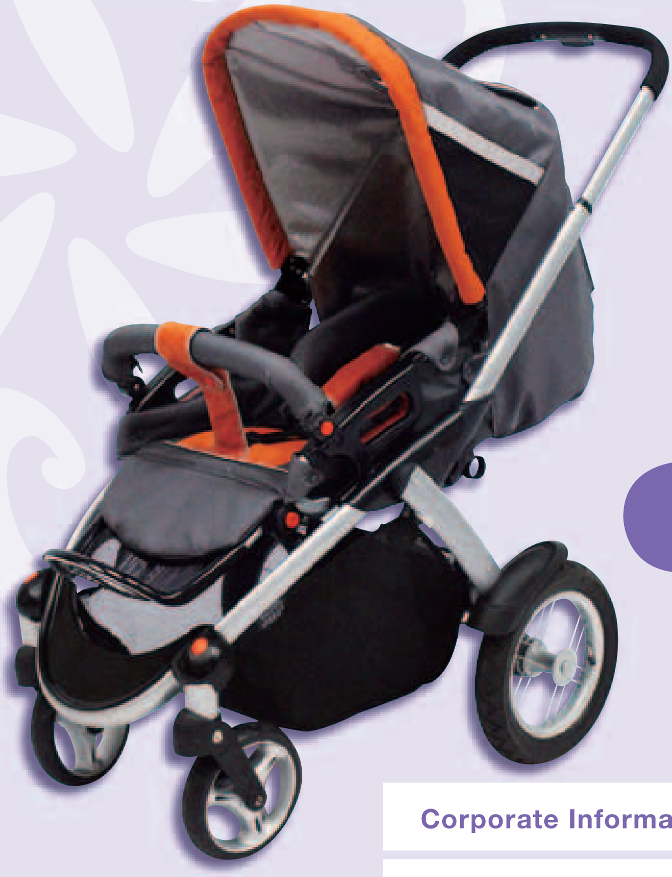
LERADO
LERADO GROUP
隆成集團

Lerado Group (Holding) Company Limited

Stock Code : 1225

Annual Report 07



CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
HUANG Ying Yuan (Chairman)
YANG Yu Fu
(Vice Chairman and Chief Executive Officer)
HUANG CHEN Li Chu (Vice Chairman)
CHEN Chun Chieh

INDEPENDENT NON-EXECUTIVE DIRECTORS
LIM Pat Wah Patrick
HUANG Zhi Wei
Tyrone LIN

AUDIT COMMITTEE
LIM Pat Wah Patrick (Chairman)
HUANG Zhi Wei
Tyrone LIN

REMUNERATION COMMITTEE
HUANG Ying Yuan (Chairman)
LIM Pat Wah Patrick
HUANG Zhi Wei
Tyrone LIN

QUALIFIED ACCOUNTANT
CHAN Man Fu

COMPANY SECRETARY
CHAN Man Fu

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS
Unit 1-3 30/F Universal Trade Centre
3-5A Arbuthrot Road
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR
The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM11
Bermuda

BRANCH SHARE REGISTRAR
Tricor Secretaries Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE
Hong Kong Stock Exchange: 1225

COMPANY WEBSITE
www.irasia.com/listco/hk/lerado/index.htm

PRINCIPAL BANKERS
ABN AMRO Bank
Shanghai Commercial Bank
Chinatrust Commercial Bank

