KADER HOLDINGS COMPANY LIMITED

INTERIM REPORT 2008

(Stock Code : 180)

Interim Results For the Six Months Ended 30 June 2008

The Board of Directors of Kader Holdings Company Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") and the Group's interests in associates for the six months ended 30 June 2008, together with comparative figures for the corresponding period in 2007 are as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Note	**Unaudited Six months ended 30 June 2008 HK$'000**	2007 HK$'000
Turnover	*4*	**290,793**	266,148
Other revenue		**6,977**	6,387
Other net income		**4,738**	2,312
Changes in inventories of finished goods and work in progress		**40,888**	8,598
Cost of purchase of finished goods		**(29,486)**	(12,144)
Raw materials and consumables used		**(113,030)**	(84,561)
Staff costs		**(109,018)**	(87,243)
Depreciation expenses		**(11,914)**	(10,364)
Amortisation of interest in leasehold land held for own use		**(11)**	(11)
Other operating expenses		**(73,046)**	(65,059)
Profit from operations	*4*	**6,891**	24,063
Finance costs	*6(a)*	**(4,313)**	(5,614)
Share of profits less losses of associates		**(455)**	35
Profit before taxation	*6*	**2,123**	18,484
Income tax credit/(charge)	*7*	**6,501**	(4,606)
Profit for the period		**8,624**	13,878
Attributable to:			
Equity shareholders of the Company	*15*	**8,612**	13,556
Minority interests	*15*	**12**	322
Profit after taxation		**8,624**	13,878
Dividend	*8*	**9,981**	9,981
Earnings per share attributable to equity shareholders of the Company			
Basic	*9(a)*	**1.29¢**	2.04¢
Diluted	*9(b)*	**N/A**	N/A

The notes on pages 6 to 15 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

		Unaudited Six months ended 30 June			
		2008	**2008**	2007	2007
	Note	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*
Total equity at 1 January	*15*		**775,769**		653,368
Net income/(expense) for the period recognised directly in equity:					
Exchange differences on translation of the financial statements of overseas subsidiaries	*15*		**(2,344)**		1,353
Share of exchange reserve of associates	*15*		**20**		(418)
Changes in fair value of available-for-sale securities	*15*		**113**		1,738
Surplus on revaluation of land and buildings held for own use, net of deferred tax			**–**		162
Net (expenses)/income for the period recognised directly in equity			**(2,211)**		2,835
Net profit for the period	*15*		**8,624**		13,878
Total recognised income and expense for the period			**6,413**		16,713
Attributable to:					
Equity shareholders of the Company		**6,401**		16,391	
Minority interests		**12**		322	
		6,413		16,713	
Dividends declared	*8,15*		**(9,981)**		(9,981)
Acquisition of control over a jointly controlled entity			**–**		2,498
Total equity at 30 June	*15*		**772,201**		662,598

The notes on pages 6 to 15 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Note	Unaudited At 30 June 2008 HK$'000	Audited At 31 December 2007 HK$'000
Non-current assets			
Fixed assets			
– Investment properties	*10(b)*	**646,307**	646,307
– Other property, plant and equipment	*10(a)*	**142,701**	137,976
– Interests in leasehold land held for own use under an operating lease		**865**	876
		789,873	785,159
Goodwill		**31,200**	31,200
Intangible assets		**552**	570
Interests in associates		**48,462**	48,760
Other non-current financial assets		**23,829**	26,249
Deferred tax assets		**31,193**	24,551
		925,109	916,489
Current assets			
Inventories	*11*	**232,122**	177,624
Current tax recoverable		**2,728**	–
Trade and other receivables	*12*	**99,218**	114,121
Cash and cash equivalents	*13*	**35,260**	26,592
		369,328	318,337
Current liabilities			
Trade and other payables	*14*	**219,015**	193,120
Bank loans and overdrafts		**68,261**	83,180
Obligations under finance leases		**465**	582
Current tax payable		**9,363**	6,135
		297,104	283,017
Net current assets		**72,224**	35,320
Total assets less current liabilities carried forward		**997,333**	951,809

CONSOLIDATED BALANCE SHEET *(Continued)*
As at 30 June 2008

	Note	Unaudited At 30 June 2008 *HK$'000*	Audited At 31 December 2007 *HK$'000*
Total assets less current liabilities brought forward		**997,333**	951,809
Non-current liabilities			
Bank loans		**140,644**	86,332
Rental deposits		**2,797**	3,661
Obligations under finance leases		**276**	498
Deferred tax liabilities		**80,003**	84,228
Accrued employee benefits		**1,412**	1,321
		225,132	176,040
NET ASSETS		**772,201**	775,769
CAPITAL AND RESERVES	*15*		
Share capital		**66,541**	66,541
Reserves		**702,399**	706,172
Total equity attributable to equity shareholders of the Company		**768,940**	772,713
Minority interests		**3,261**	3,056
TOTAL EQUITY		**772,201**	775,769

