

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, 2005.

PRINCIPAL ACTIVITIES

The Company is a company incorporated in Bermuda under the Companies Act 1981 with limited liability. The principal activity of the Company is investment holding.

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

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

SUBSIDIARIES

Particulars of the Company’s major subsidiaries at 31st December, 2005 are set out on pages 104 and 105 of the annual report.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2005.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31st December, 2005 and the state of the Company’s and the Group’s affairs at that date are set out in the financial statements of pages 33 to 105 of the annual report.

Movements in reserves during the year are set out in note 28 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 107 and 108 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:

	2005	2004
	%	%
Purchases		
– the largest supplier	9	4
– five largest suppliers combined	19	16
Sales		
– the largest customer	18	10
– five largest customers combined	36	29

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\$81,000 (2004: HK\$236,000).

FIXED ASSETS

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

PROPERTIES

Particulars of the major properties of the Group are shown on page 106 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, 2005 are set out in notes 22 and 25 on the financial statements.

SHARE CAPITAL

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

Report of the Directors *(Continued)*

DIRECTORS

The Board of Directors during the financial year were:

Executive Directors:

Kenneth Ting Woo-shou
Patrick Leung Shing-cheung
(Resigned on 4th April, 2006)

Non-executive Directors:

Dennis Ting Hok-shou
Moses Cheng Mo-chi

Independent Non-executive Directors:

Liu Chee-ming
Floyd Chan Tsoi-yin
Andrew Yao Cho-fai

The following Executive Director was appointed after the end of the financial year:

Ivan Ting Tien-li *(Appointed on 4th April, 2006)*

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. Four meetings of the Board were convened during the financial year to review the Group's management accounts, accounting procedures and internal control system, with the attendance of Independent Non-executive Directors.

At the Annual General Meeting, Dr. Dennis Ting Hok-shou and Mr. Floyd Chan Tsoi-yin will retire by rotation in accordance with the Company's Bye-laws 109(A) and 189(ix), and Mr. Ivan Ting Tien-li will retire in accordance with the Company's Bye-laws 109(A) and 189(v) 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 72, has been the Non-executive Chairman of the Company since its incorporation in 1989. He has been a director of Kader Industrial Company Limited since 1961.

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

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

Report of the Directors *(Continued)*

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Executive Directors

Mr. Kenneth Ting Woo-shou, JP, aged 63, 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 the brother of Dr. Dennis Ting Hok-shou and father of Mr. Ivan Ting Tien-li.

Mr. Ivan Ting Tien-li (Appointed on 4th April, 2006), aged 31, holds a Bachelor Degree in International Politics and Economics. He has been the Executive Director of Kader Industrial Company Limited, the major subsidiary of the Company since 1998. Apart from this, he also serves as director of certain other subsidiaries of the Company. Mr. Ting currently serves as the Vice Chairman of the Hong Kong Exporters' Association. He is also the Vice Chairman of Young Entrepreneurs' Organization – Hong Kong Chapter. He is the son of Mr. Kenneth Ting Woo-shou, the Managing Director and Chief Executive Officer of the Company, and the nephew of Dr. Dennis Ting Hok-shou, the Non-executive Chairman of the Company.

Mr. Patrick Leung Shing-cheung (Resigned on 4th April, 2006), aged 50, 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.

Report of the Directors *(Continued)*

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Non-executive Director

Mr. Moses Cheng Mo-chi, GBS, OBE, JP, aged 56, 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.

Independent Non-executive Directors

Mr. Liu Chee-ming, aged 55, has been an Independent Non-executive Director of the Company since June 1998. Mr. Liu is the Managing Director of Platinum Securities Company Limited. Prior to setting up Platinum, Mr. Liu was a member of the Executive Committee of Jardine Fleming Holdings Limited where he had worked for 19 years. He was the head of Corporate Finance Division between 1992 and 1996.

Mr. Liu is an independent non-executive director of StarHub Ltd (listed on the Singapore Exchange Ltd) and L. K. Technology Holdings Limited. He is also a non-executive director of Media Asia Entertainment Group Ltd (listed on the Singapore Exchange Ltd) and a director of Yantai Raffles Shipyard Pte Ltd. He has been a member of the Takeovers Appeal Committee and Takeovers and Mergers Panel of the Securities and Futures Commission in Hong Kong since May 1995.

Mr. Floyd Chan Tsoi-yin, aged 62, is a member of the American Institute of Certified Public Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants. He has been a partner of BDO Seidman in the United States for many years. He is the Asia Pacific Regional Coordinator of BDO International and a member of BDO McCabe Lo Limited's executive committee in Hong Kong. He has significant experience in assisting clients in exploring business opportunities in the Asia Pacific region, particularly the Southeast Asian developing countries and the People's Republic of China. He is also closely involved with assisting clients in developing business in North America and Europe and avoiding some of the pitfalls associated with international business. 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.

