KADER

*Manufacturing Trust*

# KADER HOLDINGS COMPANY LIMITED

## ANNUAL REPORT 2008

(Stock Code : 180)

# Contents

# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors:**
Kenneth Ting Woo-shou *SBS, JP (Managing Director)*
Ivan Ting Tien-li
Nancy Ting Wang Wan-sun

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

**Independent Non-executive Directors:**
Liu Chee-ming
Floyd Chan Tsoi-yin
Andrew Yao Cho-fai *JP*
Desmond Chum Kwan-yue
Ronald Montalto

## COMPANY SECRETARY
Lee Kwok-wan

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

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

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

## 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 HM12
Bermuda

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

## INDEPENDENT AUDITORS
KPMG
Certified Public Accountants

## PRINCIPAL REGISTRARS
The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

## HONG KONG BRANCH REGISTRARS AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

# Chairman's Statement

I have pleasure in presenting to our shareholders the annual report of Kader Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

On behalf of the Board of Directors of the Company, I am pleased to report that the Group's turnover for the financial year ended 31 December 2008 amounted to approximately HK$911.19 million, representing an increase of 26.25% over that reported last year and that profit from operations for the year 2008 amounted to HK$93.80 million as compared to last year's figure of HK$90.90 million. The Group's loss attributable to shareholders for the financial year ended 31 December 2008 was approximately HK$27.65 million, which included valuation losses on investment properties amounting to HK$47.43 million, as compared to last year's profit attributable to shareholders of HK$126.60 million and valuation gains of HK$104.29 million.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: HK1.5 cents per share).

2008 continued to be a challenging year. Toy manufacturers were confronted with the continuing escalation of raw material costs, the appreciation of the Renminbi Yuan ("RMB") and stringent product safety requirements. In addition to the above, the New Labour Contract Law which took effect on 1 January 2008 and the increase in statutory minimum wages from 1 April 2008 announced by Guangdong and Dongguan, in the People's Republic of China (the "PRC"), have further impacted all labour intensive industries in the Pearl River Delta Region. Despite these challenges, the Group continued to experience sales growth in the OEM toys business through its dedication to producing trustworthy products. To broaden our revenue streams, the Group has increased efforts to attract new customers and expand the market share in the toys and model train business through acquisitions.

For 2009, the outlook for the global economy has become less certain as the ripple effect of the financial crisis, particularly in the United States, continues. Most of the developed economies will possibly be facing lower growth and higher inflation in the short run while economic growth in Hong Kong is expected to continue but at a slower pace. The business environment will remain difficult for the foreseeable future while pressure associated with rising labour costs following the New Labour Contract Law, RMB currency appreciation and economic uncertainties persist. Despite the significant increase in manufacturing costs and uncertainty, the Group will continue to strive to improve production efficiency and bring returns to shareholders. In addition, the Group will continue to seek opportunities to strengthen its business growth by expanding its market share.

On behalf of the Board of Directors, I would like to take this opportunity to express my appreciation to all employees who devoted themselves to the Group during the past year. Their contributions are unfailing and most instrumental to the success of the Group. In addition, I would like to welcome Mr. Desmond Chum Kwan-yue and Mr. Ronald Montalto who joined the Group as Independent Non-executive Directors in March 2009 and in April 2009 respectively. I also take this opportunity to extend our gratitude to our customers, suppliers, business partners and shareholders for their steadfast support of the Group.

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

Hong Kong, 17 April 2009

# Management Discussion and Analysis

## RESULTS

The Board of Directors have pleasure in announcing that the Group's turnover for the financial year ended 31 December 2008 amounted to approximately HK$911.19 million, representing an increase of 26.25% over that reported last year and that profit from operations for the year 2008 amounted to HK$93.80 million as compared to last year's figure of HK$90.90 million. The Group's loss attributable to shareholders for the financial year ended 31 December 2008 was approximately HK$27.65 million, which included valuation losses on investment properties amounting to HK$47.43 million, as compared to last year's profit attributable of shareholders of HK$126.60 million and valuation gains on investment properties of HK$104.29 a million.

## BUSINESS REVIEW

2008 continued to be a challenging year for toy manufacturers. During the year under review, the industry faced adverse factors such as the financial crisis, high labour costs, spiraling raw material costs, increasing energy costs, appreciation of the Renminbi Yuan ("RMB") and product recalls by major toy retailers in the United States ("US"). However, the Group has managed these challenges and exercised measures to minimise the impact on the Group.

The New Labour Contract Law in Mainland China which came into effect on 1 January 2008 and the increase in statutory minimum wages announced by local government in Guangdong and Dongguan has increased labour costs, whilst the financial crisis has affected the global economy. Given the continued appreciation of the RMB, high labour costs and increasing commodity prices, the operating environment in 2009 is expected to be as challenging.

To face these challenges, the Group continued its stringent control policies in both production and financial management. The Group placed emphasis on modernising and scrutinising production methods to increase efficiency and to maximise productivity. The Group continues to develop high value added products and integrates technology with its toy products.

Looking back, the Group's ability to weather adverse operating conditions has been the foundation on which the Group has built its reputation as a trusted manufacturer. Looking forward, the Group will continue its mission of forging long-term relationships with customers by continuing to provide products they can trust.

### Toys

For the financial year ended 31 December 2008, the turnover for the Group's OEM/ODM toys business was approximately HK$502.59 million, representing an increase of 80.49% as compared to last year.

The growth in OEM/ODM toy sales was partly attributable to the sales team which secured more bulk order business from existing customers and broadened our customer base.

The Group continues to be committed to maintaining its competitiveness in terms of productivity, quality, reliability and delivery. Efforts have also been placed in enhancing safety precautions and quality control. The Group is adhering to and fully supports the Code of Business Practice of the International Council of Toy Industries ("ICTI") and has passed and satisfied the ICTI audit, namely, the ICTI CARE Process.

# Management Discussion and Analysis *(Continued)*

**Model Trains**

The turnover for model trains for the year ended 31 December 2008 was approximately HK$374.49 million, a decrease of 9.32% as compared to last year.

During the year under review, despite decreased sales in the model trains business, the Company has followed a strategy of further improving the quality of the products, developing innovative products, enriching the product line and promoting the product image and brand name. This strategy has succeeded in gaining the loyalty of customers and helped maintain our leading position in the industry.

The Group is proud to announce that during the year, our subsidiary, Bachmann Europe Plc. was awarded "Manufacturer of the Year 2008" by Model Rail Magazine, RM Web and MREMAG. In addition, our Branchline OO scale model train Class 55 Deltic, G2 0-8-0 Steam and BR 12T Ventilated Van, Graham Farish N scale model train Class 108 and Stanier Coaches were awarded "Model of the Year 2008" under different categories.

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

On 12 November 2008, the Group entered into an agreement with a third party pursuant to which the Group conditionally agreed to acquire all the issued shares of Sanda Kan (Cayman III) Holdings Company Limited ("Sanda Kan"), a company incorporated in the Cayman Islands with limited liability, for cash consideration of US$8.50 million (equivalent to HK$66.30 million). Sanda Kan is principally engaged in model trains and model race cars manufacturing on an OEM basis. Completion of the acquisition took place on 23 January 2009. The Group considers that the acquisition of Sanda Kan will increase the model trains production capacity of the Group, capture the high margin market segment and expand the Group's sources of revenue through the manufacturing of model trains and race cars on an OEM basis.

## PROPERTY INVESTMENT

For the financial year ended 31 December 2008, the Group's rental income amounted to HK$34.11 million, representing a 12.64% increment over the previous year. In addition, the Group recorded a valuation loss of HK$47.43 million on its investment properties for the year, as compared to last year's valuation gain of HK$104.29 million.

The Group's major rental property, Kader Building, reported rental income of approximately HK$30.50 million in 2008, up 13% from 2007's HK$26.99 million. During the year under review, the Group managed to maintain the occupancy rate of Kader Building above 75% and increased rental rates upon lease renewals.

# Management Discussion and Analysis *(Continued)*

FINANCIAL REVIEW

**Liquidity and Financial Resources**

As at 31 December 2008, the Group's net asset value per share was HK$1.06 (2007: HK$1.16); the current ratio was 1.07 (2007: 1.12); total bank borrowings were approximately HK$211.98 million (2007: HK$169.51 million) while the Group secured total banking facilities of approximately HK$441.47 million (2007: HK$422.05 million). The Group's financial gearing, based on the total interest bearing borrowings compared to the total equity, was 30.03% (2007: 21.99%). There is no significant seasonality in borrowing requirements except that during the peak production period in the second half of the year the Group's facilities for trade finance will be substantially utilised. The majority of borrowings are on floating interest rate terms.

**Capital Structure**

During the year under review, there were no changes in the Company's share capital. The Group's sources of financing were mainly bank borrowings and an advance from a director, which were denominated in Hong Kong Dollars, United States Dollars and Sterling Pounds at prevailing interest rates.

**Charges on Group Assets**

As at 31 December 2008, certain investment properties, leasehold land and buildings, inventories and other assets of the Group with net book value of HK$823.66 million (2007: HK$884.30 million) were mortgaged to various banks to secure the bank loans and overdrafts granted to the Group.

**Material Acquisitions and Disposals**

There were no material disposals during the year ended 31 December 2008. Material acquisitions are discussed as follows:

On 4 November 2008, a subsidiary of the Company, Technic International Development Limited, acquired a 51% interest in Walitoys & Garment Limited ("Walitoys") for a total consideration of HK$8.25 million. Walitoys is principally engaged in the trading of the soft toys. Goodwill of HK$7.64 million arose on the acquisition.

As discussed above, on 23 January 2009, the Group completed the acquisition of Sanda Kan and its major subsidiaries for an aggregate consideration of US$8.50 million (equivalent to HK$66.30 million). Sanda Kan is principally engaged in investment holding and its major subsidiaries are principally engaged in patent licensing, trading, manufacturing and marketing of toys and in particular, manufacturing of model trains and race cars on an OEM basis. The Group believes that the acquisition of Sanda Kan will increase the model train production capacity of the Group, assist in capturing market share in the high margin market segment and expand the Group's sources of revenue. The acquisition provides synergy with the existing model train manufacturing operations of the Group.

**Exchange Rate Exposure**

Major assets, liabilities and transactions of the Group are denominated in Hong Kong Dollars, United States Dollars, Sterling Pounds, Renminbi Yuan and Euros. During the year under review, the majority of the Group's sales revenues were denominated in Hong Kong Dollars, United States Dollars and Sterling Pounds while the majority of its raw materials and equipment purchases were settled in Hong Kong Dollars. As such, the Group faces a certain degree of exchange rate risk mainly arising from Sterling Pounds denominated sales transactions for which the exchange rate volatility is relatively high.

**Contingent Liabilities**

As at 31 December 2008, the Group did not have any significant contingent liabilities except as follows:

During the first quarter of 2003, a Mexican company commenced a lawsuit in the State of Arizona against the Company on the grounds 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"). The plaintiffs initially alleged claims against Sinomex, formerly related to the Company, and the Company of US$5,235,000 for unpaid rent, value added tax, repair costs and interest owed by Sinomex under such Lease Agreement, plus accruing interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees. The plaintiffs amended their damage claim in the fourth quarter of 2007 and sought US$7,426,000 in damages, plus accruing interest, court costs and attorneys fees.

In 2004, the Company 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 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 against the Company should be dismissed. In January 2005, the Arizona court denied that initial motion submitted by the Company.

Since then the Company has engaged in some discovery, responded to a motion for partial summary judgment filed by the plaintiffs, and filed a motion for summary judgment of its own. In August 2007, the court granted the plaintiffs' motion for partial summary judgment and denied the Company's motion for summary judgment, holding the Company liable under the guarantee, but not establishing the amount of the damages under that guarantee, an issue that must be resolved later in the case. In ruling on the summary judgment motions submitted by both parties, the trial court relied primarily on the law of the State of Arizona, despite the Company's claim that Mexican law should be used to decide such motions.

In September 2007, the Company filed a motion for a new trial and/or for reconsideration, asking the court to apply the law of Mexico (rather than the law of Arizona) and claiming that under Mexican law the Company should prevail and that the court should therefore vacate its granting of summary judgment in favour of the plaintiffs. Thereafter, the court granted rebriefing and then conducted a hearing on 14 January 2008 to address the Company's motion for new trial and/or

# Management Discussion and Analysis *(Continued)*

for reconsideration. On 14 March 2008, the court denied the Company's motion for a new trial and/or for reconsideration. In its ruling on that motion the court did apply Mexican law. However, it appears to the Company that the trial court has made an error as to the undisputed facts, leading the Company to file a second motion for new trial and/or motion for reconsideration to ask the court to correct its ruling and find in favour of the Company. The court agreed to hear that second motion and ordered another rebriefing. The second motion for new trial and/or reconsideration was heard on 25 March 2009. The court has not ruled on that second motion.

Having considered the Litigation with the Company's various legal counsels, management and the Board believe that the Company's opposition to the plaintiffs' complaint, as well as the Company's defenses and appeal rights, continue to be meritorious. As such, the Company intends to continue to vigorously defend the Litigation. In accordance with paragraph 92 of HKAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, it would be against the interests of the Company to make further disclosure of the information required by HKAS 37.

## INVESTMENT

**Investment in Robert Factory, LLC ("LLC")**

On 12 March 2007, the Group invested HK$7.80 million for a 16.50% interest in a newly established limited liability company ("LLC") in the US. An additional HK$7.80 million was advanced to LLC through a convertible note receivable which had a maturity date of 12 March 2012 and accrued interest at a rate of 6% per annum through to the maturity date. As defined in the agreement and under certain circumstances through to the maturity date, the Group could convert the note and any accrued interest into shares of LLC at a price based on the share price at the time of conversion. The Group exercised its right of conversion during the year ended 31 December 2008 and the convertible note was converted of equity while an additional HK$3.90 million was invested. The Group's equity interest in LLC as at 31 December 2008 was 19.10% (2007: 16.50%).

During the prior year, US$1 million, equivalent to HK$7.80 million as at 31 December 2008 (2007: equivalent to HK$7.76 million) was advanced to LLC.

Due to a significant decline in the performance of LLC, an impairment loss of HK$27.66 million (2007: HK$Nil) was recognised in respect of the investment cost and loan and interest receivable during the year ended 31 December 2008.

LLC operates in the retail toy industry in the US and its decline in performance was due to the poor economic conditions in the US retail industry.

**Investment in William's Reproduction Limited ("Williams")**

On 16 October 2007, a subsidiary of the Company, Bachmann Industries, Inc., acquired the business and certain assets of Williams, a distributor of toy trains in the US. The purchase price paid of HK$39 million (equivalent to US$5 million) comprised primarily moulds and dies valued at HK$7.80 million (equivalent to US$1 million) and goodwill of HK$31.20 million (equivalent to US$4 million).

# Management Discussion and Analysis *(Continued)*

The Group recorded an impairment loss in respect of the goodwill in the amount of HK$31.20 million during 2008. The impairment loss was determined by management based on a value-in-use calculation and, primarily arose due to the current market risk of the US toys industry and actual 2008 performance results which were less than that originally anticipated at acquisition.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group employed approximately 6,545 (2007: 5,639) full time management, administrative and production staff in Hong Kong SAR, Mainland China, the United States and Europe. The Group has seasonal fluctuations in the number of workers employed in its production plant while the number of management and administrative staff remains stable. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In the area of staff training, the Group encourages staff to participate in courses on technical skills improvement and personal development.