The notes on pages 6 to 15 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Note	Unaudited Six months ended 30 June 2008 HK$'000	2007 HK$'000
Cash generated from operations		**609**	48,396
Tax paid		**(3,866)**	(10,285)
Net cash (used in)/generated from operating activities		**(3,257)**	38,111
Investing activities			
Payment for purchase of fixed assets	*10(a)*	**(16,433)**	(11,990)
Payment for purchase of other financial assets		**–**	(15,600)
Proceeds from disposal of other financial assets		**3,777**	–
Proceeds from disposal of fixed assets	*10(a)*	**2,017**	92
Interest received		**1,108**	135
Increase in amounts due from associates		**(137)**	(15,445)
Acquisition of control over a jointly controlled entity		**–**	1,026
Net cash used in investing activities		**(9,668)**	(41,782)
Financing activities			
Proceeds from new bank loans		**116,844**	113,465
Repayment of bank loans		**(35,955)**	(87,620)
Capital element of finance lease rentals paid		**(339)**	(682)
Decrease in amounts due to related companies		**(2,679)**	(13,907)
Repayment of loans from shareholders and directors		**–**	(16,312)
Dividend paid		**(9,981)**	(9,981)
Interest paid		**(4,937)**	(5,518)
Interest element of finance lease rentals paid		**(21)**	(50)
Net cash generated from/(used in) financing activities		**62,932**	(20,605)
Net increase/(decrease) in cash and cash equivalents		**50,007**	(24,276)
Cash and cash equivalents at 1 January		**(23,528)**	(12,700)
Effect of foreign exchange rate changes		**151**	216
Cash and cash equivalents at 30 June	*13*	**26,630**	(36,760)

The notes on pages 6 to 15 form part of this interim financial report.

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL REPORT

1. Reporting entity

Kader Holdings Company Limited is a company domiciled in Bermuda. The consolidated interim financial report of the Company as at and for the six months ended 30 June 2008 comprises the Company and its subsidiaries and the Group's interests in associates.

The financial report of the Group as at and for the year ended 31 December 2007 are available upon request from the Company's principal office at 11/F, 22 Kai Cheung Road, Kowloon Bay, Kowloon or at http://www.kaderholdings.com.

2. Basis of preparation

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

This consolidated interim financial report was approved by the Board of Directors and authorised for issue on 22 September 2008.

The consolidated interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2008. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2008 on the basis of HKFRSs currently in issue and effective for the current accounting period. The adoption of these new and revised HKFRSs which are expected to be reflected in the 2008 annual financial statements would not have a significant impact on the Group's results of operations and financial position.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

2. Basis of preparation *(Continued)*

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

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the Company's principal office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 April 2008.

3. Estimates

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

In preparing this condensed consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2007.

4. Segment reporting

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

Business segments

The Group comprises the following main business segments:

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

Unaudited six months ended 30 June	Toys and model trains		Property investment		Investment holding and trading		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	**273,980**	251,507	**16,813**	14,641	**–**	–	**–**	–	**–**	–	**290,793**	266,148
Inter-segment revenue	**–**	–	**489**	489	**–**	–	**–**	–	**(489)**	(489)	**–**	–
Other revenue from external customers	**782**	806	**3,800**	4,634	**–**	809	**–**	–	**–**	–	**4,582**	6,249
Total	**274,762**	252,313	**21,102**	19,764	**–**	809	**–**	–	**(489)**	(489)	**295,375**	272,397
Segment result	**(12,600)**	10,131	**16,081**	15,998	**(738)**	(2,441)	**1,485**	191	**–**	–	**4,228**	23,879
Unallocated operating income and expenses											**2,663**	184
Profit from operations											**6,891**	24,063

5. Seasonality of operations

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

6. Profit before taxation

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

	Unaudited Six months ended 30 June **2008** *HK$'000*	2007 *HK$'000*
(a) Finance costs		
Finance charges on obligations under finance leases	**21**	50
Interest on other borrowings	**4,292**	5,564
	4,313	5,614
(b) Other items		
Cost of inventories	**198,645**	165,163
Amortisation of intangible assets	**18**	17
Net gain on disposal of fixed assets *(note 10(a))*	**(1,931)**	(46)
Interest income	**(732)**	(138)
Share of associate's taxation	**–**	5
Net gain on disposal of financial assets	**(1,244)**	–