Report of the Directors *(Continued)*

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Independent Non-executive Directors *(Continued)*

Mr. Andrew Yao Cho-fai, aged 40, graduated from the University of California, Berkeley and Harvard Graduate School of Business, is Chairman & CEO of Van Shung Chong Holdings Ltd (“VSC”), Hong Kong listed company 1001, also the director of iSteelAsia Holdings Limited (now renamed North Asia Strategic Holdings Ltd). He is married with 3 children aged 6 (daughter) and 4 (twin sons).

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

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

DIRECTORS’ SERVICE CONTRACTS

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

Report of the Directors *(Continued)*

DISCLOSURE OF INTERESTS

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

The Directors of the Company who held office at 31st December, 2005 had the following interests in the shares of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO:

Interests in the Company

Name of Directors	Number of Ordinary Shares @ HK\$0.10 each				% of total issued shares
	Personal Interests	Family Interests	Corporate Interests	Total number of shares held	
Kenneth Ting Woo-shou	94,225,385	586,629 (i)	244,175,800 (ii)	338,987,814	50.94%
Dennis Ting Hok-shou	9,692,817	275,000 (iii)	236,969,800 (iv)	246,937,617	37.11%
Patrick Leung Shing-cheung	338	–	–	338	0.00%
Moses Cheng Mo-chi	11,000	–	–	11,000	0.00%
Liu Chee-ming	–	–	1,000,000	1,000,000	0.15%
Floyd Chan Tsoi-yin	–	–	–	–	–
Andrew Yao Cho-fai	–	–	–	–	–

Notes:

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

Report of the Directors *(Continued)*

DISCLOSURE OF INTERESTS *(Continued)*

Interests in associated corporations

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

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 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.

Report of the Directors *(Continued)*

DISCLOSURE OF INTERESTS *(Continued)*

Interests in associated corporations *(Continued)*

All the interests stated above represent long positions. As at 31st December, 2005, 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, 2005, none of the directors or chief executives of the Company nor their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Directors' Rights to Acquire Shares or Debentures

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

Substantial Shareholder's Interests

As at 31st December, 2005, save for certain directors' interests in the share capital of the Company as disclosed above, no other person was recorded in the register kept by the Company under section 336 of the SFO, as having an interest of 5% or more of the issued share capital of the Company.

Sufficiency of Public Float

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

DIRECTORS' INTERESTS IN CONTRACTS

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

During the year, the Group had dealings in packaging printing with New Island Printing Company Limited ("New Island") which are carried out at arm's length and in the ordinary course of business of the Group. Mr. Kenneth Ting Woo-shou was interested in these transactions as a non-executive director and shareholder of New Island. Purchases from New Island during the year amounted to HK\$5.02 million which accounted for approximately 2.2% of the Group's total purchases.

Report of the Directors *(Continued)*

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.

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, 2005, the Group provided 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, 2005, the Company advanced a total sum of HK\$78,246,000 to its affiliated companies, the details of which are as follows:—

Affiliated Companies	Interest Rate of Advances	Amount of Advances <i>HK\$'000</i>
Allman Holdings Limited and its subsidiary	Interest-free	63,066
Hip Wah Industrial (Development) Limited	Interest-free	7,462
The Melville Street Trust	Interest-free	7,718
		<hr/>
		78,246
		<hr/> <hr/>

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.

Report of the Directors *(Continued)*

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES *(Continued)*

Advances to Affiliated Companies *(Continued)*

Set out below is a proforma combined balance sheet of the above affiliated companies as at 31st December, 2005 (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, 2005

	<i>HK\$'000</i>
Fixed assets	753,845
Net current assets	69,119
Bank loans and shareholders' loans – long term	<u>(312,412)</u>
Surplus in shareholders' funds	<u><u>510,552</u></u>

The aggregate of the Group's advances to affiliated companies as at 31st December, 2005 amounted to HK\$78,246,000 which represents approximately 7.4% of the Group's total assets as at 31st December, 2005.

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, 2005.

PRE-EMPTIVE RIGHTS

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board regularly reviews and adopts corporate governance guidelines and developments. Throughout the year ended 31 December 2005, the Group has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except that CG Code A.4.2 requires that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Steps are being taken to amend the bye-laws of the Company with a view to ensuring full compliance with the requirements of this CG Code provision. One of the major steps required is to amend or repeal The Kader Holdings Company Limited Company Act 1990 of Bermuda, which is a private Act pursuant to which the Company was incorporated. The Company has retained a firm of legal advisers in Bermuda to advise on and undertake this.

Apart from the above-mentioned non-compliance of CG Code A.4.2, none of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31st December, 2005 in compliance with the CG Code.

Report of the Directors *(Continued)*

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the “Model Code”) set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Throughout the period under review, all Directors have confirmed, following specific enquiry by the Company, that they were in compliance with the Model Code.

AUDITORS

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

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

Hong Kong, 19th April, 2006