## PROSPECTS

Factors such as the volatility of raw material prices, the ever-increasing energy costs, high product safety standards, the appreciation of the RMB, the increase in statutory minimum wages and continually increasing labour costs expected to affect the Group's profitability. The Group will continue its effort to strengthen its core business, streamline operational procedures without sacrificing controls, improve operational and production efficiency and develop automated processes. In order to broaden revenue sources, efforts will continue to be made in looking for acquisition opportunities, expanding new product lines and widening the customer base.

Given the factors mentioned above and the underlying business environment, the Group is cautious about ongoing performance and profit margins. Notwithstanding this, the Group is confident its efforts to uplift efficiency can provide stable business returns.

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

Hong Kong, 17 April 2009

# Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance. The Board of Directors (the "Board") regularly reviews and adopts corporate governance guidelines and developments. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

## CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2008, the Group has complied with the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviation from CG Code E.1.2 as describe below:

Under CG Code E.1.2, the Chairman of the Board is required to attend the Company's annual general meeting. Due to another commitment which required the Chairman's attendance, the Chairman was not present at the annual general meeting of the Company held on 3 June 2008.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its model code for securities transactions by the Company's Directors and relevant employees who are or may be in possession of unpublished price sensitive information. Based on specific enquiries made, all Directors have confirmed that they have complied with the Model Code throughout the year.

## BOARD OF DIRECTORS

The Board currently comprises three Executive Directors (one of whom is the Managing Director), two Non-executive Directors (one of whom is the Chairman of the Board) and Five Independent Non-executive Directors ("INEDs"). The biographical details of all Directors of the Company, including the relationship amongst them, are set out on pages 20 to 22 of this annual report.

Dr. Dennis Ting Hok-shou served as Chairman of the Board throughout the year and is responsible for providing leadership and management of the Board, ensuring that good corporate governance practices and procedures are established and that the Board acts in the best interests of the Company. The role of Chairman is separated from that of Chief Executive Officer and Managing Director, Mr. Kenneth Ting Woo-shou (the brother of Dr. Dennis Ting Hok-shou). The Chief Executive Officer is responsible for the day-to-day management and operation of the Group. The division of responsibility between Chairman and Chief Executive Officer has been established and is set out clearly in writing.

# Corporate Governance Report *(Continued)*

Non-executive Directors and INEDs are selected with the necessary skills and experience to provide a strong independent element on the Board and to exercise independent judgment. All Non-executive Directors are engaged on a term of service of two years renewable for another two years upon expiry. The Board believes the Non-executive Directors are well qualified and competent in advising the Group on the business strategy, finance and management issues. The INEDs are explicitly identified in all corporate communications, and one of them has significant accounting and financial expertise as provided under Rule 3.10 of the Listing Rules. The Board has received from each INED a written annual confirmation of independence. All the INEDs meet the independence criteria set out in Rule 3.13 of the Listing Rules.

All directors are subject to re-election by shareholders at the annual general meeting following their appointment and at least every three years on a rotational basis. Where vacancies exist on the Board, candidates are proposed and put forward to the Board for consideration and approval. In accordance with the Company's Bye-laws, all newly appointed directors shall hold office until the next following annual general meeting of the Company after their appointment and shall then be eligible for re-election. Upon their appointment, the new directors receive a package of orientation materials and attend extensive presentations given by senior executives to review the Group's businesses. Training and information are provided to directors regularly to help and ensure that the directors are aware of the latest changes in the commercial and regulatory environment in which the Group carries out its businesses.

During the year, the Company has arranged for the renewal of an insurance policy on directors' and officers' liability to ensure our directors and senior management are protected from any liability arising from the performance of their duties.

The Board is responsible for setting the strategic direction and policies of the Group and supervising management. The functions normally reserved for the Board are the monitoring and approval of material transactions; steering the Group on strategic direction; setting up a Board committee for issues the Board deem appropriate; reviewing and approving the interim and final results; overseeing the effectiveness of the internal control system; evaluating major corporate, strategic and operational issues that have a significant impact on the Group; and evaluating major investment opportunities which management has not already identified and/or, if the investment is so major, requires the Board to make a decision.

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

# Corporate Governance Report *(Continued)*

The attendance records of individual members of the Board and other Board Committees during the financial year are set out below:

| | Number of meetings attended/held | | |
|---|---|---|---|
| | Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting |
| **Number of meetings held** | **4** | **2** | **1** |
| ***Executive Directors*** | | | |
| Mr. Kenneth Ting Woo-shou | 4/4 | – | 1/1 |
| *(Managing Director & Remuneration Committee Chairman)* | | | |
| Mr. Ivan Ting Tien-li | 4/4 | – | – |
| ***Non-executive Directors*** | | | |
| Dr. Dennis Ting Hok-shou | 3/4 | – | – |
| *(Chairman)* | | | |
| Mr. Moses Cheng Mo-chi | 4/4 | 2/2 | – |
| Mrs. Nancy Ting Wang Wan-sun | 3/4 | – | – |
| *(in her capacity as a non-executive director)* | | | |
| ***Independent Non-executive Directors*** | | | |
| Mr. Liu Chee-ming | 2/4 | 2/2 | – |
| *(Audit Committee Chairman)* | | | |
| Mr. Floyd Chan Tsoi-yin | 4/4 | 2/2 | 1/1 |
| Mr. Andrew Yao Cho-fai | 3/4 | 0/2 | 1/1 |

## BOARD COMMITTEES

The Board established a Committee of Executive Directors in July 2006 with delegated authority for dealing with the various miscellaneous banking matters of the Company. This committee comprises all the Executive Directors of the Company.

The Company also established the Remuneration Committee and the Audit Committee to deal with specific matters in the interest of all shareholders in an objective manner. Members of these two Board Committees comprise, except for the Chairman of the Remuneration Committee, entirely of either a Non-executive Director or INEDs.

### Remuneration Committee

The Remuneration Committee was established in 2005 with written Terms of Reference posted on the Company's website. Currently, the Remuneration Committee is chaired by Mr. Kenneth Ting Woo-shou. Other members of the Committee are Messrs Floyd Chan Tsoi-yin and Andrew Yao Cho-fai. The role and function of the Committee is to make recommendations to the Board on the Company's policy and structure for the remuneration of all directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee met once in 2008 to review and approve directors' remuneration. The directors' fees paid to the Non-executive Directors and INEDs are subject to annual review and approval by the Remuneration Committee. Before proposing remuneration packages, the Remuneration Committee is responsible for reviewing all relevant remuneration data and market conditions in addition to considering the performance and responsibility of individual directors as well as the profitability of the Group. The primary objective is to retain and motivate directors by linking their compensation with performance and measuring it against corporate goals. However, no director can approve his or her own remuneration.

The emoluments of each of the directors of the Company for 2008 is set out in note 7 to the financial statements.

**Audit Committee**

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

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

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

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

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

1. Changes in accounting policies and practices;
2. Major judgmental areas;
3. Significant adjustments resulting from audit;
4. The going concern assumptions and any qualifications;
5. Compliance with accounting standards;
6. Compliance with the Listing Rules and other legal requirements in relation to financial reporting; and
7. Any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by senior management.

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

In discharging their responsibilities on internal control procedures, the Audit Committee performed an annual review of the internal control system on Compliance, Operational Control, Financial Control, and Risk Management which included:

1. Reviewing the financial controls, internal control and risk management systems;
2. Discussing with management the system of internal control and ensuring that management has discharged its duty to have an effective internal control system;
3. Considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
4. Reviewing the draft representation letter prior to approval by the Board;
5. Reviewing the external auditor's management letter and management's response, material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
6. Ensuring that the Board provided a timely response to the issues raised in the external auditor's management letter; and
7. Reporting to the Board on these matters as deemed appropriate.

## AUDITORS' REMUNERATION

Each year, the auditors are appointed at the Annual General Meeting ("AGM") and at the AGM held on 3 June 2008, Directors were authorised to fix the auditors' remuneration for auditing services rendered.

The fees for audit and audit related services provided by the Group's auditors, KPMG, for the year ended 31 December 2008 amounted to HK$1,731,000. In addition, certain subsidiaries were audited by other auditors for the year ended 31 December 2008 and the related fees amounted to HK$673,000.

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

## NOMINATION OF DIRECTORS

Since the composition of Board of Directors of the Company is not complicated, during the Board Meeting held on 12 April 2005, the Board resolved that "the setting up of a Nomination Committee be postponed and considered by the Board in due course". Currently, there are no plans to establish a Nomination Committee.

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

With the recommendation made by the Managing Director, Mr. Desmond Chum Kwan-yue and Mr. Ronald Montalto were appointed as Independent Non-executive Directors of the Company, effective 10 March 2009 and 22 April 2009 respectively, while Mrs. Nancy Ting Wang Wan-sun was redesignated as an Executive Director on 20 February 2009.

## RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

# Corporate Governance Report *(Continued)*

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

The responsibility of the auditors with respect to the financial statements are set out in the Independent Auditor's Report on pages 27 and 28 of this annual report.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and for the assessment and management of risk. The directors, through the Audit Committee, have conducted an annual review of the effectiveness of the Group's system of financial and non-financial controls.

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

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

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

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

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

## INVESTOR RELATIONS

The Group endeavours to continue maintaining a high level of transparency in communicating with shareholders and investors. The Group is committed to maintain two-way communications with shareholders and investors and to update shareholders and investors on relevant information in its business in a timely manner subject to the relevant regulatory requirements.

To promote investor relations and communications, meetings are held when the interim and annual financial results are announced. Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. This provides opportunities for shareholders and investors to raise their queries and share their views with our directors and/or senior management. All shareholders have statutory rights to call for special general meetings and put forward agenda items for consideration by shareholders. At any general meeting a resolution put to the vote of the meeting must be taken by poll.

The Group maintains a corporate website at www.kaderholdings.com which enables shareholders and investors to track the Group's latest developments. This acts as an effective medium for information disclosure, and provides comprehensive and update information on the Group's operations, announcements, circulars, notices, as well as interim and annual reports.

As at 31 December 2008, the Company had 665,411,594 shares in issue, with a par value of HK$0.10 each. Share interests of directors and the chief executives of the Company are disclosed in the Report of the Directors set out on pages 18 to 26 of the annual report.

# Report of the Directors

The Directors of the Company submit herewith their annual report together with the audited financial statements for the year ended 31 December 2008.

## PRINCIPAL ACTIVITIES

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

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

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

## SUBSIDIARIES

Particulars of the Company's major subsidiaries at 31 December 2008 are set out on pages 102 and 103 of the annual report.

## FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2008 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 29 to 103.

## DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: HK1.5 cents per share).

## FIVE-YEAR FINANCIAL 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 105 and 106 of the annual report.

## SHARE CAPITAL

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

## TRANSFER TO RESERVES

Loss attributable to shareholders, before dividends, of HK$27,652,000 (2007: Profit of HK$126,599,000) have been transferred to reserves. Other movements in the reserves during the year are set out in note 27 to the financial statements.

## DONATIONS

Donations made by the Group during the year for charitable and other purposes amounted to HK$190,000 (2007: HK$175,000).

## FIXED ASSETS

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

## PROPERTIES

Particulars of the major properties of the Group are shown on page 104 of the annual report.

## DIRECTORS

The Board of Directors during the financial year and up to the date of this report were:

**Executive Directors:**
Kenneth Ting Woo-shou *(Managing Director)*
Ivan Ting Tien-li
Nancy Ting Wang Wan-sun *(Redesignated on 20 February 2009)*

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

**Independent Non-executive Directors:**
Liu Chee-ming
Floyd Chan Tsoi-yin
Andrew Yao Cho-fai
Desmond Chum Kwan-yue *(Appointed on 10 March 2009)*
Ronald Montalto *(Appointed on 22 April 2009)*

The Company has received from each of its Independent Non-executive Directors ("INEDs") an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers its INEDs to be independent.

Dr. Dennis Ting Hok-shou, Mr. Floyd Chan Tsoi-yin and Mrs. Nancy Ting Wang Wan-sun shall retire by rotation in accordance with the Company's Bye-laws 109(A) and 189(ix), and Mr. Desmond Chum Kwan-yue and Mr. Ronald Montalto shall retire in accordance with the Company's Bye-laws 109(A) and 189(v), and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

# Report of the Directors *(Continued)*

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

**Non-executive Chairman**

**Dr. Dennis Ting Hok-shou**, **OBE, JP**, aged 75, 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 Honorary Life President of the Hong Kong Plastics Manufacturers' Association, the Honorary President of Federation of Hong Kong Industries and the Chairman of the Board of Trustees of Hong Kong Shue Yan University.

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, uncle of Mr. Ivan Ting Tien-li, and brother-in-law of Mrs. Nancy Ting Wang Wan-sun.

**Managing Director**

**Mr. Kenneth Ting Woo-shou, SBS, JP**, aged 66, 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 Hong Kong Ethics Development Advisory Committee, ICAC, the President of HK Wuxi Trade Association Limited, the Honorary President of Federation of Hong Kong Industries, The Chinese Manufacturers' Association of Hong Kong, The Toys Manufacturers' Association of Hong Kong Limited, and Hong Kong Plastics Manufacturers' Association 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 Polytechnic University Court and The Hong Kong University of Science and Technology Court. He also serves as a member of the Jiangsu Provincial Committee of Chinese People's Political Consultative Conference.

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, father of Mr. Ivan Ting Tien-li, and husband of Mrs. Nancy Ting Wang Wan-sun.

**Executive Director**

**Mr. Ivan Ting Tien-li**, aged 34, was appointed as an Executive Director of the Company in April 2006. He holds a Bachelor's Degree in International Politics and Economics. He has been the Executive Director of Kader Industrial Company Limited, the major subsidiary of the Company since 1998. Apart from this, he also serves as a 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 the Young Entrepreneurs' Organisation – Hong Kong Chapter. He is the son of Mr. Kenneth Ting Woo-shou, the Managing Director and Chief Executive Officer of the Company and Mrs. Nancy Ting Wang Wan-sun, Executive Director of the Company, and the nephew of Dr. Dennis Ting Hok-shou, the Non-executive Chairman of the Company.

**Mrs. Nancy Ting Wang Wan-sun**, aged 61, was appointed as Non-executive Director of the Company in January 2008, and was redesignated as an Executive Director of the Company in February 2009. She has been the Executive Director of Kader Industrial Company Limited, the major subsidiary of the Company since 2001. Mrs. Ting has not held any directorship in other listed public companies in the last three years. She is the wife of Mr. Kenneth Ting Woo-shou, the Managing Director and Chief Executive Officer of the Company, mother of Mr. Ivan Ting Tien-li, the Executive Director of the Company, and sister-in-law of Dr. Dennis Ting Hok-shou, the Non-executive Chairman of the Company.

**Non-executive Director**

**Mr. Moses Cheng Mo-chi, GBS, OBE, JP**, aged 59, was appointed as an Independent Non-executive Director of the Company in March 1999, and was redesignated as Non-executive Director of the Company in September 2004.

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

**Independent Non-executive Directors**

**Mr. Liu Chee-ming**, aged 58, has been an Independent Non-executive Director of the Company since June 1998. Mr. Liu is the Managing Director of Platinum Holdings 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 Investment Banking Department between 1992 and 1995.