SOLICITORS
Sidley Austin

AUDITORS
Deloitte Touche Tohmatsu

COMPANY PROFILE

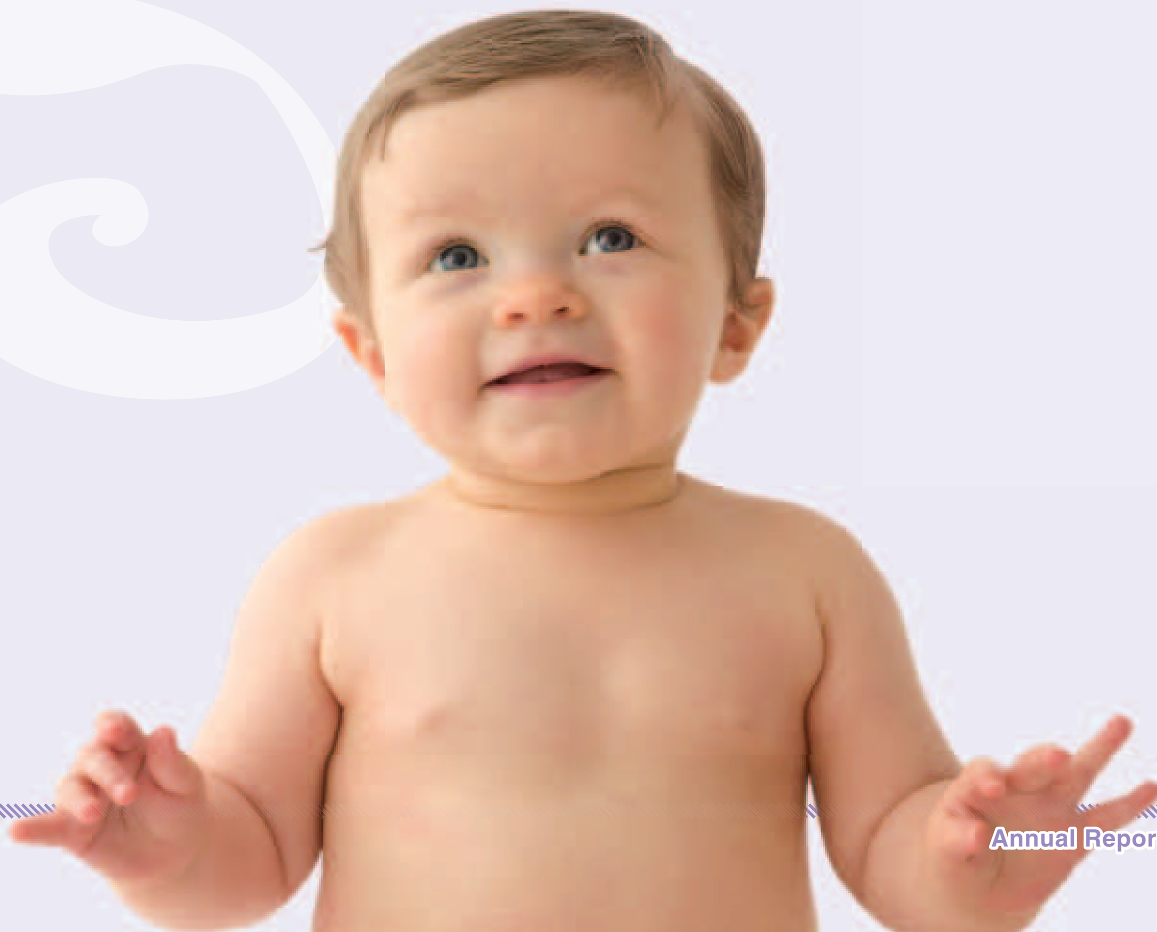
Founded in 1988, Lerado Group designs, manufactures and distributes a wide range of infant and pre-school products including baby strollers, beds and playards, soft goods, high chairs, bouncers, infant car seats, battery-operated ride-on cars, as well as other accessories.

The Group has established efficient manufacturing bases in Zhongshan and Shanghai in the People's Republic of China (the "PRC"), with research and development ("R&D") centres located in Taiwan and the PRC. Our strong R&D capability enables us to design and manufacture a majority of our products on an original design manufacturing ("ODM") basis, while owning the patents on such designs. We currently own more than 685 registered patents on over 352 product features.

We also manufacture for customers on an original equipment manufacturing ("OEM") basis by producing the products according to customers' specifications. The majority of our products are sold to the United States of America (the "US") and Europe. Our experienced manufacturing expertise and commitment to quality are trusted by our customers.

