NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. Reporting entity

Kader Holdings Company Limited is a company domiciled in Bermuda. The consolidated interim financial report of the Company as at and for the six months ended 30th June 2006 comprises the Company and its subsidiaries and the Group's interests in associates and a jointly controlled entity.

The financial report of the Group as at and for the year ended 31st December 2005 are available upon request from the Company's principal office at 11/F, 22 Kai Cheung Road, Kowloon Bay, Kowloon or at http://www.kaderholdings.com.

2. Basis of preparation

This consolidated interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

This consolidated interim financial report were approved by the Board of Directors and authorised for issue on 14th September 2006.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1st January 2006. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31st December 2006, on the basis of HKFRSs currently in issue and effective for the current accounting period. The adoption of these new and revised HKFRSs which are expected to be reflected in the 2006 annual financial statements would not have a significant impact on the Group's results of operations and financial position.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31st December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainly at the date of issuance of this interim financial report.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

2. Basis of preparation *(Continued)*

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

The financial information relating to the financial year ended 31st December 2005 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st December 2005 are available from the Company's principal office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 19th April 2006.

3. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31st December 2005.

4. Segment reporting

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

Business segments

The Group comprises the following main business segments:

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

4. Segment reporting *(Continued)*

	Toys and model trains		Property investment		Investment holding		Unallocated		Inter-segment elimination		Consolidated	
Six months ended 30th June	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**190,519**	187,567	**12,241**	12,356	**–**	–	**–**	–	**–**	–	**202,760**	199,923
Inter-segment revenue	**–**	–	**489**	429	**–**	–	**–**	–	**(489)**	(429)	**–**	–
Other revenue from external customers	**2,906**	1,587	**3,264**	3,094	**480**	75	**–**	773	**–**	–	**6,650**	5,529
Total	**193,425**	189,154	**15,994**	15,879	**480**	75	**–**	773	**(489)**	(429)	**209,410**	205,452
Segment result	**23**	3,176	**12,522**	8,557	**694**	(2,458)	**(1,216)**	(201)	**–**	–	**12,023**	9,074
Unallocated operating income and expenses											**426**	607
Profit from operations											**12,449**	9,681

5. Seasonality of operations

The Group's toys and model trains division, a separate business segment (see note 4), on average experiences higher sales in the second half year, compared to the first half year, due to the increased demand of its products during the holiday season. As such, the first half year reports lower revenues and segment results for this segment than the second half.

6. Profit/(loss) before taxation

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

		Unaudited Six months ended 30th June	
		2006	2005
		HK$'000	*HK$'000*
(a)	**Finance costs**		
	Finance charges on obligations under finance leases	**81**	36
	Interest on other borrowings	**6,735**	7,184
		6,816	7,220
(b)	**Other items**		
	Cost of inventories	**122,264**	122,688
	Amortisation of intangible assets	**18**	–
	Net gain on disposal of fixed assets	**(73)**	(205)
	Net loss on sale of property held for resale	**315**	–

7. Income tax

	Unaudited Six months ended 30th June **2006** *HK$'000*	2005 *HK$'000*
Hong Kong taxation	**–**	–
Overseas taxation	**620**	260
Deferred taxation	**(166)**	(3,094)
Income tax charge/(credit)	**454**	(2,834)

No provision for Hong Kong Profits Tax has been recorded for the six months ended 30th June 2006 as accumulated tax losses brought forward exceed the estimated assessable profits for the period or they sustained losses for taxation purposes. Taxation for overseas subsidiaries is similarly calculated by using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$8,624,000 (six months ended 30th June 2005: HK$787,000) and the weighted average number of ordinary shares of 665,412,000 (2005: 665,412,000).

(b) Diluted earnings per share

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

9. Fixed assets

(a) Acquisitions and disposals

During the six months ended 30th June 2006, the Group acquired items of fixed assets with a cost of HK$11,246,000 (six months ended 30th June 2005: HK$17,992,000). Items of fixed assets with a net book value of HK$193,000 were disposed of during the six months ended 30th June 2006 (six months ended 30th June 2005: HK$13,422,000), resulting in a loss on disposal of HK$73,000 (six months ended 30th June 2005: HK$1,600,000).

(b) Valuation

Investment properties carried at fair value were revalued at 31st December 2005 by an independent firm of surveyors, DTZ Debenham Tie Leung, who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis.

The directors have reviewed the valuation of the investment properties since the previous annual reporting date taking into account the volatility of the property market and available market data on comparable properties, and consider that the investment properties as at 30th June 2006 are carried at fair value.

10. Inventories

During six months ended 30th June 2006 HK$2,851,000 (six months ended 30th June 2005: write-down HK$274,000) has been recognised as a reduction (six months ended 30th June 2005: addition) in the amount of inventories recognised as a expense during the period, being the reversal of a write-down (six months ended 30th June 2005: write down) of inventories to estimated net realisable value.

