanding at 31st December, 2004 not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Contracted for	**4,334**	159

At 31st December, 2004 and 2003, the Company did not have any capital commitments.

26. COMMITMENTS *(Continued)*

(b) At 31st December, 2004, the total future lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	Land and buildings		Others	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	**4,868**	11,691	**53**	124
After 1 year but within 5 years	**2,395**	6,760	**379**	294
	7,263	18,451	**432**	418

At 31st December, 2004 and 2003, the Company did not have any commitments under operating leases.

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

27. CONTINGENT LIABILITIES

At 31st December, 2004, there were contingent liabilities in respect of the following:

(a) The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK$371,318,000 (2003: HK$449,798,000).

(b) The Company has issued letters of support in connection with certain wholly owned subsidiaries with deficiencies in shareholders' funds of HK$212,158,000 (2003: HK$198,006,000) as at 31st December, 2004.

(c) Litigation

(i) Around May 2003, a Group company was bought into litigation with a supplier of resin materials. The supplier has taken action against the Group company for settlement of a trading debt amounting to HK$643,980. However, the Group company has counter claimed against the supplier for US$590,000 as the resin materials supplied did not meet the required specifications. No trial dates have been fixed. The directors believed the Group will not suffer any material loss as a result of these claims.

Notes on the Financial Statements *(Continued)*

27. CONTINGENT LIABILITIES *(Continued)*

(c) Litigation *(Continued)*

(ii) During the last quarter of 2003, a Mexican company commenced a law suit in the State of Arizona against the Company based on their claims that the Company is a guarantor for a Lease Agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. ("Sinomex") as tenant ("Litigation"). Sinomex was a member company of the Group that was disposed in mid 1996. The plaintiffs allege claims against Sinomex and the Company of approximately US$5,000,000 for unpaid obligations of Sinomex under the Lease Agreement plus interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees.

In early January of 2004, the Company's legal counsel filed a Motion to Dismiss the complaint in the Litigation based upon the applicable law of Arizona and that of the location of the property, Hermosillo, Mexico. In that Motion, the Company argues that the Arizona court has insufficient subject matter and personal jurisdiction over the Company under the Guarantee for the case to continue in that court, and as such, the case should be dismissed in favour of the Company.

On 24th January, 2005, the Arizona court denied the initial motion submitted by the Company. The Company plans to continue to vigorously defend the Litigation, and to assert the defences available to it. This would eliminate or at least significantly reduce the exposure of the Company if those defences prove to be successful.

Having considered the Litigation with legal counsel to the Company, the 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. In addition, the Company has filed counterclaims against the plaintiff and a cross-claim against Sinomex in the Litigation. On that basis, the Company has not made provision in relation to the Litigation.

28. EMPLOYEE RETIREMENT BENEFITS

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

28. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

Where there are employees who leave the ORSO scheme prior to vesting fully in the contributions, in accordance with the rules of the ORSO scheme, the forfeited employer's contributions shall be used to reduce the future contributions of the employer. At the balance sheet date, the total amount of forfeited contributions which are available to reduce the contributions payable in the future years was HK$Nil (2003: HK$ Nil).

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.

29. MATERIAL RELATED PARTY TRANSACTIONS

(a) One of the directors of the Company is also a director and shareholder of a supplier which sold packaging and printing materials to the Group under the same terms as those available to other customers in the ordinary course of business. Total purchases from the supplier amounted to HK$6,401,000 (2003: HK$6,486,000) during the year. The amount due to the supplier at the year end amounted to HK$1,551,000 (2003: HK$1,325,000).

(b) During the year, the Group had net interests in certain associates amounting to HK$173,231,000 (2003: HK$177,459,000) in which a director of the Company has beneficial interests. Further details are given in Note 12 on the financial statements.

(c) During the year, the Group has obtained funding from certain directors, shareholders, related companies and related parties to finance its operations. Details of the terms of the advances and the balances outstanding are disclosed in Notes 4, 19 and 20 on the financial statements.

(d) The Group has provided funding of HK$300,000 to a related party which is unsecured, interest free and has no fixed repayment terms. During the year ended 31st December, 2003, the Group had made full provision against the amount from this related party.

(e) During the year, an ex-director and minority interest of the Group's subsidiary waived the amount due from this subsidiary of HK$930,000 and HK$327,000 respectively.