The Group has also extended its business scope to the manufacturing and selling of infant and pre-school products under its own brand, "Angel". Developed specifically for the PRC market, the Angel brand products are sold in major cities in the PRC. The Group is also taking active steps to enrich its product offering to target for a broader range of end users from infants up to six years of age.

Our mission is to provide superior products with innovative features and the highest safety standards to our customers worldwide.



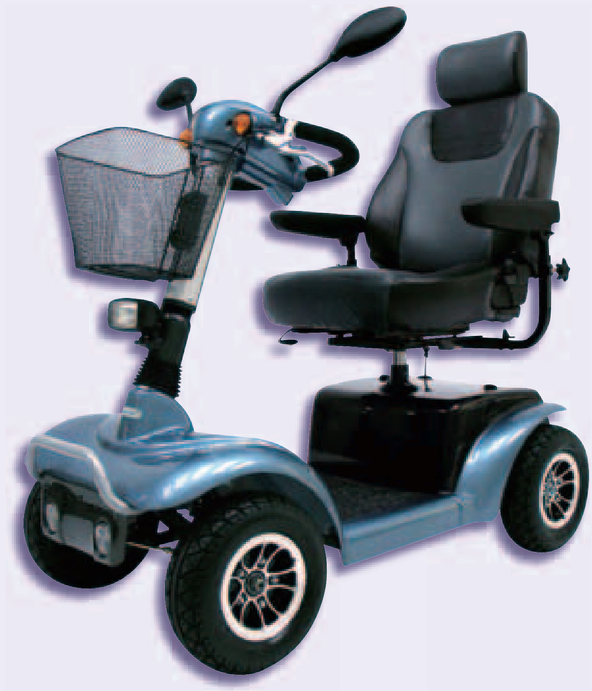
FINANCIAL HIGHLIGHTS

	2007 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*
Revenue	**1,208,715**	1,125,465	1,047,328
Profit before interest expenses and tax	**55,050**	97,762	13,998
As a percentage of revenue	**4.6%**	8.7%	1.3%
EBITDA	**60,690**	127,372	62,141
As a percentage of revenue	**5.0%**	11.3%	5.9%
Profit attributable to equity holders	**48,022**	86,219	9,155
As a percentage of revenue	**4.0%**	7.7%	0.9%
Total assets	**1,070,287**	979,420	909,183
Total capital employed*	**813,775**	780,438	725,330
Shareholders' equity	**806,647**	772,227	708,409
Earnings per share (HK cents)	**6.63**	11.94	1.27
Return on average capital employed	**6.1%**	11.7%	1.4%
Current ratio	**2.7**	2.9	2.8
Average inventory turnover (days)	**56**	52	57
Average trade debtor turnover (days)	**50**	51	58

* Total capital employed includes shareholders' equity, minority interests and interest-bearing debts.

MANAGEMENT DISCUSSION AND ANALYSIS

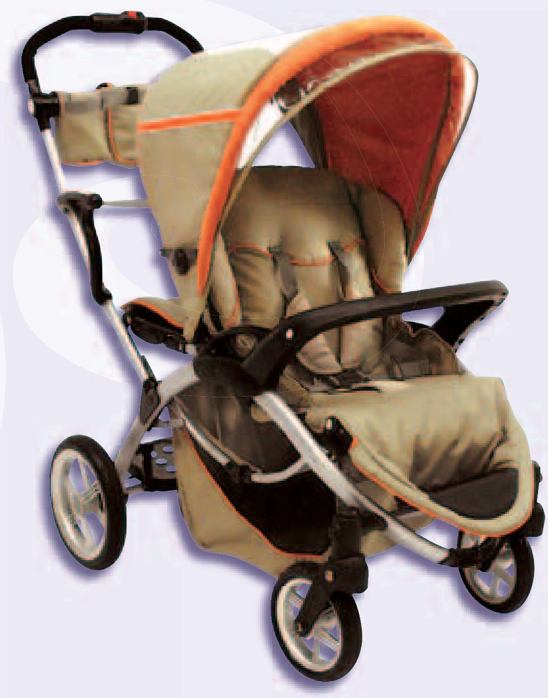
The Group reported consolidated turnover of HK$1,208.7 million for the year ended 31 December 2007 representing a growth of 7.4% over last year. The profit attributable to equity holders of the Company decreased by 44.3% to HK$48.0 million. Basic earnings per share decreased from HK11.94 cents to HK 6.63 cents.