7. Income tax

	Unaudited Six months ended 30 June **2008** *HK$'000*	2007 *HK$'000*
Current tax – Hong Kong Profits Tax	**4,792**	7,394
Current tax – Overseas	**(426)**	370
Deferred taxation	**(10,867)**	(3,158)
Income tax (credit)/charge	**(6,501)**	4,606

On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual Budget which proposed a cut in the profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008/09. This decrease is taken into account in the preparation of the consolidated interim financial report. Accordingly, the opening balances of the Group's deferred tax liabilities and deferred tax assets as at 1 January 2008 decreased by HK$4,459,000 and HK$ Nil, respectively.

7. Income tax *(Continued)*

The provision for Hong Kong Profits Tax for the six months ended 30 June 2008 is calculated at 16.5% of the estimated assessable profits for the period (30 June 2007: 17.5%). Taxation for overseas subsidiaries is calculated by using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

8. Dividend

Dividend attributable to the previous financial year, approved and paid during the interim period:

	Unaudited Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Final dividend in respect of the financial year ended 31 December 2007, approved and paid during the following interim period, of HK 1.5 cents per ordinary share (year ended 31 December 2006: HK 1.5 cents per ordinary share)	**9,981**	9,981

9. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$8,612,000 (six months ended 30 June 2007: HK$13,556,000) and the weighted average number of ordinary shares of 665,412,000 (2007: 665,412,000).

(b) Diluted earnings per share

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

10. Fixed assets

(a) Acquisitions and disposals

During the six months ended 30 June 2008, the Group acquired items of fixed assets with a cost of HK$16,433,000 (six months ended 30 June 2007: HK$11,990,000). Items of fixed assets with a net book value of HK$86,000 were disposed of during the six months ended 30 June 2008 (six months ended 30 June 2007: HK$46,000), resulting in a gain on disposal of HK$1,931,000 (six months ended 30 June 2007: HK$46,000).

10. Fixed assets *(Continued)*

(b) Valuation

Investment properties carried at fair value were revalued at 31 December 2007 by an independent firm of surveyors, DTZ Debenham Tie Leung, who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis.

The directors have reviewed the valuation of the investment properties since the previous annual reporting date taking into account the volatility of the property market and available market data on comparable properties, and consider that the investment properties as at 30 June 2008 are carried at fair value.

11. Inventories

During six months ended 30 June 2008 HK$1,649,000 (six months ended 30 June 2007: HK$551,000) has been recognised as a reduction in the amount of inventories recognised as an expense during the period, being the amount of reversal of a write-down of inventories to estimated net realisable value.

12. Trade and other receivables

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

	Unaudited At 30 June 2008 *HK$'000*	Audited At 31 December 2007 *HK$'000*
Current	**64,262**	85,429
1 to 3 months overdue	**4,168**	1,551
More than 3 months overdue but less than 12 months overdue	**304**	751
More than 12 months overdue	**503**	15
Total trade debtors, net of impairment losses	**69,237**	87,746
Other debtors and prepayments	**29,981**	26,375
	99,218	114,121

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

13. Cash and cash equivalents

	Unaudited At 30 June 2008 ***HK$'000***	Audited At 31 December 2007 *HK$'000*
Cash and cash equivalents in the balance sheet	**35,260**	26,592
Bank overdrafts	**(8,630)**	(50,120)
Cash and cash equivalents in the consolidated cash flow statement	**26,630**	(23,528)

14. Trade and other payables

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

	Unaudited At 30 June 2008 ***HK$'000***	Audited At 31 December 2007 *HK$'000*
Due within 1 month or on demand	**45,842**	31,574
Due after 1 month but within 3 months	**7,093**	273
Due after 3 months but within 6 months	**1,077**	41
Due after 6 months	**517**	178
Total trade creditors	**54,529**	32,066
Other payables	**164,486**	161,054
	219,015	193,120