Mr. Liu is an independent non-executive director of StarHub Limited, Singapore listed company. He is also a non-executive director of Yantai Raffles Shipyard Limited, listed on the Oslo OTC Exchange. He is currently a Governor of the Singapore International School and the Director of The Singapore International School Foundation Ltd. He is a member of the Takeovers Appeal Committee and was appointed as a deputy chairman of the Takeovers and Mergers Panel of the Securities and Futures Commission in Hong Kong.

# Report of the Directors *(Continued)*

**Mr. Floyd Chan Tsoi-yin**, aged 65, has been an Independent Non-executive Director of the Company since 30 September 2004. Mr. Chan is a member of the American Institute of Certified Public Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants. He has been a partner of BDO Seidman in the United States for many years. He is the Asia Pacific Regional Coordinator of BDO International and a member of BDO McCabe Lo Limited's executive committee in Hong Kong. He has significant experience in assisting clients in exploring business opportunities in the Asia Pacific region, particularly the Southeast Asian developing countries and The People's Republic of China. He is also closely involved in assisting clients in developing business in North America and Europe.

**Mr. Andrew Yao Cho-fai, JP**, aged 43, has been an Independent Non-executive Director of the Company since 30 September 2004. Mr. Yao graduated from the University of California, Berkeley and Harvard Graduate School of Business, is Chairman & CEO of Van Shung Chong Holdings Ltd and Independent Non-executive Director of Grand Investment International Ltd which are companies listed on Main Board. He was redesignated from an Executive Director to a Non-executive Director of North Asia Strategic Holdings Ltd which is a company listed on GEM with effect from 19 June 2008.

Mr. Yao is a Standing Committee Member of the Shanghai China People's Political Consultative Conference, Standing Committee Member of All-China Youth Federation, Vice Chairman of Shanghai Youth Federation, Former Chairman of Hong Kong United Youth Association and Board Member of Fudan University in Shanghai. He is also a Court Member of The University of Hong Kong and Member of the Barristers Disciplinary Tribunal Panel. He was awarded the "Young Industralist Award of Hong Kong" in 2004. He was awarded Justice of Peace by HKSAR in 2008.

**Mr. Desmond Chum Kwan-yue**, aged 36, has been an Independent Non-executive Director of the Company since 10 March 2009. Mr. Chum is a portfolio manager at Claren Road Asset Management, a US based credit hedge fund. Prior to Claren Road Asset Management, Mr. Chum was a Managing Director at Citigroup where he spent 12 years and helped to build its fixed income franchise in Asia. He oversaw a team of investment professionals and ran the Global Special Situations Group's investment activities in the Greater China Region. He has extensive experience in sourcing, evaluating and executing private lending, private equity and real estate investments in the Greater China Region. Mr. Chum graduated from Oxford University.

**Mr. Ronald Montalto**, aged 60, has been an Independent Non-executive Director of the Company since 22 April 2009. Mr. Montalto graduated from East Carolina University in 1971. He was also awarded Juris Doctor from Emory University School of Law in 1974. Mr. Montalto was practicing Attorney in Atlanta between 1975 and 1982. Currently, he is Member of Star Bar of California (Inactive). Subsequent to his retirement, Mr. Montalto consulted for Mattel senior management in developing plan to relocate all Mattel's European manufacturing operations and back office support to Asia during 2005. He was a Senior Vice President of different operations in Mattel where he had worked for 16 years and helped to form Asian sourcing unit and integrate brands' procurement and manufacturing operations. He was a Director of Business Development of Mattel Far East Operations (Hong Kong) between 1983 and 1987. Since retirement, Mr. Montalto consulted periodically on sales advisory programs for Teradata, a division of NCR (National Cash Register Corporation). He also conducted an Asian business/supply chain study for Enesco, an industry leading international giftware company headquartered in Chicago. Mr. Montalto has not held any directorship in other listed public company in the last three years.

## DIRECTORS' SERVICE CONTRACTS

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

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).

## DISCLOSURE OF INTERESTS

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

As at 31 December 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

**(1) Interests in the Company**

| | Number of ordinary shares of HK$0.10 each | | | | % of total |
|---|---|---|---|---|---|
| Name of directors | Personal interests | Family interests | Corporate interests | Total interests | issued share capital |
| Kenneth Ting Woo-shou | 124,063,385 | 1,452,629 (i) | 244,175,800 (ii) | 369,691,814 | 55.56% |
| Dennis Ting Hok-shou | 9,730,789 | 275,000 (iii) | 236,969,800 (iv) | 246,975,589 | 37.12% |
| Ivan Ting Tien-li | 14,336,303 | – | – | 14,336,303 | 2.15% |
| Nancy Ting Wang Wan-sun | 1,452,629 | 124,063,385 (v) | – | 125,516,014 | 18.86% |
| 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 | – | – | – | – | – |
| Desmond Chum Kwan-yue | N/A | N/A | N/A | N/A | N/A |
| Ronald Montalto | N/A | N/A | N/A | N/A | N/A |

*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 the Company's 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 the Company's substantial shareholder, Glory Town Limited, in which Mr. Kenneth Ting Woo-shou has a controlling interest.

# Report of the Directors *(Continued)*

(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 the Company's 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.

(v) The spouse of Mrs. Nancy Ting Wang Wan-sun is the beneficial shareholder.

## (2) Interests in Associated Corporations

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

*Notes:*

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

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

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

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

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

All the interests stated above represent long positions. As at 31 December 2008, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Save as disclosed above, as at 31 December 2008, none of the directors and 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 and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS

As at 31 December 2008, 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' 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.

## DIRECTORS' REMUNERATION

The Directors' fees are determined by shareholders at the annual general meeting and the other emoluments payable to Directors are determined by the Remuneration Committee with reference to the prevailing market practice, the profitability of the Group, the Directors' performance and responsibilities within the Group and contributions to the Group.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## MAJOR SUPPLIERS AND CUSTOMERS

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

| | **2008** | 2007 |
|---|---|---|
| | **%** | % |
| Purchases | | |
| – the largest supplier | **8** | 8 |
| – five largest suppliers combined | **26** | 26 |
| Sales | | |
| – the largest customer | **45** | 25 |
| – five largest customers combined | **58** | 42 |

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) had an interest at any time in the year in the above customers or suppliers.

## PRE-EMPTIVE RIGHTS

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

# Report of the Directors *(Continued)*

## DIRECTORS' INTERESTS IN CONTRACTS

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

During the year, the Group had dealings in packaging printing with New Island Printing Company Limited ("New Island") which are carried out at arm's length and in the ordinary course of business of the Group. Mr. Kenneth Ting Woo-shou was interested in these transactions as a non-executive director and shareholder of New Island. Purchases from New Island during the year amounted to HK$3,325,000 which accounted for approximately 0.63% of the Group's total purchases.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, Messrs Kenneth Ting Woo-shou and Dennis Ting Hok-shou, Shareholders and Directors of the Company, are considered to have interests in Qualidux Industrial Company Limited ("Qualidux"), a company engaging in toy manufacturing long before the listing of the Company on the Stock Exchange, which competes or is likely to compete with the business of the Group pursuant to the Listing Rules. Qualidux employs a total workforce of over 7,000 employees.

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

## 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 public float of more than 25% of the Company's issued share capital as required under the Listing Rules.

## INDEPENDENT AUDITORS

A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

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

Hong Kong, 17 April 2009

# Independent Auditor's Report

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

We have audited the consolidated financial statements of Kader Holdings Company Limited (the "Company") set out on pages 29 to 103, which comprise the consolidated and company balance sheets as at 31 December 2008, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITIES

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

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

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

# Independent Auditor's Report *(Continued)*

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

17 April 2009

# Consolidated Income Statement

*For the year ended 31 December 2008*

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Turnover** | 3, 12 | **911,191** | 721,709 |
| Other revenue | 4(a) | **11,009** | 9,522 |
| Other net (loss)/income | 4(b) | **(2,773)** | 2,459 |
| Changes in inventories of finished goods and work in progress | | **59,931** | 27,568 |
| Cost of purchase of finished goods | | **(65,571)** | (35,058) |
| Raw materials and consumables used | | **(340,775)** | (211,319) |
| Staff costs | 5(b) | **(270,402)** | (211,554) |
| Depreciation expenses | 13 | **(26,065)** | (21,726) |
| Amortisation of interest in leasehold land held for own use | 13 | **(22)** | (22) |
| Other operating expenses | | **(182,719)** | (190,683) |
| **Profit from operations** | | **93,804** | 90,896 |
| Finance costs | 5(a) | **(9,721)** | (11,599) |
| Share of profits less losses of associates | 18 | **(1,334)** | (12,596) |
| Valuation (losses)/gains on investment properties | 13 | **(47,429)** | 104,288 |
| Impairment of goodwill | 5(b), 15 | **(31,200)** | – |
| Impairment of unlisted equity securities and related loan and interest receivable | 5(b), 19 | **(27,661)** | – |
| **(Loss)/profit before taxation** | 5, 6(b) | **(23,541)** | 170,989 |
| Income tax | 6 | **(2,488)** | (43,945) |
| **(Loss)/profit for the year** | | **(26,029)** | 127,044 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | 9, 27(a) | **(27,652)** | 126,599 |
| Minority interests | 27(a) | **1,623** | 445 |
| **(Loss)/profit for the year** | 27(a) | **(26,029)** | 127,044 |
| **Dividends payable to equity shareholders of the Company attributable to the year:** | | | |
| Final dividend proposed after the balance sheet date | 10 | **–** | 9,981 |
| **(Loss)/earnings per share** | | | |
| Basic | 11(a) | **(4.16)¢** | 19.03¢ |
| Diluted | 11(b) | **N/A** | N/A |

The notes on pages 36 to 103 form part of these financial statements.

# Consolidated Balance Sheet

*At 31 December 2008*

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| – Investment properties | 13 | **598,878** | 646,307 |
| – Other property, plant and equipment | 13 | **139,857** | 137,976 |
| – Interest in leasehold land held for own use under an operating lease | 13 | **854** | 876 |
| | | **739,589** | 785,159 |
| Intangible assets | 14 | **536** | 570 |
| Goodwill | 15 | **7,643** | 31,200 |
| Interests in associates | 18 | **46,596** | 48,760 |
| Other non-current financial assets | 19 | **5,506** | 26,249 |
| Deferred tax assets | 26(b) | **29,704** | 24,551 |
| | | **829,574** | 916,489 |
| **Current assets** | | | |
| Inventories | 20 | **213,761** | 177,624 |
| Current tax recoverable | 26(a) | **1,397** | – |
| Trade and other receivables | 21 | **151,040** | 114,121 |
| Cash and cash equivalents | 22 | **32,904** | 26,592 |
| | | **399,102** | 318,337 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **(222,112)** | (193,120) |
| Bank loans and overdrafts | 24 | **(144,237)** | (83,180) |
| Obligations under finance leases | 25 | **(602)** | (582) |
| Current tax payable | 26(a) | **(7,155)** | (6,135) |
| | | **(374,106)** | (283,017) |
| **Net current assets** | | **24,996** | 35,320 |
| **Total assets less current liabilities carried forward** | | **854,570** | 951,809 |

# Consolidated Balance Sheet *(Continued)*

*At 31 December 2008*

| | Note | 2008<br>*HK$'000* | 2007<br>*HK$'000* |
|---|---|---|---|
| **Total assets less current liabilities brought forward** | | **854,570** | 951,809 |
| **Non-current liabilities** | | | |
| Bank loans | *24* | **(67,747)** | (86,332) |
| Rental deposits | | **(5,717)** | (3,661) |
| Obligations under finance leases | *25* | **(258)** | (498) |
| Deferred tax liabilities | *26(b)* | **(72,989)** | (84,228) |
| Accrued employee benefits | | **(1,502)** | (1,321) |
| | | **(148,213)** | (176,040) |
| **NET ASSETS** | | **706,357** | 775,769 |
| **CAPITAL AND RESERVES** | *27(a)* | | |
| Share capital | | **66,541** | 66,541 |
| Reserves | | **634,103** | 706,172 |
| **Total equity attributable to equity shareholders of the Company** | | **700,644** | 772,713 |
| **Minority interests** | | **5,713** | 3,056 |
| **TOTAL EQUITY** | | **706,357** | 775,769 |

Approved and authorised for issue by the Board of Directors on 17 April 2009

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

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

The notes on pages 36 to 103 form part of these financial statements.

# Balance Sheet

*At 31 December 2008*

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 16 | **894,321** | 770,150 |
| **Current assets** | | | |
| Trade and other receivables | 21 | **46,467** | 174 |
| Cash and cash equivalents | 22 | **254** | 133 |
| | | **46,721** | 307 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **(85,891)** | (78,945) |
| **Net current liabilities** | | **(39,170)** | (78,638) |
| **Total assets less current liabilities** | | **855,151** | 691,512 |
| **Non-current liabilities** | | | |
| Accrued employee benefits | | **(69)** | (65) |
| **NET ASSETS** | | **855,082** | 691,447 |
| **CAPITAL AND RESERVES** | 27(b) | | |
| Share capital | | **66,541** | 66,541 |
| Reserves | | **788,541** | 624,906 |
| **TOTAL EQUITY** | | **855,082** | 691,447 |

Approved and authorised for issue by the Board of Directors on 17 April 2009

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

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

The notes on pages 36 to 103 form part of these financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2008*

| | Note | 2008 HK$'000 | 2008 HK$'000 | 2007 HK$'000 | 2007 HK$'000 |
|---|---|---|---|---|---|
| **Total equity at 1 January** | 27(a) | | **775,769** | | 653,368 |
| **Net (expense)/income recognised directly in equity:** | | | | | |
| Exchange differences on translation of the financial statements of overseas subsidiaries | 27(a) | | **(33,086)** | | 1,170 |
| Share of exchange reserve of associates | 27(a) | | **1,141** | | (755) |
| Changes in fair value of available-for-sale securities | 27(a) | | **(5,070)** | | 2,400 |
| Increase in minority interests arising from partial disposal of interest in subsidiary | 27(a) | | **2,221** | | – |
| Effect of change in tax rate | 27(a) | | **434** | | – |
| Surplus on revaluation of land and buildings held for own use, net of deferred tax | 27(a) | | **–** | | 162 |
| Net (expense)/income for the year recognised directly in equity | | | **(34,360)** | | 2,977 |
| **Net (loss)/profit for the year** | 27(a) | | **(26,029)** | | 127,044 |
| **Total recognised income and expense for the year** | | | **(60,389)** | | 130,021 |
| **Attributable to:** | | | | | |
| Equity shareholders of the Company | | **(62,088)** | | 129,326 | |
| Minority interests | | **1,699** | | 695 | |
| | | **(60,389)** | | 130,021 | |
| Dividends declared or approved during the year attributable to: | 27(a) | | | | |
| – Equity shareholders of the Company | | | **(9,981)** | | (9,981) |
| – Minority interests | | | **(703)** | | – |
| | | | **(10,684)** | | (9,981) |
| Capital injection from minority interests | 27(a) | | **–** | | 447 |
| Increase in minority interests arising from partial disposal of interest in subsidiary | 27(a) | | **1,077** | | – |
| Acquisition of a subsidiary | 27(a) | | **584** | | – |
| Acquisition of control over a jointly controlled entity | 27(a) | | **–** | | 1,914 |
| **Total equity at 31 December** | 27(a) | | **706,357** | | 775,769 |

The notes on pages 36 to 103 form part of these financial statements.