BUSINESS REVIEW

Turnover

The Group's turnover was increased by 7.4% from HK$1,125.5 million to HK$1,208.7 million during the year. The growth momentum was mainly driven by the sales of "miscellaneous infant products". This product category recorded the significant sales growth rate of 18.4% from HK$390.9 million to HK$463.0 million. Among this category, sales of car seats amounted to HK$152.1 million (2006: 119.3 million) and contributed HK$32.8 million net increase during the year. In term of sales growth rate, car seats product line achieved to 27.5%. The remarkable sales growth was mainly came from the great contribution made by our US research and development team during the year. The newly setup team located in US and it was composed of local professionals. The professionals realized the upcoming design trend and knew the local customers' specifications very well so as to facilitate making tailor-made design works in a highly efficiency way. Other than getting highly appreciation from the existing customers, the efficient design team achieved attracting several new local customers to the Group during the year.



Gross Profit

With continuous increase in raw materials price, significant diminishing of PRC tax rebate on exports and the ongoing appreciation of Renminbi ("RMB"), gross profit of the Group was adversely affected. During the year, the gross profit decreased from HK$259.3 million to HK$212.4 million and made the gross profit ratio decline to 17.6% (2006: 23.0%). The Group continued with stringent cost control measures and optimized production flow to minimize costs of sales during the year. However, the operation environment was challenging and difficult, the Group had suffered from those adverse impacts.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group started to increase the gross profit ratio through selling price increases and introduction of new products to the market. Besides, the Group started to screen out those extremely low margins production orders so as to reserve production capacity for higher value orders.

Marketing and Distribution Costs

The Group's marketing and distribution costs were increased by 29.5% from HK$62.5 million to HK$81.0 million during the year. The main reason was the inflation of transportation costs following up with high-level energy price.

Research and Development Expenses

There was a 20.9% increase of the Group's research and development expenses from HK$26.9 million to HK$32.5 million during the year. This was mainly attributable to the expansion of our operations in US.