(f) The Group has provided funding to associates. Details of the balance outstanding are disclosed in Note 12 on the financial statements.

Principal Subsidiaries

At 31st December, 2004

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

Principal Subsidiaries *(Continued)*

At 31st December, 2004

Name	Place/ country of incorporation	Place/ country of operation	Issued and fully paid up share capital (all being ordinary shares except otherwise stated)	Principal activities	Proportion of ownership interest held by Company	Subsidiaries
Grafar Limited	UK	UK	5,000 shares of £1 each	Manufacture and sale of model trains	–	100%
Graham Farish Limited	UK	UK	4,439 shares of £1 each	Investment holding	–	100%
Great Hope Investments Limited	British Virgin Islands	British Virgin Islands	1 share of US$1 each	Investment holding	100%	–
Intertrans 148 Limited	UK	UK	2 shares of £1 each	Development of model trains	–	100%
Joy Gain Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Kader Enterprises Limited	Hong Kong	China	1,500,000 shares of HK$10 each	Property investment	–	100%
Kader Industrial Company Limited	Hong Kong	Hong Kong	412,532,000 shares of HK$0.5 each	Manufacture of toys and property investment	100%	–
Nice Cheer Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Noble Fine Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
Starrex Investment Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	Investment holding	–	100%
Sun Marsh Limited	Hong Kong	China	2 shares of HK$1 each	Property investment	–	100%
* Tentdraft Holdings Limited	British Virgin Islands	British Virgin Islands	25,000 shares of US$1 each	Property investment	–	100%
Tinco Toys Company Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	Investment holding and manufacture of soft toys	–	100%

Notes:

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

2. During the year ended 31st December, 2004, the Group purchased 560 ordinary shares of Emission Laboratory (H.K.) Limited so that it became a wholly-owned subsidiary of the Group.

* *Companies not audited by the primary auditors. The total net assets and turnover of these companies constitute approximately 14.8% and 26.4% respectively of the Group totals.*

Major Properties

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

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

Five Year Summary

	2000 *HK$'000*	2001 *HK$'000*	2002 *HK$'000*	2003 *HK$'000*	**2004** ***HK$'000***
CONSOLIDATED INCOME STATEMENT					
Turnover	319,966	430,637	353,049	495,325	**501,106**
Profit from operations	1,781	23,365	5,230	26,983	**34,188**
Finance costs	(34,611)	(31,390)	(19,959)	(16,731)	**(13,767)**
Share of (loss)/profit of associates	39,627	(2,035)	(13,979)	(9,373)	**(11,431)**
Profit/(loss) from ordinary activities before taxation	6,797	(10,060)	(28,708)	879	**8,990**
Income tax	(1,765)	(14,779)	(10,734)	(6,209)	**(5,592)**
Profit/(loss) from ordinary activities after taxation	5,032	(24,839)	(39,442)	(5,330)	**3,398**
Minority interests	–	–	–	–	**–**
Profit/(loss) attributable to shareholders	5,032	(24,839)	(39,442)	(5,330)	**3,398**
EARNINGS/(LOSS) PER SHARE	0.76¢	(3.73¢)	(5.93¢)	(0.80¢)	**0.51¢**
DIVIDEND PER SHARE	Nil	Nil	Nil	Nil	**Nil**

Five Year Summary *(Continued)*

	2000 *HK$'000*	2001 *HK$'000*	2002 *HK$'000*	2003 *HK$'000*	**2004** ***HK$'000***
CONSOLIDATED BALANCE SHEET					
Fixed assets	505,988	525,732	520,740	525,336	**572,521**
Investments in associates	186,329	94,928	88,817	171,552	**166,538**
Investment in a jointly controlled entity	–	–	–	–	**–**
Other non-current financial assets	93,179	94,948	88,718	1,734	**2,487**
Other non-current assets	4,992	2,496	5,856	9,334	**12,444**
Net current liabilities	(18,078)	(64,602)	(53,321)	(63,074)	**(977)**
Total assets less current liabilities	772,410	653,502	650,810	644,882	**753,013**
Non-current liabilities	(265,103)	(161,245)	(216,946)	(203,350)	**(247,045)**
Minority interests	–	–	–	–	**–**
	507,307	492,257	433,864	441,532	**505,968**
Share capital	66,508	66,541	66,541	66,541	**66,541**
Reserves	440,799	425,716	367,323	374,991	**439,427**
	507,307	492,257	433,864	441,532	**505,968**