# Consolidated Cash Flow Statement

*For the year ended 31 December 2008*

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before taxation | | **(23,541)** | 170,989 |
| Adjustments for: | | | |
| Valuation losses/(gains) on investment properties | 13 | **47,429** | (104,288) |
| Depreciation of fixed assets | 13 | **26,065** | 21,726 |
| Amortisation of interest in leasehold land held for own use | 13 | **22** | 22 |
| Amortisation of intangible assets | 14 | **34** | 33 |
| Impairment of fixed assets | 13 | **86** | 672 |
| Finance costs | 5(a) | **9,721** | 11,599 |
| Interest income | 4(a) | **(1,182)** | (883) |
| Share of profits less losses of associates | 18 | **1,334** | 12,596 |
| Gain on disposal of unlisted equity security | 4(b) | **–** | (12) |
| Gain on disposal of listed equity security | 4(b) | **(1,244)** | – |
| Impairment of goodwill | 5(b) | **31,200** | – |
| Impairment of other non-current financial assets | 5(b) | **2,221** | – |
| Impairment of unlisted equity securities and related loan and interest receivable | 5(b) | **27,661** | – |
| Impairment loss on other receivables | 5(b) | **1,011** | – |
| Impairment loss on amount due from associates | 5(b) | **2,459** | – |
| Net gain on disposal of fixed assets | 4(b) | **(1,992)** | (464) |
| Loss on disposal of partial interest in subsidiary | 4(b) | **199** | – |
| Foreign exchange (gain)/loss | | **(27,880)** | 119 |
| **Operating profit before changes in working capital** | | **93,603** | 112,109 |
| Increase in inventories | | **(34,790)** | (41,790) |
| Decrease in amount due from a related company | | **461** | – |
| Increase in trade and other receivables | | **(44,773)** | (88) |
| Increase in creditors and accrued charges | | **21,135** | 78,495 |
| (Decrease)/increase in rental deposits received | | **(494)** | 863 |
| Increase in accrued employee benefits | | **181** | 48 |
| **Cash generated from operations** | | **35,323** | 149,637 |
| Tax paid | | | |
| Hong Kong Profits Tax paid | | **(11,247)** | (16,741) |
| Hong Kong Profits Tax refunded | | **–** | 22 |
| Overseas tax refunded | | **–** | 613 |
| Overseas tax paid | | **(6,840)** | (13,396) |
| **Net cash generated from operating activities** | | **17,236** | 120,135 |

# Consolidated Cash Flow Statement *(Continued)*

*For the year ended 31 December 2008*

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Net cash outflow on acquisition of a subsidiary | 17 | **(7,274)** | – |
| Payment for the purchase of fixed assets | | **(33,295)** | (32,209) |
| Payment for the purchase of available-for-sale securities | | **(6,362)** | – |
| Payment for the purchase of other financial assets | | **–** | (46,800) |
| Proceeds from disposal of fixed assets | | **2,161** | 506 |
| Proceeds from sale of unlisted equity security | | **–** | 112 |
| Proceeds from sale of listed equity security | | **3,779** | – |
| Interest received | | **1,182** | 342 |
| Increase in investments in associates | | **(546)** | – |
| Decrease/(increase) in amounts due from associates | | **58** | (11,071) |
| Acquisition of control over a jointly controlled entity | | **–** | 482 |
| Capital injection by minority interests | | **–** | 447 |
| Loan advanced | | **–** | (7,760) |
| **Net cash used in investing activities** | | **(40,297)** | (95,951) |
| **Financing activities** | | | |
| Proceeds from new bank loans | | **330,473** | 267,353 |
| Repayment of bank loans | | **(240,901)** | (252,042) |
| Capital element of finance lease rentals paid | | **(634)** | (1,380) |
| Proceeds from partial disposal of interest in subsidiary | | **877** | – |
| Repayment of loans from shareholders and directors | | **–** | (16,312) |
| Increase/(decrease) in amounts due to related companies | | **187** | (11,616) |
| Proceeds from new advances from directors | | **7,114** | – |
| Dividend paid to equity shareholders of the Company | | **(9,981)** | (9,981) |
| Dividend paid to minority interests | | **(703)** | |
| Interest paid | | **(9,684)** | (11,276) |
| Interest element of finance lease rentals paid | | **(37)** | (85) |
| **Net cash generated from/(used in) financing activities** | | **76,711** | (35,339) |
| **Net increase/(decrease) in cash and cash equivalents** | | **53,650** | (11,155) |
| **Cash and cash equivalents at 1 January** | | **(23,528)** | (12,700) |
| **Effect of foreign exchange rate changes** | | **(238)** | 327 |
| **Cash and cash equivalents at 31 December** | 22 | **29,884** | (23,528) |

The notes on pages 36 to 103 form part of these financial statements.

# Notes to the Financial Statements

*For the year ended 31 December 2008*

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

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

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

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

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as explained in the accounting policies set out below.

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

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**(c) Subsidiaries and minority interests**

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

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

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

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

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

**(d) Associates**

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.

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(d) Associates** *(Continued)*

An investment in an associate 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 net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment of goodwill relating to the investment in associates recognised for the year (see notes 1(e) and (l)(ii)).

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

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

**(e) Goodwill**

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(f) Other investments in securities**

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

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

Other investments in securities are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. When these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(u)(iii). When these investments are derecognised or impaired (see note 1(l)(i)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

**(g) Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

**(h) Investment properties**

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

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

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

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

– other items of plant and equipment.

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

In preparing these financial statements, the Group has relied upon the provisions set out in paragraph 80A of HKAS 16, Property, plant and equipment, issued by the HKICPA, with the effect that the fair value of investment property transferred to land and buildings in prior years has been treated as the deemed cost of those land and buildings at the date of transfer. Such previously revalued land and buildings have not been revalued to fair value at the balance sheet date and are stated at deemed cost less accumulated depreciation and impairment losses (see note 1(l)(ii)) and will not be revalued in future years.

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

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

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

(ii) Freehold land is not depreciated.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(iii) 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 |

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

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

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

**(k) Leased assets**

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

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

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

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

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(k) Leased assets** *(Continued)*

*(ii) Assets acquired under finance leases*

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

*(iii) Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal 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 profit or loss as an integral part of the aggregate net lease payments made.

**(l) Impairment of assets**

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

Investments in debt and equity securities (other than investments in subsidiaries and associates: see note 1(l)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(l) Impairment of assets** *(Continued)*

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

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

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

– For other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

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

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

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(l) Impairment of assets** *(Continued)*

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

If such evidence exists, any impairment loss is determined and recognised as follows: *(Continued)*

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

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the account considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit and loss.

*(ii) Impairment of other assets*

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

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

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

– intangible assets;

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(l) Impairment of assets** *(Continued)*

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

- investments in subsidiaries and associates; and
- goodwill.

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. In respect of properties carried at revalued amounts, any impairment loss shall be treated as a revaluation decrease to the extent of any revaluation surplus previously recognised in the revaluation reserve in respect of that property. Any impairment loss beyond amounts previously recognised in the revaluation reserve in respect of that property is recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(l) Impairment of assets** *(Continued)*

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

– Reversals of impairment losses

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

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

*(iii) Interim financial reporting and impairment*

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

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

**(m) Inventories**

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**(n) Trade and other receivables**

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

**(o) Interest-bearing borrowings**

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

**(p) Trade and other payables**

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

**(q) Cash and cash equivalents**

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

**(r) Employee benefits**

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

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

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

*(ii) Termination benefits*

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

**(s) Income tax**

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(s) Income tax** *(Continued)*

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

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

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

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

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

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

  – the same taxable entity; or

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

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

*(i) Financial guarantees issued*

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

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

*(i) Financial guarantees issued (Continued)*

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

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

*(ii) Other provisions and contingent liabilities*

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(u) Revenue recognition**

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

*(i) Sale of goods*

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

*(ii) Rental income from operating leases*

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

*(iii) Interest income*

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

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

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

**(v) Translation of foreign currencies**

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

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

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(v) Translation of foreign currencies** *(Continued)*

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

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

**(w) Borrowing costs**

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

**(x) Related parties**

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

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

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(y) Segment reporting**

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following new amendment to HKFRSs that is first effective for the current accounting period of the Group and the Company:

- Amendment to HKAS 39, *Financial instruments: Recognition and measurement*, and HKFRS 7, *Financial instruments: Disclosures – Reclassification of financial assets*

These HKFRS developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's and the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 3. TURNOVER

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

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sale of goods | **877,080** | 691,426 |
| Gross rentals from investment properties | **34,111** | 30,283 |
| | **911,191** | 721,709 |

## 4. OTHER REVENUE AND NET (LOSS)/INCOME

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(a) Other revenue** | | |
| Interest income | **1,182** | 883 |
| Air conditioning, management and maintenance service charges from tenants | **6,831** | 5,150 |
| Others | **2,996** | 3,489 |
| | **11,009** | 9,522 |
| **(b) Other net (loss)/income** | | |
| Net gain on disposal of fixed assets | **1,992** | 464 |
| Gain on disposal of unlisted equity security | **–** | 12 |
| Gain on disposal of listed equity security *(note 19(b))* | **1,244** | – |
| Loss on disposal of partial interest in subsidiary* | **(199)** | – |
| Net exchange (loss)/gain | **(5,810)** | 1,983 |
| | **(2,773)** | 2,459 |

* *During the year ended 31 December 2008, the Group disposed of a 13% interest in a subsidiary for total proceeds of HK$877,000 realising a loss of HK$199,000. The Group's interest in the subsidiary as at 31 December 2008 was 52% (2007: 65%).*

5. (LOSS)/PROFIT BEFORE TAXATION

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(a) Finance costs** | | |
| Interest on bank borrowings repayable within five years | **7,756** | 11,103 |
| Interest on advances from directors | **–** | 113 |
| Interest on other loans | **1,929** | 298 |
| Finance charges on obligations under finance leases | **36** | 85 |
| | **9,721** | 11,599 |
| **(b) Other items** | | |
| Salaries, wages and other benefits | **256,051** | 192,902 |
| Employer's contributions to defined contribution retirement plans, net of forfeited contributions of HK$196,000 (2007: HK$47,000) *(note 31)* | **14,351** | 18,652 |
| | **270,402** | 211,554 |
| Cost of inventories *(note 20(b))* | **622,419** | 426,756 |
| Amortisation of intangible assets *(note 14)* | **34** | 33 |
| Amortisation of interest in leasehold land held for own use *(note 13)* | **22** | 22 |
| Depreciation | | |
| – owned assets | **24,989** | 20,469 |
| – assets held under finance leases | **1,076** | 1,257 |
| Impairment: | | |
| – fixed assets *(note 13(c))* | **86** | 672 |
| – trade receivables *(note 21(b))* | **4,214** | 635 |
| – other receivables | **1,011** | – |
| – amounts due from associates | **2,459** | – |
| – goodwill *(note 15)* | **31,200** | – |
| – available-for-sale equity securities *(note 19(a))* | **2,221** | – |
| – unlisted equity securities and related loan and interest receivable *(note 19(c))* | **27,661** | – |
| Reversal of impairment loss on trade and other receivables *(note 21(b))* | **(677)** | (171) |
| Auditors' remuneration | **2,404** | 2,045 |
| Operating lease charges | | |
| – rental of land and buildings | **12,730** | 11,504 |
| – other rentals | **106** | 112 |
| Rentals receivable from investment properties less direct outgoings of HK$2,918,000 (2007: HK$2,338,000) | **(31,193)** | (27,945) |

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

5. (LOSS)/PROFIT BEFORE TAXATION *(Continued)*

**(b) Other items** *(Continued)*

Cost of inventories includes HK$201,642,000 (2007: HK$136,877,000) relating to staff costs, depreciation charges, impairment loss in respect of fixed assets and operating lease charges, which amount is also included in the respective total amounts disclosed separately above and in the income statement for each of these types of expenses.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Current tax – Hong Kong Profits Tax** | | |
| Provision for the year | **16,074** | 17,801 |
| (Over)/under-provision in respect of prior years | **(1,988)** | 900 |
| | **14,086** | 18,701 |
| **Current tax – Outside Hong Kong** | | |
| Provision for the year | **5,174** | 7,698 |
| (Over)/under-provision in respect of prior years | **(650)** | 561 |
| | **4,524** | 8,259 |
| **Deferred tax** *(note 26(b))* | | |
| Origination and reversal of temporary differences | **(12,096)** | 16,960 |
| Effect of decrease in tax rate on opening deferred tax balances | | |
| – Hong Kong | **(4,026)** | – |
| – Overseas | **–** | 25 |
| | **(16,122)** | 16,985 |
| | **2,488** | 43,945 |

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

**(a) Taxation in the consolidated income statement represents:** *(Continued)*

In February 2008, the Hong Kong Government announced a decrease in the Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008. This decrease is taken into account in the preparation of these financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year and the opening balance of deferred tax has been re-estimated accordingly.

During the year ended 31 December 2007, the British Government announced a decrease in the corporation tax rate applicable to the Group's operations in the United Kingdom from 30% to 28% for 2008. This decrease is taken into account in the preparation of the Group's 2007 financial statements. Accordingly, the provision for taxation and deferred tax balances relevant to the Group's operations in the United Kingdom are calculated using a corporation tax rate of 28% (2007: 30%) and 28% (2007: 28%), respectively.

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss)/profit before taxation | **(23,541)** | 170,989 |
| Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the countries concerned | **(16,112)** | 33,089 |
| Tax effect of non-deductible expenses | **25,600** | 15,643 |
| Tax effect of non-taxable income | **(184)** | (4,441) |
| Tax effect of tax losses utilised | **(366)** | (1,877) |
| Tax effect of unused tax losses not recognised | **214** | 375 |
| (Over)/under-provision in prior years | **(2,638)** | 1,461 |
| Effect on opening deferred tax balances resulting from a decrease in tax rate during the year | **(4,026)** | 25 |
| Others | **–** | (330) |
| Actual tax expense | **2,488** | 43,945 |

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 7. DIRECTORS' REMUNERATION

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

| | Directors' fees *HK$'000* | Salaries, allowances and benefits in kind *HK$'000* | Discretionary bonuses *HK$'000* | Retirement scheme contributions *HK$'000* | 2008 Total *HK$'000* |
|---|---|---|---|---|---|
| **Executive directors:** | | | | | |
| **Kenneth Ting Woo-shou** | **80** | **606** | **50** | **61** | **797** |
| **Ivan Ting Tien-li** | **60** | **651** | **78** | **65** | **854** |
| **Non-executive directors:** | | | | | |
| **Dennis Ting Hok-shou** | **70** | **334** | **–** | **33** | **437** |
| **Moses Cheng Mo-chi** | **60** | **–** | **–** | **–** | **60** |
| **Nancy Ting Wang Wan-sun** | **59** | **–** | **–** | **–** | **59** |
| **Independent non-executive directors:** | | | | | |
| **Liu Chee-ming** | **100** | **–** | **–** | **–** | **100** |
| **Floyd Chan Tsoi-yin** | **100** | **–** | **–** | **–** | **100** |
| **Andrew Yao Cho-fai** | **100** | **–** | **–** | **–** | **100** |
| | **629** | **1,591** | **128** | **159** | **2,507** |

| | Directors' fees *HK$'000* | Salaries, allowances and benefits in kind *HK$'000* | Discretionary bonuses *HK$'000* | Retirement scheme contributions *HK$'000* | 2007 Total *HK$'000* |
|---|---|---|---|---|---|
| Executive directors: | | | | | |
| Kenneth Ting Woo-shou | 80 | 588 | 49 | 59 | 776 |
| Ivan Ting Tien-li | 60 | 618 | 50 | 58 | 786 |
| Non-executive directors: | | | | | |
| Dennis Ting Hok-shou | 70 | 334 | – | 33 | 437 |
| Moses Cheng Mo-chi | 60 | – | – | – | 60 |
| Independent non-executive directors: | | | | | |
| Liu Chee-ming | 100 | – | – | – | 100 |
| Floyd Chan Tsoi-yin | 100 | – | – | – | 100 |
| Andrew Yao Cho-fai | 100 | – | – | – | 100 |
| | 570 | 1,540 | 99 | 150 | 2,359 |

## 8. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none (2007: none) is a director whose emoluments are set out in note 7. The aggregate of the emoluments in respect of the five (2007: five) individuals with highest emoluments are as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other emoluments | **6,669** | 6,421 |
| Discretionary bonuses | **1,577** | 2,200 |
| Retirement scheme contributions | **416** | 414 |
| | **8,662** | 9,035 |

The emoluments of the five (2007: five) individuals with the highest emoluments are within the following bands:

| | **2008** | 2007 |
|---|---|---|
| | **Number of employees** | Number of employees |
| Nil to HK$1,000,000 | **–** | – |
| HK$1,000,001 to HK$1,500,000 | **–** | – |
| HK$1,500,001 to HK$2,000,000 | **5** | 4 |
| HK$2,000,001 to HK$2,500,000 | **–** | 1 |

## 9. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$173,616,000 (2007:HK$5,047,000) which has been dealt with in the financial statements of the Company.