11. Trade and other receivables

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

	At 30th June 2006 *HK$'000*	At 31st December 2005 *HK$'000*
Current	**45,435**	67,116
1 to 3 months overdue	**6,358**	10,519
More than 3 months overdue but less than 12 months overdue	**733**	630
More than 12 months overdue	**–**	202
Total trade debtors, net of impairment losses	**52,526**	78,467
Other debtors and prepayments	**17,553**	7,655
	70,079	86,122

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

12. Cash and cash equivalents

	At 30th June 2006 *HK$'000*	At 31st December 2005 *HK$'000*
Cash and cash equivalents in the balance sheet	**14,531**	36,491
Bank overdrafts	**(31,002)**	(49,141)
Cash and cash equivalents in the consolidated cash flow statement	**(16,471)**	(12,650)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(Continued)*

13. Trade and other payables

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

	At 30th June 2006 *HK$'000*	At 31st December 2005 *HK$'000*
Due within 1 month or on demand	**32,223**	8,218
Due after 1 month but within 3 months	**3,388**	8,812
Due after 3 months but within 6 months	**82**	264
Due after 6 months	**1,375**	1,239
Total trade creditors	**37,068**	18,533
Other payables	**101,015**	77,242
	138,083	95,775

14. Capital and reserves

	Attributable to equity shareholders of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Contributed surplus *HK$'000*	Exchange reserve *HK$'000*	Fair value reserve *HK$'000*	Land and buildings revaluation reserve *HK$'000*	Revenue reserves *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1st January 2005	66,541	109,942	10,815	173,397	10,357	–	586	133,864	505,502	–	505,502
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	–	(9,835)	–	–	–	(9,835)	–	(9,835)
Revaluation surplus, net of deferred tax	–	–	–	–	–	–	35,005	–	35,005	–	35,005
Profit for the year	–	–	–	–	–	–	–	80,347	80,347	–	80,347
At 31st December 2005	66,541	109,942	10,815	173,397	522	–	35,591	214,211	611,019	–	611,019
At 1st January 2006	**66,541**	**109,942**	**10,815**	**173,397**	**522**	**-**	**35,591**	**214,211**	**611,019**	**-**	**611,019**
Exchange difference on translation of financial statements of overseas subsidiaries	**-**	**-**	**-**	**-**	**5,096**	**-**	**-**	**-**	**5,096**	**-**	**5,096**
Share of exchange reserve of associates	**-**	**-**	**-**	**-**	**(335)**	**-**	**-**	**-**	**(335)**	**-**	**(335)**
Changes in fair value of available-for-sale securities	**-**	**-**	**-**	**-**	**-**	**(278)**	**-**	**-**	**(278)**	**-**	**(278)**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,624**	**8,624**	**-**	**8,624**
At 30th June 2006	**66,541**	**109,942**	**10,815**	**173,397**	**5,283**	**(278)**	**35,591**	**222,835**	**624,126**	**-**	**624,126**

15. Material related party transactions

(a) One of the directors of the Company is a non-executive director and shareholder of a supplier which sold packaging and printing materials to the Group under the same terms as those available to other customers in the ordinary course of business. Total purchases from the supplier during the period amounted to HK$2,042,000 (six months ended 30th June 2005: HK$2,462,000). The amount due to the supplier at the period end amounted to HK$754,000 (at 31st December 2005: HK$1,311,000).

(b) During the period, the Group had net interests in certain associates amounting to HK$64,370,000 (at 31st December 2005: HK$158,584,000) in which a director of the Company has beneficial interests.

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

	At 30th June 2006 *HK$'000*	At 31st December 2005 *HK$'000*
Directors	**23,601**	59,946
Shareholders	**40,197**	46,940
Related companies	**2,445**	8,620
Related parties	**–**	1,200

The above balances are unsecured, interest bearing at 3% or Hong Kong prime rate ("prime") less 2% (2005: at 3% or prime less 1% to prime plus 0.5%) and repayable after 30th June 2007.

16. Contingent liabilities

(a) The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK$342,600,000 at 30th June 2006 (at 31st December 2005: HK$363,760,000).

(b) Litigation

(i) As reported in the Group's 2003, 2004 and 2005 Annual Report, an action was commenced in 2003 by a supplier of resin materials (the "Supplier") against a Group company in the Hong Kong High Court for payment of a trading debt amounting to HK$643,980. HK$20,853 of this debt has already been paid by the Group company pursuant to a court order. About 75% of the remaining debt is not disputed by the Group company. However, this has not been paid because the court ordered that this action should be tried together with a separate action commenced by the Group company against the same supplier in 2003 for damages amounting to US$590,000 on the basis, inter alia, that bulk resin supplied by the Supplier did not reasonably correspond with the sample first provided and tested by the Group company. The effect of both actions being tried together is that the court will take into account, and set-off, any damages awarded in either action to produce a net result. The trial date has been fixed for the third quarter of 2006. The directors believe the Group will not suffer any material loss as a result of these actions. In the meantime, the Group has made adequate provisions for the Group company's legal costs estimated to be incurred in taking both actions to trial.

16. Contingent liabilities *(Continued)*

(b) Litigation *(Continued)*

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

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

In 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 proved to be successful. Currently, the Company is undertaking discovery to develop the various factual and legal defenses to the lawsuit.

Having considered the Litigation with the Company's legal counsel, 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, were meritorious. As such, the Company intends to continue to vigorously defend the Litigation. On that basis, the Company has not made provision in relation to the claims under the Litigation, while anticipated legal cost has been sufficiently provided for.