15. Capital and reserves

	Attributable to equity shareholders of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Contributed surplus *HK$'000*	Exchange reserve *HK$'000*	Land and buildings revaluation reserve *HK$'000*	Fair value reserve *HK$'000*	Revenue reserves *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 January 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
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**
Exchange difference on translation of financial statements of overseas subsidiaries	**–**	**–**	**–**	**–**	**(2,537)**	**–**	**–**	**–**	**(2,537)**	**193**	**(2,344)**
Share of exchange reserve of associates	**–**	**–**	**–**	**–**	**20**	**–**	**–**	**–**	**20**	**–**	**20**
Changes in fair value of available-for-sale securities	**–**	**–**	**–**	**–**	**–**	**–**	**113**	**–**	**113**	**–**	**113**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,612**	**8,612**	**12**	**8,624**
Dividend approved in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,981)**	**(9,981)**	**–**	**(9,981)**
At 30 June 2008	**66,541**	**109,942**	**10,815**	**173,397**	**10,098**	**35,753**	**2,962**	**359,432**	**768,940**	**3,261**	**772,201**

16. Capital commitments outstanding not provided for in the interim financial report

	Unaudited At 30 June 2008 *HK$'000*	Audited At 31 December 2007 *HK$'000*
Contracted for	**2,050**	1,445

17. Material related party transactions

(a) One of the directors of the Company is a non-executive director and shareholder of a supplier which sold packaging and printing materials to the Group under the same terms as those available to other customers in the ordinary course of business. Total purchases from the supplier during the period amounted to HK$1,523,000 (six months ended 30 June 2007: HK$1,469,000). The amount due to the supplier at the period end amounted to HK$770,000 (at 31 December 2007: HK$317,000).

(b) During the period, the Group advanced funds to certain associates with a net carrying value as at 30 June 2008 of HK$47,879,000 (at 31 December 2007: HK$47,978,000) in which certain directors of the Company have beneficial interests.

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

	Unaudited At 30 June 2008 *HK$'000*	Audited At 31 December 2007 *HK$'000*
Related companies	**1,736**	4,415

Balances with related companies are unsecured, interest free and have no fixed terms of repayment.

18. Contingent liabilities

(a) The Company has issued guarantees to banks to secure banking facilities of subsidiaries amounting to HK$473,690,000 at 30 June 2008 (at 31 December 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$206,970,000 (2007: HK$167,358,000).

18. Contingent liabilities *(Continued)*

(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 now seek US$7,426,000 in damages, plus accruing interest, court costs and attorneys fees. The increase in the amount claimed from that disclosed in the 2006 annual report mainly arose from accrued interest.

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 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.

Having considered the Litigation with the Company's various legal counsels, the 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.

19. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2008

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2008:

	Effective for accounting periods beginning on or after
HKFRS 8, Operating segments	1 January 2009
Revised HKAS 23, Borrowing costs	1 January 2009
Revised HKAS 1, Presentation of financial statements	1 January 2009

The above amendments, new standard and interpretation were not applied in this interim financial report because the directors expect that the Group will not early apply them when preparing the Group's annual financial statements for the year ending 31 December 2008.

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

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

During the period under review, the Group recorded a consolidated turnover of HK$290.79 million, which increased by 9.26% as compared to HK$266.15 million reported for the corresponding period last year. The profit attributable to equity shareholders amounted to HK$8.61 million, representing a decrease of 36.50% as compared to HK$13.56 million reported for the corresponding period.

BUSINESS REVIEW

Toys and Model Trains

During the first half year of 2008, the turnover for the Group's OEM/ODM toys business was HK$122.96 million, which increased by 24.73% as compared to the corresponding period last year. However, during the period under review, toy manufacturers have been facing the appreciation of Renminbi Yuan, high crude oil prices, continued rise in raw material prices and high labour costs due to the increase in statutory minimum wages. In addition, given concerns over product safety and recalls around the world, we have continued to place more effort in enhancing safety precautions and quality control, further increasing the cost of testing for toys. On the other hand, the Group faces keen competition which continues to limit the scope of price increases. As the Group has to absorb part of these increasing costs, profit margins have been affected.

Regarding the model trains business, the turnover in the first half year of 2008 was approximately HK$151.02 million, representing a slight decrease of 1.24% as compared to the corresponding period last year. The Group is proud to announce that the Group's subsidiary, Bachmann Europe Plc., was awarded "Manufacturer of the Year" by Model Rail Magazine in the UK in December 2007. The Group continued to gain the loyalty of customers and has maintained our leading position in the industry.

Property Investment

During the period under review, the rental income of the Group amounted to HK$16.81 million, representing a 14.84% increment as compared to the corresponding period last year. The increase reflected the upward adjustment in rental rate upon lease renewals for Kader Building.