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 10. DIVIDENDS

### (a) Dividends payable to equity shareholders of the Company attributable to the year

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Final dividend proposed after the balance sheet date of HKNil cents per ordinary share (2007: HK1.5 cents per ordinary share) | **–** | 9,981 |

### (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

| | | |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.5 cents per ordinary share (2007: HK1.5 cents per ordinary share) | **9,981** | 9,981 |

## 11. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$27,652,000 (2007: profit of HK$126,599,000) and the weighted average of 665,412,000 ordinary shares (2007: 665,412,000 ordinary shares) in issue during the year.

### (b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is not presented as the Company did not have dilutive potential ordinary shares outstanding during both 2007 and 2008.

## 12. SEGMENT REPORTING

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

**Business segments**

The Group comprises the following main business segments:

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

| | Toys and model trains | | Property investment | | Investment holding | | Unallocated | | Inter-segment elimination | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | ***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 | **877,080** | 691,426 | **34,111** | 30,283 | **–** | – | **–** | – | **–** | – | **911,191** | 721,709 |
| Inter-segment revenue | **–** | – | **675** | 979 | **–** | – | **–** | – | **(675)** | (979) | **–** | – |
| Other revenue from external customers | **2,388** | 2,131 | **7,428** | 5,699 | **11** | 809 | **–** | – | **–** | – | **9,827** | 8,639 |
| Total | **879,468** | 693,557 | **42,214** | 36,961 | **11** | 809 | **–** | – | **(675)** | (979) | **921,018** | 730,348 |
| Segment result | **84,449** | 116,703 | **24,448** | 33,107 | **(22,588)** | (61,089) | **3,642** | 598 | **–** | – | **89,951** | 89,319 |
| Unallocated operating income and expenses | | | | | | | | | | | **3,853** | 1,577 |
| Profit from operations | | | | | | | | | | | **93,804** | 90,896 |
| Finance costs | | | | | | | | | | | **(9,721)** | (11,599) |
| Share of profits less losses of associates | **–** | – | **–** | – | **(1,334)** | (12,596) | **–** | – | **–** | – | **(1,334)** | (12,596) |
| Valuation (losses)/gains on investment properties | **–** | – | **(47,429)** | 104,288 | **–** | – | **–** | – | **–** | – | **(47,429)** | 104,288 |
| Impairment of goodwill | **(31,200)** | – | **–** | – | **–** | – | **–** | – | **–** | – | **(31,200)** | – |
| Impairment of investment in unlisted equity securities and related loan and interest receivable | **(27,661)** | – | **–** | – | **–** | – | **–** | – | **–** | – | **(27,661)** | – |
| Income tax | | | | | | | | | | | **(2,488)** | (43,945) |
| (Loss)/profit after taxation | | | | | | | | | | | **(26,029)** | 127,044 |
| Depreciation and amortisation for the year | **26,087** | 21,748 | **–** | – | **34** | 33 | **–** | – | **–** | – | **26,121** | 21,781 |
| Impairment of fixed assets | **86** | 672 | **–** | – | **–** | – | **–** | – | **–** | – | **86** | 672 |

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 12. SEGMENT REPORTING *(Continued)*

**Business segments** *(Continued)*

| | Toys and model trains | | Property investment | | Investment holding | | Unallocated inter-company and other balances | | Inter-segment elimination | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | ***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 | **479,473** | 448,185 | **609,689** | 661,716 | **7,095** | 19,256 | **502,835** | 359,384 | **(448,113)** | (327,026) | **1,150,979** | 1,161,515 |
| Interests in associates | | | | | | | | | | | **46,596** | 48,760 |
| Unallocated assets | | | | | | | | | | | **31,101** | 24,551 |
| Total assets | | | | | | | | | | | **1,228,676** | 1,234,826 |
| Segment liabilities | **566,898** | 431,312 | **36,056** | 38,860 | **192,348** | 144,999 | **94,986** | 80,549 | **(448,113)** | (327,026) | **442,175** | 368,694 |
| Unallocated liabilities | | | | | | | | | | | **80,144** | 90,363 |
| Total liabilities | | | | | | | | | | | **522,319** | 459,057 |
| Capital expenditure incurred during the year | **33,944** | 35,962 | **–** | – | **–** | – | **–** | – | **–** | – | **33,944** | 35,962 |

**Geographical segments**

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

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

| | Hong Kong and Mainland China | | North America | | Europe | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **109,875** | 83,684 | **557,483** | 376,609 | **188,116** | 214,774 | **55,717** | 46,642 | **911,191** | 721,709 |
| Segment assets | **1,347,559** | 1,165,795 | **166,472** | 194,061 | **85,061** | 128,685 | **–** | – | **1,599,092** | 1,488,541 |
| Capital expenditure incurred during the year | **30,859** | 26,765 | **658** | 8,380 | **2,427** | 817 | **–** | – | **33,944** | 35,962 |

## 13. FIXED ASSETS

### The Group

| | Land and buildings held for own use carried at cost | | | | Investment properties | | | Interest in leasehold land held for own use under an operating lease | |
|---|---|---|---|---|---|---|---|---|---|
| | In Hong Kong | Outside Hong Kong | Equipment | Sub-total | In Hong Kong | Outside Hong Kong | Sub-total | | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cost or valuation: | | | | | | | | | |
| At 1 January 2007 | 31,727 | 34,437 | 459,691 | 525,855 | 501,212 | 40,000 | 541,212 | 1,341 | 1,068,408 |
| Exchange adjustments | – | 430 | 1,049 | 1,479 | – | – | – | – | 1,479 |
| Additions | – | 298 | 31,911 | 32,209 | – | – | – | – | 32,209 |
| Acquisition through jointly controlled entity | – | – | 3,753 | 3,753 | – | – | – | – | 3,753 |
| Disposals | – | – | (271) | (271) | – | – | – | – | (271) |
| Transfer | (636) | – | – | (636) | 807 | – | 807 | – | 171 |
| Surplus on revaluation | – | – | – | – | 99,288 | 5,000 | 104,288 | – | 104,288 |
| At 31 December 2007 | 31,091 | 35,165 | 496,133 | 562,389 | 601,307 | 45,000 | 646,307 | 1,341 | 1,210,037 |
| Representing | | | | | | | | | |
| Cost | 31,091 | 35,165 | 496,133 | 562,389 | – | – | – | 1,341 | 563,730 |
| Valuation – 2007 | – | – | – | – | 601,307 | 45,000 | 646,307 | – | 646,307 |
| | 31,091 | 35,165 | 496,133 | 562,389 | 601,307 | 45,000 | 646,307 | 1,341 | 1,210,037 |
| **At 1 January 2008** | **31,091** | **35,165** | **496,133** | **562,389** | **601,307** | **45,000** | **646,307** | **1,341** | **1,210,037** |
| **Exchange adjustments** | **–** | **(6,310)** | **(9,572)** | **(15,882)** | **–** | **–** | **–** | **–** | **(15,882)** |
| **Additions** | **–** | **122** | **33,587** | **33,709** | **–** | **–** | **–** | **–** | **33,709** |
| **Acquisition through subsidiary *(note 17)*** | **–** | **–** | **235** | **235** | **–** | **–** | **–** | **–** | **235** |
| **Disposals** | **–** | **–** | **(15,531)** | **(15,531)** | **–** | **–** | **–** | **–** | **(15,531)** |
| **(Deficit)/surplus on revaluation** | **–** | **–** | **–** | **–** | **(48,929)** | **1,500** | **(47,429)** | **–** | **(47,429)** |
| **At 31 December 2008** | **31,091** | **28,977** | **504,852** | **564,920** | **552,378** | **46,500** | **598,878** | **1,341** | **1,165,139** |
| **Representing** | | | | | | | | | |
| **Cost** | **31,091** | **28,977** | **504,852** | **564,920** | **–** | **–** | **–** | **1,341** | **566,261** |
| **Valuation – 2008** | **–** | **–** | **–** | **–** | **552,378** | **46,500** | **598,878** | **–** | **598,878** |
| | **31,091** | **28,977** | **504,852** | **564,920** | **552,378** | **46,500** | **598,878** | **1,341** | **1,165,139** |
| Accumulated amortisation, depreciation and impairment: | | | | | | | | | |
| At 1 January 2007 | 1,898 | 11,184 | 388,518 | 401,600 | – | – | – | 443 | 402,043 |
| Exchange adjustments | – | 54 | 616 | 670 | – | – | – | – | 670 |
| Charge for the year | 748 | 911 | 20,067 | 21,726 | – | – | – | 22 | 21,748 |
| Impairment loss | – | – | 672 | 672 | – | – | – | – | 672 |
| Written back on disposals | – | – | (229) | (229) | – | – | – | – | (229) |
| Written back on transfer | (26) | – | – | (26) | – | – | – | – | (26) |
| At 31 December 2007 | 2,620 | 12,149 | 409,644 | 424,413 | – | – | – | 465 | 424,878 |
| **At 1 January 2008** | **2,620** | **12,149** | **409,644** | **424,413** | **–** | **–** | **–** | **465** | **424,878** |
| **Exchange adjustments** | **–** | **(1,195)** | **(8,944)** | **(10,139)** | **–** | **–** | **–** | **–** | **(10,139)** |
| **Charge for the year** | **747** | **1,097** | **24,221** | **26,065** | **–** | **–** | **–** | **22** | **26,087** |
| **Impairment loss** | **–** | **–** | **86** | **86** | **–** | **–** | **–** | **–** | **86** |
| **Written back on disposals** | **–** | **–** | **(15,362)** | **(15,362)** | **–** | **–** | **–** | **–** | **(15,362)** |
| **At 31 December 2008** | **3,367** | **12,051** | **409,645** | **425,063** | **–** | **–** | **–** | **487** | **425,550** |
| **Net book value:** | | | | | | | | | |
| **At 31 December 2008** | **27,724** | **16,926** | **95,207** | **139,857** | **552,378** | **46,500** | **598,878** | **854** | **739,589** |
| At 31 December 2007 | 28,471 | 23,016 | 86,489 | 137,976 | 601,307 | 45,000 | 646,307 | 876 | 785,159 |

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 13. FIXED ASSETS *(Continued)*

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At valuation: | | |
| In Hong Kong | | |
| Medium-term leases | **552,378** | 601,307 |
| Outside Hong Kong | | |
| Medium-term leases | **46,500** | 45,000 |
| | **598,878** | 646,307 |

All investment properties of the Group were revalued as at 31 December 2008 on an open market value basis, by either making reference to the comparable sales evidence in the relevant locality, or otherwise, by capitalising the current rent derived from the existing tenancies with the provision for any reversionary income potential. The valuations were carried out by an independent firm of surveyors, DTZ Debenham Tie Leung, who have among their staff, Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being revalued.

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Medium-term leases in Hong Kong | **28,578** | 29,347 |
| Freehold outside Hong Kong | **16,926** | 23,016 |
| | **45,504** | 52,363 |
| Representing: | | |
| Land and buildings carried at cost | **44,650** | 51,487 |
| Interest in leasehold land held for own use under an operating lease | **854** | 876 |
| | **45,504** | 52,363 |

13. FIXED ASSETS *(Continued)*

**(c) Impairment loss**

During the year, the Group assessed the recoverable amount of the Group's moulds and equipment. Based on this assessment, the carrying amount of certain moulds and equipment was written down by HK$86,000 (2007: HK$672,000) (included in "Other operating expenses"). The estimates of recoverable amount were based on the moulds' and equipment's fair value less costs to sell, determined by reference to anticipated future use.

**(d) Secured assets**

Certain fixed assets of the Group were mortgaged to various banks to secure banking facilities granted to the Group. Details are disclosed in note 24.

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

The Group leases production plant and machinery under finance leases expiring in four to five years. At the end of the lease term the Group has the option to purchase the equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. During the year, additions to equipment of the Group financed by new finance leases were HK$414,000 (2007: HK$Nil). At the balance sheet date, the net book value of plant and machinery held under finance leases of the Group was HK$1,008,000 (2007: HK$1,670,000).

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

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 after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The carrying amount of the investment properties of the Group held for use in operating leases was HK$598,878,000 (2007: HK$646,307,000). All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties.

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 13. FIXED ASSETS *(Continued)*

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

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

| | **The Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **27,956** | 25,309 |
| After 1 year but within 5 years | **27,715** | 11,903 |
| | **55,671** | 37,212 |

## 14. INTANGIBLE ASSETS

| | **The Group** |
|---|---|
| | **Club memberships** |
| | *HK$'000* |
| **Cost:** | |
| At 1 January 2007, 31 December 2007, 1 January 2008 and 31 December 2008 | 670 |
| **Accumulated amortisation:** | |
| At 1 January 2007 | 67 |
| Charge for the year | 33 |
| At 31 December 2007 | 100 |
| At 1 January 2008 | 100 |
| Charge for the year | 34 |
| At 31 December 2008 | 134 |
| **Net book value:** | |
| At 31 December 2008 | 536 |
| At 31 December 2007 | 570 |

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

15. GOODWILL

| | The Group | | |
|---|---|---|---|
| | **Williams Reproductions Limited ("Williams")** | **Walitoys & Garment Limited ("Walitoys")** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost:** | | | |
| At 1 January 2007 | – | – | – |
| Additions | 31,200 | – | 31,200 |
| At 31 December 2007 | 31,200 | – | 31,200 |
| At 1 January 2008 | 31,200 | – | 31,200 |
| Additions | – | 7,643 | 7,643 |
| At 31 December 2008 | 31,200 | 7,643 | 38,843 |
| **Accumulated impairment losses:** | | | |
| At 1 January 2007, 31 December 2007 and 1 January 2008 | – | – | – |
| Impairment loss | 31,200 | – | 31,200 |
| At 31 December 2008 | 31,200 | – | 31,200 |
| **Carrying amount:** | | | |
| At 31 December 2008 | – | 7,643 | 7,643 |
| At 31 December 2007 | 31,200 | – | 31,200 |

On 16 October 2007, a subsidiary based in the United States acquired the business and certain assets of Williams, a distributor of toy trains in the United States. The purchase price paid of HK$39,000,000 (equivalent to US$5,000,000) comprised primarily moulds and dies valued at HK$7,800,000 (equivalent to US$1,000,000) and goodwill of HK$31,200,000 (equivalent to US$4,000,000).

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 15. GOODWILL *(Continued)*

On 4 November 2008, a subsidiary based in Hong Kong acquired Walitoys, a soft toys trading company incorporated in Hong Kong. The purchase price paid was HK$8,250,000 and goodwill of HK$7,643,000 was recognised, see note 17.

The recoverable amount of the goodwill is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the acquired business operates.

Key assumptions used for value-in-use calculations:

| | **Walitoys** | | **Williams** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Gross margin | **36.0%** | – | **40%** | 50% |
| Growth rate | **–** | – | **–** | 10% |
| Discount rate | **9.3%** | – | **20%** | 6% |

Management determined the budgeted gross margin based on its expectation for market growth. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

An impairment loss of HK$31,200,000 was recognised during the year in respect of the goodwill arising on the acquisition of Williams.

## 16. INVESTMENTS IN SUBSIDIARIES

| | **The Company** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **244,285** | 244,285 |
| Add: amounts due from subsidiaries | **784,664** | 652,017 |
| Less: impairment losses | **(134,628)** | (126,152) |
| | **894,321** | 770,150 |

Details of the major subsidiaries at 31 December 2008 which principally affected the results, assets or liabilities of the Group are listed on pages 102 and 103.

## 17. ACQUISITION OF A SUBSIDIARY

On 4 November 2008, the Group acquired a 51% equity interest in Walitoys at a total cost of HK$8,250,000.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

| | **Pre-acquisition carrying amounts** *HK$'000* | **Fair value adjustments** *HK$'000* | **Recognised values on acquisition of control** *HK$'000* |
|---|---|---|---|
| Acquiree's net assets at the acquisition date: | | | |
| Fixed assets *(note 13)* | 235 | – | 235 |
| Inventories | 1,347 | – | 1,347 |
| Trade and other receivables | 1,753 | – | 1,753 |
| Cash and cash equivalents | 976 | – | 976 |
| Trade and other payables | (3,120) | – | (3,120) |
| Net identifiable assets and liabilities | 1,191 | – | 1,191 |
| Minority interests *(note 27(a))* | | | (584) |
| Goodwill on acquisition *(note 15)* | | | 7,643 |
| Consideration paid, satisfied in cash | | | 8,250 |
| Cash acquired | | | (976) |
| Net cash outflow in respect of the purchase of a subsidiary | | | 7,274 |

## 18. INTERESTS IN ASSOCIATES

| | The Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Share of net assets | **12,746** | 12,393 |
| Amounts due from associates | **33,850** | 36,367 |
| | **46,596** | 48,760 |

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

| Name of associate | Form of business structure | Place of incorporation and operation | Proportion of ownership interest: Group's effective interest | Held by a subsidiary | Held by an associate | Principal activity |
|---|---|---|---|---|---|---|
| Allman Holdings Limited ("Allman") | Incorporated | British Virgin Islands | 36.1% | 36.1% | – | Investment holding |
| Melville Street Trust | Incorporated | Canada | 27.3% | 27.3% | – | Dormant |
| Pacific Squaw Creek Inc. | Incorporated | USA | 36.1% | 36.1% | 36.1% | Investment holding |
| Squaw Creek Associates, LLC | Limited liability company | USA | 32.0% | 10.0% | 62.0% | Resort operation, and the sale and management of condominium apartments |

## 18. INTERESTS IN ASSOCIATES *(Continued)*

Summary financial information on associates

| | Assets | Liabilities | Equity | Revenue | Loss |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **2008** | | | | | |
| **100 per cent** | **605,858** | **(514,674)** | **91,184** | **335,059** | **(10,696)** |
| **Group's effective interest** | **190,180** | **(177,433)** | **12,747** | **148,403** | **(1,334)** |
| 2007 | | | | | |
| 100 per cent | 612,311 | (514,674) | 97,637 | 229,138 | (39,160) |
| Group's effective interest | 193,299 | (180,906) | 12,393 | 100,651 | (12,596) |

## 19. OTHER NON-CURRENT FINANCIAL ASSETS

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Available-for-sale equity securities: | | |
| – Listed in Hong Kong | **560** | – |
| – Listed outside Hong Kong | **4,946** | 10,649 |
| – Unlisted equity security | **–** | 7,800 |
| | **5,506** | 18,449 |
| Convertible note | **–** | 7,800 |
| | **5,506** | 26,249 |

(a) During the year ended 31 December 2008, an impairment loss of HK$2,221,000 (2007: HK$ Nil) was recognised in respect of listed equity securities in and outside Hong Kong due to a significant decline in the fair value of such investments.

(b) During the year ended 31 December 2008, the Group disposed of a partial interest in a listed equity investment with a carrying value of HK$2,535,000 for total proceeds of HK$3,779,000 realising a net gain of HK$1,244,000 (note 4(b)).

19. OTHER NON-CURRENT FINANCIAL ASSETS *(Continued)*

(c) On 12 March 2007, the Group invested HK$7,800,000 for a 16.5% interest in a newly established limited liability company ("LLC") in the United States. An additional HK$7,800,000 was advanced to LLC through a convertible note receivable which had a maturity date of 12 March 2012 and accrued interest at a rate of 6% per annum through to the maturity date. As defined in the agreement and under certain circumstances through to the maturity date, the Group could convert the note and any accrued interest into shares of LLC at a price based on the share price at the time of conversion. The Group exercised its right to conversion during the year ended 31 December 2008 and the convertible note was converted to equity while an additional HK$3,900,000 was invested. The Group's equity interest in LLC as at 31 December 2008 was 19.1% (2007: 16.5%).

During the prior year, US$1,000,000, equivalent to HK$7,800,000 as at 31 December 2008 (2007: equivalent to HK$7,760,000) was advanced to LLC, see note 21.

Due to a significant decline in the performance of LLC, an impairment loss of HK$27,661,000 (2007: HK$Nil) was recognised in respect of the investment cost and loan and interest receivable during the year ended 31 December 2008.

20. INVENTORIES

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

| | **The Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **38,501** | 35,414 |
| Work in progress | **27,597** | 10,869 |
| Finished goods | **147,663** | 131,341 |
| | **213,761** | 177,624 |

Finished goods amounting to HK$126,528,000 (2007: HK$116,930,000) were pledged to banks to secure banking facilities granted to the Group, see note 24.

## 20. INVENTORIES *(Continued)*

**(b) The analysis of the amount of inventories recognised as an expense is as follows** *(note 5(b))***:**

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Carrying amount of inventories sold | **620,238** | 424,903 |
| Write down of inventories | **4,029** | 3,149 |
| Reversal of write-down of inventories | **(1,848)** | (1,296) |
| | **622,419** | 426,756 |

## 21. TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade debtors and bills receivable | **95,554** | 91,423 | **–** | – |
| Less: allowance for doubtful debts | **(3,390)** | (3,677) | **–** | – |
| | **92,164** | 87,746 | **–** | – |
| Loan receivable *(note 19)* | **–** | 7,760 | **–** | – |
| Deposit and prepayments | **58,876** | 18,140 | **46,467** | 174 |
| Amounts due from related companies | **–** | 475 | **–** | – |
| | **151,040** | 114,121 | **46,467** | 174 |

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Amounts due from related companies as at 31 December 2007 were unsecured, interest free and had no fixed terms of repayment.

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 21. TRADE AND OTHER RECEIVABLES *(Continued)*

### (a) Ageing analysis

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

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Current | **67,229** | 85,429 |
| 1 to 3 months past due | **20,454** | 1,551 |
| More than 3 months past due but less than 12 months past due | **4,373** | 751 |
| More than 12 months past due | **108** | 15 |
| | **92,164** | 87,746 |

Trade debtors and bills receivable are due within seven to sixty days from the date of billing. Further details on the Group's credit policy are set out in note 28(a).

### (b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(l)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **3,677** | 4,056 |
| Exchange adjustments | **11** | 14 |
| Reversal of impairment loss *(note 5(b))* | **(677)** | (171) |
| Impairment loss recognised *(note 5(b))* | **4,214** | 635 |
| Uncollectible amounts written off | **(3,835)** | (857) |
| At 31 December | **3,390** | 3,677 |

21. TRADE AND OTHER RECEIVABLES *(Continued)*

**(b) Impairment of trade debtors and bills receivable** *(Continued)*

At 31 December 2008, certain of the Group's trade debtors and bills receivable totalling HK$2,901,000 (2007: HK$729,000) were individually determined to be impaired. The individually impaired receivables related to customers with which the Group no longer trades and management assessed that the receivables are not expected to be recovered. The Group does not hold collateral over these balances.

**(c) Trade debtors and bills receivable that are not impaired**

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired is as follows:

| | **The Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **67,045** | 77,271 |
| Less than 1 month past due | **14,152** | 7,825 |
| 1 to 3 months past due | **6,160** | 870 |
| More than 3 months past due but less than 12 months past due | **4,138** | 597 |
| | **24,450** | 9,292 |
| | **91,495** | 86,563 |

Receivables that are neither past due nor impaired relate to wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 22. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and cash equivalents in the balance sheet | **32,904** | 26,592 | **254** | 133 |
| Bank overdrafts *(note 24)* | **(3,020)** | (50,120) | | |
| Cash and cash equivalents in the consolidated cash flow statement | **29,884** | (23,528) | | |

## 23. TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amount due to a director | **7,114** | – | **7,114** | – |
| Amounts due to related companies | **4,588** | 4,415 | **–** | – |
| Creditors and accrued charges | **207,961** | 183,706 | **78,777** | 78,945 |
| Rental deposits | **2,449** | 4,999 | **–** | – |
| | **222,112** | 193,120 | **85,891** | 78,945 |

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Amounts due to a director and related companies are unsecured, interest free and have no fixed terms of repayment.

## 23. TRADE AND OTHER PAYABLES (Continued)

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

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Due within 1 month or on demand | **52,186** | 31,574 |
| Due after 1 month but within 3 months | **1,618** | 273 |
| Due after 3 months but within 6 months | **84** | 41 |
| Due after 6 months | **33** | 178 |
| | **53,921** | 32,066 |

## 24. BANK LOANS AND OVERDRAFTS

At 31 December 2008, bank loans and overdrafts were repayable as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 year or on demand | **144,237** | 83,180 |
| After 1 year but within 2 years | **20,488** | 36,601 |
| After 2 years but within 5 years | **47,259** | 41,931 |
| After 5 years | **–** | 7,800 |
| | **67,747** | 86,332 |
| | **211,984** | 169,512 |

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

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

At 31 December 2008, bank loans and overdrafts were secured as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Bank overdrafts – secured *(note 22)* | **3,020** | 50,120 |
| Bank loans – secured | **196,871** | 119,392 |
| | **199,891** | 169,512 |
| Bank loans – unsecured | **12,093** | – |
| | **211,984** | 169,512 |

At 31 December 2008, certain investment properties, leasehold land and buildings, inventories and other assets of the Group with net book value of HK$823,657,000 (2007: HK$884,303,000) were mortgaged to various banks to secure the bank loans and overdrafts granted to the Group. Details of the secured assets are as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Investment properties *(note 13(d))* | **550,278** | 598,857 |
| Land and buildings *(note 13(b) & (d))* | **45,504** | 52,363 |
| Inventories *(note 20(a))* | **126,528** | 116,930 |
| Other assets | **101,347** | 116,153 |
| | **823,657** | 884,303 |

All of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 28(b). As at 31 December 2008 none of the covenants relating to drawn down facilities had been breached (2007: Nil).

## 25. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2008, the Group had obligations under finance leases repayable as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Present value of minimum lease payments** | **Total minimum lease payments** | Present value of minimum lease payments | Total minimum lease payments |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Within 1 year | **602** | **617** | 582 | 618 |
| After 1 year but within 2 years | **258** | **259** | 404 | 418 |
| After 2 years but within 5 years | **–** | **–** | 94 | 95 |
| | **258** | **259** | 498 | 513 |
| | **860** | **876** | 1,080 | 1,131 |
| Less: total future interest expenses | | **(16)** | | (51) |
| Present value of lease obligations | | **860** | | 1,080 |

26. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Provision for Hong Kong Profits Tax for the year | **16,074** | 17,801 |
| Provisional Profits Tax paid | **(11,275)** | (15,841) |
| | **4,799** | 1,960 |
| Provision for tax outside Hong Kong | **959** | 4,175 |
| | **5,758** | 6,135 |
| Representing: | | |
| Tax recoverable | **(1,397)** | – |
| Tax payable | **7,155** | 6,135 |
| | **5,758** | 6,135 |

26. 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 allowances in excess of the related depreciation | Revaluation of investment properties | Revaluation of land and buildings | Interests in associates | Provisions and allowances | Future benefit of tax losses | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2007 | 18,145 | 38,617 | 7,549 | 232 | (21,645) | (234) | 42,664 |
| (Credited)/charged to profit or loss *(note 6(a))* | (1,004) | 19,465 | – | – | (1,710) | 234 | 16,985 |
| Charged to reserves | – | – | 35 | – | – | – | 35 |
| Exchange difference | (7) | – | – | – | – | – | (7) |
| At 31 December 2007 | 17,134 | 58,082 | 7,584 | 232 | (23,355) | – | 59,677 |
| **At 1 January 2008** | **17,134** | **58,082** | **7,584** | **232** | **(23,355)** | **–** | **59,677** |
| **Effect of change in tax rate:** | | | | | | | |
| **– Credited to profit or loss *(note 6(a))*** | **(1,048)** | **(2,978)** | **–** | **–** | **–** | **–** | **(4,026)** |
| **– Credited to reserves *(note 27(a))*** | **–** | **–** | **(434)** | **–** | **–** | **–** | **(434)** |
| **Charged/(credited) to profit or loss *(note 6(a))*** | **962** | **(7,160)** | **–** | **(232)** | **(5,666)** | **–** | **(12,096)** |
| **Exchange difference** | **164** | **–** | **–** | **–** | **–** | **–** | **164** |
| **At 31 December 2008** | **17,212** | **47,944** | **7,150** | **–** | **(29,021)** | **–** | **43,285** |

Representing:

| | The Group 2008 | The Group 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net deferred tax assets recognised on the balance sheet | **(29,704)** | (24,551) |
| Net deferred tax liabilities recognised on the balance sheet | **72,989** | 84,228 |
| | **43,285** | 59,677 |

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

### (c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(s), the Group and the Company have not recognised deferred tax assets in respect of respective cumulative tax losses of HK$44,355,000 (2007: HK$45,267,000) and HK$11,348,000 (2007: HK$10,085,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