The Group's major investment property, Kader Building, continued to generate recurring revenue for the Group. For the first six months of the year, the rental income of Kader Building amounted to HK$15.01 million, representing a 15.02% increment over the corresponding period last year. As at 30 June 2008, the occupancy rate of Kader Building was over 95%.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 June 2008, the Group's net asset value per share amounted to HK$1.16 (at 31 December 2007: HK$1.16); the current ratio was 1.24 (at 31 December 2007: 1.12); total bank borrowings were approximately HK$208.91 million (at 31 December 2007: HK$169.51 million) while the Group had total unutilised banking facilities of approximately HK$473.69 million (at 31 December 2007: HK$422.05 million); the Group's financial gearing, based on the total interest bearing borrowings compared to the total equity, was 27.15% (at 31 December 2007: 21.99%). There is no significant seasonality in borrowing requirements except that during the peak production period in the second half 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 period under review, there were no changes in the Company's share capital. The Group's source of financing was mainly bank borrowings, which were denominated in Hong Kong Dollars, United States Dollars and Sterling Pounds at prevailing interest rates.

Charges on Group Assets

As at 30 June 2008, certain investment properties, land and buildings, inventories and other assets of the Group valued at approximately HK$857.33 million (at 31 December 2007: HK$884.30 million) were pledged to several banks to secure banking facilities granted to the Group.

Material Acquisitions and Disposals

There were no material acquisitions and disposals during the six months ended 30 June 2008.

Exchange Rate Exposure

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

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2008, the Group employed approximately 7,030 (at 30 June 2007: 7,201; at 31 December 2007: 5,639) full time management, administrative and production staff in Hong Kong SAR, Mainland China, the United States and Europe. The Group had seasonal fluctuations in the number of workers employed in its production plant while the number of other 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

Looking ahead, operational conditions are challenging and manufacturing costs would continue to rise. The Group would still be facing adverse factors, such as the appreciation of the Renminbi Yuan and increased costs in administering testing of toys to enhance products safety. Hopefully the drop in crude oil price would continue in the second half year, so that raw material costs would accordingly be reduced. The Group will continue to strengthen its core business, streamline operational procedures without compromising on quality, improve operating and production efficiency and develop automated processes with a view to fulfilling the mission of "Manufacturing Trust".

DISCLOSURE OF INTERESTS

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

At 30 June 2008, 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")) at that date 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

Interests in the Company

	Number of ordinary shares of HK$0.10 each				
Name of directors	Personal interests	Family interests	Corporate interests	Total interests	% of total issued share capital
Kenneth Ting Woo-shou	116,139,385	1,452,629 (i)	244,175,800 (ii)	361,767,814	54.37%
Dennis Ting Hok-shou	9,692,817	275,000 (iii)	236,969,800 (iv)	246,937,617	37.11%
Ivan Ting Tien-li	13,966,303	–	–	13,966,303	2.10%
Nancy Ting Wang Wan-sun	1,452,629	116,139,385 (v)	–	117,592,014	17.67%
Moses Cheng Mo-chi	11,000	–	–	11,000	0.00%
Liu Chee-ming	–	–	1,000,000	1,000,000	0.15%
Floyd Chan Tsoi-yin	–	–	–	–	–
Andrew Yao Cho-fai	–	–	–	–	–

Notes:

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

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

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

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

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

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 interest in Allman was disclosed in Note (i) above.

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

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

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

All the interests stated above represent long positions. As at 30 June 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 30 June 2008, none of the directors or chief executives of the Company nor their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

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

Substantial Shareholder's and Other Person's Interests

As at 30 June 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2008. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period under review.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board regularly reviews and adopts corporate governance guidelines and developments. Throughout the period under review, the Group has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except for the deviation from CG Code E.1.2.

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.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the key accounting policies, and discussed auditing, internal controls and financial reporting matters, including a review of the interim results for the period ended 30 June 2008.

REMUNERATION COMMITTEE

The Remuneration Committee, comprising of two independent non-executive directors of the Company and the Managing Director of the Company, is responsible for reviewing and making recommendations to the Board on the Company's policy and structure for all remunerations of directors and senior management.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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.

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

Hong Kong, 22 September 2008

As at the date hereof, the executive directors of the Company are Mr. Kenneth Ting Woo-shou, SBS, JP (Managing Director) and Mr. Ivan Ting Tien-li; the non-executive directors of the Company are Dr. Dennis Ting Hok-shou, OBE, JP (Chairman), Mr. Moses Cheng Mo-chi, GBS, OBE, JP and Mrs. Nancy Ting Wang Wan-sun; and the independent non-executive directors of the Company are Mr. Liu Chee-ming, Mr. Floyd Chan Tsoi-yin and Mr. Andrew Yao Cho-fai.