## 27. CAPITAL AND RESERVES

### (a) The Group

| | Attributable to equity shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserve | Contributed surplus | Exchange reserve | Land and buildings revaluation reserve | Fair value reserve | Revenue reserves | Total | Minority interests | Total equity |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2007 | 66,541 | 109,942 | 10,815 | 173,397 | 12,450 | 35,591 | 449 | 244,183 | 653,368 | – | 653,368 |
| Revaluation surplus, net of deferred tax | – | – | – | – | – | 162 | – | – | 162 | – | 162 |
| Exchange difference on translation of financial statements of overseas subsidiaries | – | – | – | – | 920 | – | – | – | 920 | 250 | 1,170 |
| Share of exchange reserve of associates | – | – | – | – | (755) | – | – | – | (755) | – | (755) |
| Acquisition of control over a jointly controlled entity | – | – | – | – | – | – | – | – | – | 1,914 | 1,914 |
| Capital injection | – | – | – | – | – | – | – | – | – | 447 | 447 |
| Changes in fair value of available-for-sale securities | – | – | – | – | – | – | 2,400 | – | 2,400 | – | 2,400 |
| Profit for the year | – | – | – | – | – | – | – | 126,599 | 126,599 | 445 | 127,044 |
| Dividend approved in respect of the previous year | – | – | – | – | – | – | – | (9,981) | (9,981) | – | (9,981) |
| At 31 December 2007 | 66,541 | 109,942 | 10,815 | 173,397 | 12,615 | 35,753 | 2,849 | 360,801 | 772,713 | 3,056 | 775,769 |

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

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

| | 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$'000 | Land and buildings revaluation reserve HK$'000 | Fair value reserve HK$'000 | Revenue reserves HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
| At 1 January 2008 | 66,541 | 109,942 | 10,815 | 173,397 | 12,615 | 35,753 | 2,849 | 360,801 | 772,713 | 3,056 | 775,769 |
| Effect of change in tax rate *(note 26(b))* | – | – | – | – | – | 434 | – | – | 434 | – | 434 |
| Exchange differences on translation of financial statements of overseas subsidiaries | – | – | – | – | (33,162) | – | – | – | (33,162) | 76 | (33,086) |
| Share of exchange reserve of associates | – | – | – | – | 1,141 | – | – | – | 1,141 | – | 1,141 |
| Acquisition of a subsidiary *(note 17)* | – | – | – | – | – | – | – | – | – | 584 | 584 |
| Increase in minority interests arising from partial disposal of interest in subsidiary | – | – | – | – | – | – | – | – | – | 1,077 | 1,077 |
| Changes in fair value of available-for-sale securities | – | – | – | – | – | – | (5,070) | – | (5,070) | – | (5,070) |
| Impairment of available-for-sale securities transferred to profit or loss | – | – | – | – | – | – | 2,221 | – | 2,221 | – | 2,221 |
| (Loss)/profit for the year | – | – | – | – | – | – | – | (27,652) | (27,652) | 1,623 | (26,029) |
| Dividend approved in respect of the previous year | – | – | – | – | – | – | – | (9,981) | (9,981) | – | (9,981) |
| Dividend paid to minority interests | – | – | – | – | – | – | – | – | – | (703) | (703) |
| At 31 December 2008 | 66,541 | 109,942 | 10,815 | 173,397 | (19,406) | 36,187 | – | 323,168 | 700,644 | 5,713 | 706,357 |

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

| | The Group | | | |
|---|---|---|---|---|
| | Exchange reserve | | Revenue reserves | |
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| By the Company and its subsidiaries | **(19,123)** | 14,039 | **359,843** | 396,142 |
| By associates | **(283)** | (1,424) | **(36,675)** | (35,341) |
| Total at 31 December | **(19,406)** | 12,615 | **323,168** | 360,801 |

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

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

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

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

### (b) The Company

| | Share capital *HK$'000* | Share premium *HK$'000* | Capital reserve *HK$'000* | Contributed surplus *HK$'000* | Retained profits *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| At 1 January 2007 | 66,541 | 109,942 | 9,347 | 175,594 | 334,957 | 696,381 |
| Profit for the year | – | – | – | – | 5,047 | 5,047 |
| Dividend approved in respect of the prior year | – | – | – | – | (9,981) | (9,981) |
| At 31 December 2007 | 66,541 | 109,942 | 9,347 | 175,594 | 330,023 | 691,447 |
| **At 1 January 2008** | **66,541** | **109,942** | **9,347** | **175,594** | **330,023** | **691,447** |
| **Profit for the year** | **–** | **–** | **–** | **–** | **173,616** | **173,616** |
| **Dividend approved in respect of the prior year** | **–** | **–** | **–** | **–** | **(9,981)** | **(9,981)** |
| **At 31 December 2008** | **66,541** | **109,942** | **9,347** | **175,594** | **493,658** | **855,082** |

### (c) Share capital

| | **2008** Number of shares *('000)* | **2008** *HK$'000* | 2007 Number of shares *('000)* | 2007 *HK$'000* |
|---|---|---|---|---|
| **Authorised:** | | | | |
| Ordinary shares of HK$0.10 each | **1,000,000** | **100,000** | 1,000,000 | 100,000 |
| **Issued and fully paid:** | | | | |
| At 1 January and 31 December *(note 11(a))* | **665,412** | **66,541** | 665,412 | 66,541 |

27. CAPITAL AND RESERVES *(Continued)*

**(c) Share capital** *(Continued)*

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

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

*(i) Share premium*

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

*(ii) Capital reserve and contributed surplus*

The capital reserve and contributed surplus have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill and investments in subsidiaries and associates. The contributed surplus may be utilised in accordance with the Bye-laws and other relevant laws of Bermuda, being the place of incorporation of the Company.

*(iii) Exchange reserve*

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

*(iv) Revaluation reserve*

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

*(v) Fair value reserve*

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

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

27. CAPITAL AND RESERVES *(Continued)*

**(e) Distributability of reserves**

At 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$669,252,000 (2007: HK$505,617,000). After the balance sheet date the directors proposed a final dividend of HKNil cents per ordinary share (2007: HK1.5 cents per ordinary share), amounting to HK$Nil (2007: HK$9,981,000).

**(f) Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of the net debt-to-equity ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables, rental deposits and obligations under finance leases) less cash and cash equivalents.

During 2008, the Group's strategy was to maintain the net debt-to-equity ratio under 100%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

27. CAPITAL AND RESERVES *(Continued)*

**(f) Capital management** *(Continued)*

The net debt-to-equity ratio at 31 December 2008 and 2007 was as follows:

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | *Note* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Current liabilities: | | | | | |
| Trade and other payables | *23* | **222,112** | 193,120 | **85,891** | 78,945 |
| Bank loans and overdrafts | *24* | **144,237** | 83,180 | **–** | – |
| Obligations under finance leases | *25* | **602** | 582 | **–** | – |
| | | **366,951** | 276,882 | **85,891** | 78,945 |
| Non-current liabilities | | | | | |
| Bank loans | *24* | **67,747** | 86,332 | **–** | – |
| Rental deposits | | **5,717** | 3,661 | **–** | – |
| Obligations under finance leases | *25* | **258** | 498 | **–** | – |
| Total debt | | **440,673** | 367,373 | **85,891** | 78,945 |
| Less: Cash and cash equivalents | *22* | **(32,904)** | (26,592) | **(254)** | (133) |
| **Net debt** | | **407,769** | 340,781 | **85,637** | 78,812 |
| **Total equity** | | **706,357** | 775,769 | **855,082** | 691,447 |
| **Net debt-to-equity ratio** | | **57.7%** | 43.9% | **10.0%** | 11.4% |

A certain subsidiary is subject to the fulfilment of covenants which includes maintaining its debt-to-equity ratio below a certain amount, see note 24. Except for the above, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

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

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors are due within seven to sixty days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers in its toys and model trains business. In respect of the Group's property investment business, deposits of between two to three months rent are received from lessees.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, the Group has a certain concentration of credit risk as 30.8% (2007: 13.7%) and 43% (2007: 28.6%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively within the toys and model trains segment.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet, after deducting any impairment provisions.

Except for the financial guarantees given by the Group as set out in note 30(a), the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees on the balance sheet date is disclosed in note 30(a).

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

### (b) Liquidity risk

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

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

**The Group**

| | Total contractual undiscounted cash flow in 2008 | | | | | | Total contractual undiscounted cash flow in 2007 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance sheet carrying amount | Total | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Balance sheet carrying amount | Total | Within 1 year or on demand | More than 1 year but less than 1-2 years | More than 2 years but less than 5 years | More than 5 years |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Bank overdrafts | 3,020 | (3,020) | (3,020) | – | – | – | 50,120 | (50,120) | (50,120) | – | – | – |
| Bank loans | 208,964 | (213,592) | (143,053) | (21,798) | (48,741) | – | 119,392 | (132,811) | (35,744) | (41,647) | (47,234) | (8,186) |
| Amount due to a director | 7,114 | (7,114) | (7,114) | – | – | – | – | – | – | – | – | – |
| Amounts due to related companies | 4,588 | (4,588) | (4,588) | – | – | – | 4,415 | (4,415) | (4,415) | – | – | – |
| Finance lease liabilities | 860 | (876) | (617) | (259) | – | – | 1,080 | (1,131) | (618) | (418) | (95) | – |
| Creditors and accrued charges | 207,961 | (207,961) | (207,961) | – | – | – | 183,706 | (183,706) | (183,706) | – | – | – |
| Rental deposits | 8,166 | (8,166) | (2,449) | (5,717) | – | – | 8,660 | (8,660) | (4,999) | (2,383) | (1,278) | – |
| | 440,673 | (445,317) | (368,802) | (27,774) | (48,741) | – | 367,373 | (380,843) | (279,602) | (44,448) | (48,607) | (8,186) |

**The Company**

| | 2008 Balance sheet carrying amount | 2008 Total | 2008 Within 1 year or on demand | 2007 Balance sheet carrying amount | 2007 Total | 2007 Within 1 year or on demand |
|---|---|---|---|---|---|---|
| Creditors and accrued charges | 78,777 | (78,777) | (78,777) | 78,945 | (78,945) | (78,945) |
| Amount due to a director | 7,114 | (7,114) | (7,114) | – | – | – |
| | 85,891 | (85,891) | (85,891) | 78,945 | (78,945) | (78,945) |

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(c) Interest rate risk**

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group monitors the level of its net fixed rate and variable rate borrowings and manages the contractual terms of the interest-bearing financial assets and liabilities. For this purpose the Group defines "net borrowings" as being interest-bearing financial liabilities less interest-bearing investments (excluding cash held for short-term working capital purposes). The Group's interest rate profile as monitored by management is set out in (i) below.

(i) The following table details the interest rate profile of the Group's and the Company's net borrowings (as defined above) at the balance sheet date.

**The Group**

| | | **2008** | | 2007 | |
|---|---|---|---|---|---|
| | Note | **Effective interest rate %** | **Total HK$'000** | Effective interest rate % | Total HK$'000 |
| **Net fixed rate borrowings:** | | | | | |
| Finance lease liabilities | 25 | **5.14%** | **860** | 4.60% | 1,080 |
| Less: Convertible note | 19 | **N/A** | **–** | 6.00% | (7,800) |
| Loan receivable | 21 | **N/A** | **–** | 8.04% | (7,760) |
| | | | **860** | | (14,480) |
| **Variable rate borrowings:** | | | | | |
| Bank overdrafts | 24 | **5.00%** | **3,020** | 6.60% | 50,120 |
| Bank loans | 24 | **2.40%** | **208,964** | 5.17% | 119,392 |
| | | | **211,984** | | 169,512 |

**The Company**

The Company did not have any income-earning financial assets or interest-bearing financial liabilities as at 31 December 2008 and 2007.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(c) Interest rate risk** *(Continued)*

*(ii) Sensitivity analysis*

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after taxation and decreased/increased the Group's retained profits by approximately HK$2,271,000 (2007: decreased/increased the Group's profit after tax and retained profits by HK$1,253,000). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's loss/profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's (loss)/profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis for 2007.

**(d) Foreign currency risk**

*(i) Currency risk*

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

As the HKD is pegged to the USD, the Company does not expect any significant movements in the USD/HKD exchange rate.

The Group's foreign operations do not undertake significant transactions in a currency other than their respective functional currencies. Funds are retained by the foreign operations for use within the respective operations.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(d) Foreign currency risk** *(Continued)*

*(i) Currency risk (Continued)*

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **United States Dollars** | **Sterling Pounds** | **Renminbi Yuan** | United States Dollars | Sterling Pounds | Renminbi Yuan |
| | **'000** | **'000** | **'000** | '000 | '000 | '000 |
| Trade and other receivables | **1,380** | **–** | **312** | 720 | 14 | 2,028 |
| Cash and cash equivalents | **194** | **252** | **3,849** | 727 | – | 2,146 |
| Trade and other payables | **(915)** | **–** | **(2,444)** | (77) | – | (331) |
| Net exposure arising from recognised assets and liabilities | **659** | **252** | **1,717** | 1,370 | 14 | 3,843 |
| HK$ equivalent | **5,134** | **2,816** | **1,930** | 10,688 | 224 | 4,105 |

The Company did not have any assets or liabilities denominated in a currency other than the functional currency of the Company.

*(ii) Sensitivity analysis*

The following table indicates the instantaneous change in the Group's (loss)/profit after taxation (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(d) Foreign currency risk** *(Continued)*

*(ii) Sensitivity analysis (Continued)*

**The Group**

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Effect on loss after taxation and retained profits** | Increase/ (decrease) in foreign exchange rates | Effect on profit after taxation and retained profits |
| | | ***HK$'000*** | | *HK$'000* |
| Sterling Pounds | **20%** | **470** | 2% | 4 |
| | **–20%** | **(470)** | –2% | (4) |
| Renminbi Yuan | **5%** | **81** | 10% | 384 |
| | **–5%** | **(81)** | –10% | (384) |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' (loss)/profit after taxation and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis for 2007.

**(e) Equity price risk**

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 19). Other than unquoted securities held for strategic purposes, all of these investments are listed.

The Group's listed investments are listed both inside and outside Hong Kong. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(e) Equity price risk** *(Continued)*

At 31 December 2008, it is estimated that changes in the relevant stock market index (for listed investments) with all other variables held constant, would have increased/decreased the Group's (loss)/profit after taxation (and retained profits) and other components of consolidated equity as follows:

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Increase/ (decrease) in the relevant risk variable | Effect on loss after taxation and retained profits *HK$'000* | Effect on other components of equity *HK$'000* | Increase/ (decrease) in the relevant risk variable | Effect on profit after taxation and retained profits *HK$'000* | Effect on other components of equity *HK$'000* |
| **Stock market index in respect of listed investments:** | | | | | | |
| Dow Jones Index | 34% | – | 1,371 | 6% | – | 639 |
| | –34% | – | (1,371) | –6% | – | (639) |
| Hang Seng Index | 48% | – | 2,097 | N/A | N/A | N/A |
| | –48% | – | (2,097) | N/A | N/A | N/A |
| Bloomberg GCC 200 Index | 54% | – | 493 | N/A | N/A | N/A |
| | –54% | – | (493) | N/A | N/A | N/A |

The sensitivity analysis indicates the instantaneous change in the Group's (loss)/profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index had occurred at the balance sheet date and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis has been performed on the same basis for 2007.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

**(f) Fair values**

All significant financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007.

**(g) Estimation of fair values**

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

*(i) Securities*

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

*(ii) Interest-bearing loans and borrowings and finance lease liabilities*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

*(iii) Financial guarantees*

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

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 29. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2008 not provided for in the financial statements were as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Contracted for | **55,359** | 1,445 | **54,600** | – |

(b) At 31 December 2008, the total future lease payments under non-cancellable operating leases are payable as follows:

| | The Group | | | |
|---|---|---|---|---|
| | Land and buildings | | Others | |
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Within 1 year | **5,012** | 3,556 | **374** | 289 |
| After 1 year but within 5 years | **4,610** | 4,125 | **644** | 541 |
| After 5 years | **–** | 526 | **–** | – |
| | **9,622** | 8,207 | **1,018** | 830 |

At 31 December 2008 and 2007, the Company did not have any commitments under operating leases.

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

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

## 30. CONTINGENT LIABILITIES

At 31 December 2008, there were contingent liabilities in respect of the following:

**(a) Financial guarantees issued**

The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK$487,290,000 (2007: HK$469,488,000).

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

As at the balance sheet date, the directors do not consider to be probable that a claim will be made against the Company under any of the guarantees issued. The maximum liability of the Company at the balance sheet date under the guarantees issued is the amount of banking facilities drawn down by the relevant subsidiaries of HK$210,282,000 (2007: HK$167,358,000).

**(b) Litigation**

During the first quarter of 2003, a Mexican company commenced a lawsuit in the State of Arizona against the Company on the grounds 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"). The plaintiffs initially alleged claims against Sinomex, formerly related to the Company, and the Company of US$5,235,000 for unpaid rent, value added tax, repair costs and interest owed by Sinomex under such Lease Agreement, plus accruing interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees. The plaintiffs amended their damage claim in the fourth quarter of 2007 and sought US$7,426,000 in damages, plus accruing interest, court costs and attorneys fees.

In 2004, the Company 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 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 against the Company should be dismissed. In January 2005, the Arizona court denied that initial motion submitted by the Company.

Since then the Company has engaged in some discovery, responded to a motion for partial summary judgment filed by the plaintiffs and filed a motion for summary judgment of its own. In August 2007, the court granted the plaintiffs' motion for partial summary judgment and denied the Company's motion for summary judgment, holding the Company liable under the guarantee, but not establishing the amount of the damages under that guarantee, an issue that must be resolved later in the case. In ruling on the summary judgment motions submitted by both parties, the trial court relied primarily on the law of the State of Arizona, despite the Company's claim that Mexican law should be used to decide such motions.

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 30. CONTINGENT LIABILITIES *(Continued)*

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

In September 2007, the Company filed a motion for a new trial and/or for reconsideration, asking the court to apply the law of Mexico (rather than the law of Arizona) and claiming that under Mexican law the Company should prevail and that the court should therefore vacate its granting of summary judgment in favour of the plaintiffs. Thereafter, the court granted rebriefing and then conducted a hearing on 14 January 2008, to address the Company's motion for new trial and/or for reconsideration. On 14 March 2008, the court denied the Company's motion for a new trial and/or for reconsideration. In its ruling on that motion the court did apply Mexican law. However, it appears to the Company that the trial court has made an error as to the undisputed facts, leading the Company to file a second motion for new trial and/or motion for reconsideration to ask the court to correct its ruling and find in favour of the Company. The court agreed to hear that second motion and has ordered another rebriefing. The second motion for new trial and/or reconsideration was heard on 25 March 2009. The court has not ruled on that second motion.

Having considered the Litigation with the Company's various legal counsels, management and the Board believe that the Company's opposition to the plaintiffs' complaint, as well as the Company's defenses and appeal rights, continue to be meritorious. As such, the Company intends to continue to vigorously defend the Litigation. In accordance with paragraph 92 of HKAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, it would be against the interests of the Company to make further disclosure of the information required by HKAS 37.

## 31. EMPLOYEE RETIREMENT BENEFITS

In Hong Kong, the Group operates a defined contribution pension scheme ("ORSO scheme") for all qualifying employees. Effective from 1 December 2000, all Hong Kong based employees were also covered under a Mandatory Provident Fund ("MPF") scheme, and the existing ORSO scheme was modified to provide extra benefits for existing and new employees. The amount of employer's and employees' contributions to the ORSO scheme are reduced by the amount required to be paid to the MPF scheme. The contributions to the ORSO scheme are supplementary contributions, over and above the minimum MPF requirements. The assets of the ORSO scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the ORSO scheme, the employees are required to make contributions to the ORSO scheme calculated at 5% of their basic salaries on a monthly basis whilst the employer's contributions vary 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.

## 31. 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.

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 pension scheme for certain of its employees. The assets of the scheme are held separately by an independent administered fund.

## 32. MATERIAL RELATED PARTY TRANSACTIONS

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

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

(b) One of the directors of the Company is also a director and shareholder of a supplier which sold packaging and printing materials to the Group. Total purchases from the supplier amounted to HK$3,077,000 (2007: HK$3,132,000) during the year. The amount due to the supplier at the year end amounted to HK$303,000 (2007: HK$317,000).

(c) During the year, the Group advanced funds to certain associates with a net carrying value as at 31 December 2008 of HK$46,596,000 (2007: HK$47,978,000) in which certain directors of the Company have beneficial interests. Further details of the associates are given in note 18 to the financial statements.

(d) During the year, the Group has obtained funding from certain directors and related companies to finance its operations. Details of the terms of the advances and the balances outstanding are disclosed in note 23 to the financial statements.

(e) The Group has provided funding to associates. Details of the balances outstanding are disclosed in note 18 to the financial statements.

# Notes to the Financial Statements *(Continued)*

*For the year ended 31 December 2008*

## 33. NON-ADJUSTING POST BALANCE SHEET EVENT

On 12 November 2008, the Company entered into an agreement with a third party pursuant to which the Company conditionally agreed to acquire all the issued shares in the capital of Sanda Kan (Cayman III) Holdings Company Limited ("Sanda Kan"), a company incorporated in the Cayman Islands with limited liability, for cash consideration of US$8,500,000 (equivalent to HK$66,300,000).

Sanda Kan is principally engaged in the manufacturing and trading of toys and recorded unaudited consolidated net liabilities of HK$45,570,000 as at 31 December 2008 and an unaudited consolidated loss after taxation of HK$186,804,000 for the year then ended.

Completion of the acquisition took place on 23 January 2009.

## 34. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

**Impairment**

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

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in a restatement of the Group's or the Company's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRS 8, Operating Segments | 1 January 2009 |
| HKAS 1 (revised 2007), Presentation of Financial Statements | 1 January 2009 |
| HKAS 23 (revised), Borrowing Costs | 1 January 2009 |

# Principal Subsidiaries

*At 31 December 2008*

| Name | Place of incorporation | Place of operation | Issued and fully paid up share capital (all being ordinary shares except where otherwise stated) | Principal activity | Proportion of ownership interest held by Company | Subsidiaries |
|---|---|---|---|---|---|---|
| Allied Sheen Limited | Hong Kong | Hong Kong | 2 shares of HK$1 each | Property investment | – | 100% |
| Bachmann Asia Limited | Hong Kong | Hong Kong | 2 shares of HK$1 each | Agent for sale of toys | – | 100% |
| Bachmann (China) Limited | Hong Kong | China | 10,000 shares of HK$1 each | Marketing and distribution | – | 100% |
| Bachmann Europe Plc | UK | UK | 2,050,000 shares of £1 each | Marketing and distribution | 100% | – |
| * Bachmann Industries,Inc. | USA | USA | 4,010,100 shares of US$1 each | Marketing and distribution | – | 100% |
| Bridge Duke Limited | Hong Kong | China | 2 shares of HK$1 each | Property investment | – | 100% |
| Bridge Shine Limited | Hong Kong | China | 2 shares of HK$1 each | Property investment | – | 100% |
| Deltahill Company Limited | Hong Kong | Hong Kong | 100 shares of HK$1 each<br>1,001,000 non-voting deferred shares of HK$1 each | Dormant | – | 100% |
| * Dongguan Feng Da Electronics Company Limited *(Note 1)* | China | China | Registered capital HK$8,000,000 | Manufacture of toys | – | 100% |
| * Dongguan Kader Electronics Company Limited *(Note 2)* | China | China | Registered capital HK$10,000,000 | Manufacture of toys | – | 100% |
| Express Tech Limited | Hong Kong | China | 2 shares of HK$1 each | Property investment | – | 100% |
| Extend Charm Limited | Hong Kong | China | 2 shares of HK$1 each | Property investment | – | 100% |
| * GHI, Inc. | USA | USA | 1,000 shares of US$1 each | Investment holding | – | 100% |
| * Globe Fame Group Limited | British Virgin Islands | British Virgin Islands | 1 share of US$1 | Investment holding | 100% | – |
| * Great Hope Investments Limited | British Virgin Islands | British Virgin Islands | 1 share of US$1 | Investment holding | – | 100% |
| Joy Gain Limited | Hong Kong | China | 2 shares of HK$1 each | Property investment | – | 100% |

# Principal Subsidiaries *(Continued)*

*At 31 December 2008*

| Name | Place of incorporation | Place of operation | Issued and fully paid up share capital (all being ordinary shares except where otherwise stated) | Principal activity | Proportion of ownership interest held by Company | Subsidiaries |
|---|---|---|---|---|---|---|
| * K D Enterprise Limited | British Virgin Islands | British Virgin Islands | 1 share of US$1 | Investment holding | – | 100% |
| Kader Enterprises Limited | Hong Kong | China | 1,500,000 shares of HK$10 each | Dormant | – | 100% |
| Kader Industrial Company Limited | Hong Kong | Hong Kong | 412,532,000 shares of HK$0.5 each | Manufacture of toys and property investment | 100% | – |
| Nice Cheer Limited | Hong Kong | China | 2 shares of HK$1 each | Property investment | – | 100% |
| Noble Fine Limited | Hong Kong | China | 2 shares of HK$1 each | Property investment | – | 100% |
| * Precise Moulds (Shenzhen) Company Limited *(Note 3)* | China | China | Registered capital RMB6,000,000 | Manufacture and sale of moulds | – | 52% |
| * Quedron Limited | British Virgin Islands | British Virgin Islands | 25,000 shares of US$1 each | Investment holding | – | 100% |
| Starrex Investment Limited | Hong Kong | Hong Kong | 2 shares of HK$1 each | Investment holding and property investment | – | 100% |
| Sun Marsh Limited | Hong Kong | China | 2 shares of HK$1 each | Property investment | – | 100% |
| * Technic International Development Limited | Hong Kong | Hong Kong | 1 share of US$1 | Investment holding | – | 100% |
| * Tentdraft Holdings Limited | British Virgin Islands | British Virgin Islands | 25,000 shares of US$1 each | Investment holding | – | 100% |
| Tinco Toys Company Limited | Hong Kong | Hong Kong | 2 shares of HK$1 each | Investment holding and manufacture of soft toys | – | 100% |
| * Walitoys & Garment Limited | Hong Kong | Hong Kong | 2,000 shares of HK$1 each | Manufacture of soft toys | – | 51% |

*Notes:*

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

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

3. Precise Moulds (Shenzhen) Company Limited is a co-operative joint venture registered in the People's Republic of China.

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total turnover constituting approximately 35.6% and 29.6% respectively of the related consolidated totals.

# Group Properties

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

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

# Five Year Summary *(note 1)*



CONSOLIDATED INCOME STATEMENT

| | Note | **2008 HK$'000** | 2007 HK$'000 | 2006 HK$'000 | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|---|---|---|
| Turnover | | **911,191** | 721,709 | 643,216 | 539,814 | 501,106 |
| Profit from operations | | **93,804** | 90,896 | 69,044 | 44,144 | 34,212 |
| Finance costs | | **(9,721)** | (11,599) | (12,582) | (17,062) | (13,767) |
| Share of profits less losses of associates | 1 | **(1,334)** | (12,596) | (34,908) | 10,891 | (11,431) |
| Share of profits of a jointly controlled entity | | **–** | – | 597 | – | – |
| Valuation (losses)/gains on investment properties | | **(47,429)** | 104,288 | 36,341 | 58,279 | 52,762 |
| Impairment of goodwill | | **(31,200)** | – | – | – | – |
| Impairment of unlisted equity security and related loan and interest receivables | | **(27,661)** | – | – | – | – |
| (Loss)/profit before taxation | | **(23,541)** | 170,989 | 58,492 | 96,252 | 61,776 |
| Income tax | | **(2,488)** | (43,945) | (28,520) | (15,905) | (23,023) |
| (Loss)/profit for the year | | **(26,029)** | 127,044 | 29,972 | 80,347 | 38,753 |
| **Attributable to:** | | | | | | |
| Equity shareholders of the Company | | **(27,652)** | 126,599 | 29,972 | 80,347 | 38,753 |
| Minority interest | | **1,623** | 445 | – | – | – |
| (Loss)/profit for the year | | **(26,029)** | 127,044 | 29,972 | 80,347 | 38,753 |
| **(LOSS)/EARNINGS PER SHARE** | | **(4.16)¢** | 19.03¢ | 4.50¢ | 12.07¢ | 5.82¢ |
| **DIVIDEND PER SHARE** | | **Nil** | 1.50¢ | 1.50¢ | Nil | Nil |

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

## CONSOLIDATED BALANCE SHEET

| | Note | **2008** **HK$'000** | 2007 HK$'000 | 2006 HK$'000 | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|---|---|---|
| **Assets and liabilities** | | | | | | |
| Fixed assets | | **739,589** | 785,159 | 666,365 | 632,796 | 572,956 |
| Intangible assets | | **536** | 570 | 603 | 637 | 670 |
| Goodwill | | **7,643** | 31,200 | – | – | – |
| Interests in associates | *1* | **46,596** | 48,760 | 51,040 | 161,205 | 166,538 |
| Interest in a jointly controlled entity | | **–** | – | 3,554 | 2,536 | – |
| Other non-current financial assets | | **5,506** | 26,249 | 8,349 | 100 | 2,487 |
| Other non-current assets | | **29,704** | 24,551 | 22,768 | 18,202 | 12,444 |
| Net current assets/(liabilities) | | **24,996** | 35,320 | 6,273 | 3,606 | (1,647) |
| Total assets less current liabilities | | **854,570** | 951,809 | 758,952 | 819,082 | 753,448 |
| Non-current liabilities | | **(148,213)** | (176,040) | (105,584) | (208,063) | (247,946) |
| **NET ASSETS** | | **706,357** | 775,769 | 653,368 | 611,019 | 505,502 |
| **Capital and reserves** | | | | | | |
| Share capital | | **66,541** | 66,541 | 66,541 | 66,541 | 66,541 |
| Reserves | | **634,103** | 706,172 | 586,827 | 544,478 | 438,961 |
| Total equity attributable to equity shareholders of the Company | | **700,644** | 772,713 | 653,368 | 611,019 | 505,502 |
| Minority interests | | **5,713** | 3,056 | – | – | – |
| **TOTAL EQUITY** | | **706,357** | 775,769 | 653,368 | 611,019 | 505,502 |
| **NET ASSET VALUE PER SHARE** | | **HK$1.06** | HK$1.16 | HK$0.98 | HK$0.92 | HK$0.76 |

**Notes to the five year summary:**

1 In order to comply with HKFRS 3, *Business Combinations* and HKAS 36, *Impairment of assets*, the Group changed its accounting policies relating to goodwill with effect from 1 January 2006. In accordance with the transitional provisions of the standards, the changes have been applied prospectively from 1 January 2006. Figures in years earlier than 2006 are stated in accordance with the policies before the change on a consistent basis.