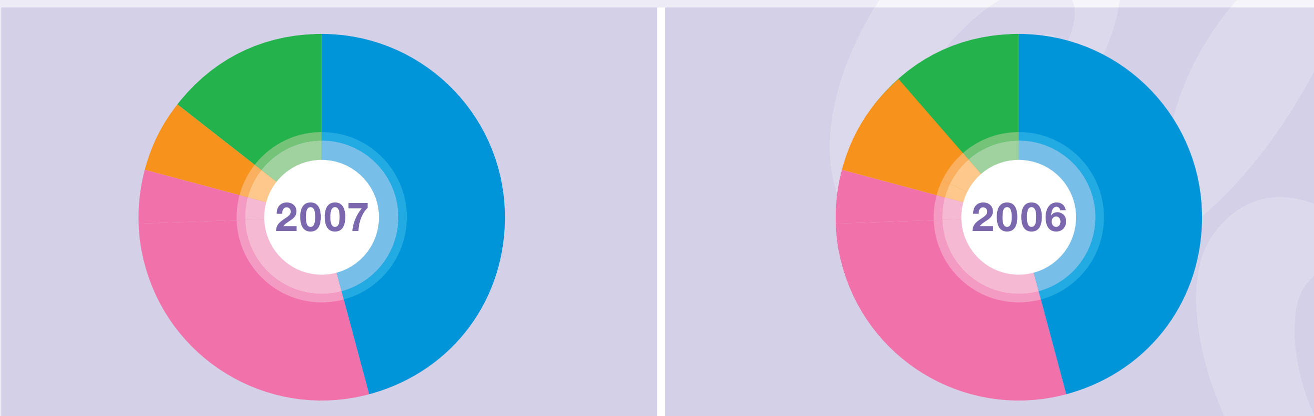
Administrative Expenses

The Group's administrative expenses were increased from HK$93.8 million to HK$98.9 million representing 5.3% increase during the year. This was also mainly attributable to the expansion of our operations in US.

Investment Income

During the year, the Group's investment income was increased significantly by 2.4 times from HK$6.6 million to HK$22.0 million. The major reason was due to gain on fair value changes of derivative financial instruments amounting HK$13.4 million (2006: HK$0.3 million). The Group entered into foreign currency (RMB/US$) contracts with Zhongshan banks and Taiwan banks in different contract rates during the year. The Group entered into the contracts in a pair practice that involved selling a contractual amount US$ in Zhongshan and buying a same amount of US$ in Taiwan in same contracted period. As the contracted banks located in two different jurisdictions, there were different currency spot rates existing. Due to different currency spot rates maintained, the Group realized net gains in these pair transactions. During the year, the Group invested more in those pair transactions in term of number of transactions as well as contractual US$ amount.

REVENUE BY PRODUCT



	2007
Strollers	42.9%
Miscellaneous infant products	38.3%
Beds and playards	7.1%
Others	11.7%

	2006
Strollers	44.9%
Miscellaneous infant products	34.7%
Beds and playards	9.5%
Others	10.9%

Gain on Fair Value Changes of Investment Properties

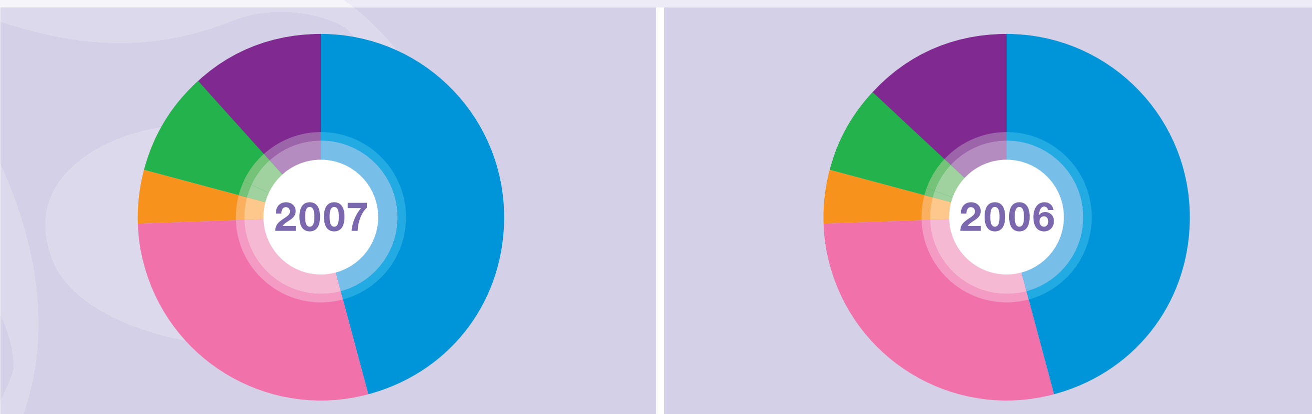
The Group's gain on fair value changes of investment properties was increased from HK$2.2 million to HK$37.2 million representing exponential 15.9 times increase during the year. In 2006, the Group owned an investment property (approximately 4,100 sq ft) in Hong Kong to earn rental income and occupied a property (approximately 6,000 sq ft) in Hong Kong for corporate office. The gain on fair value changes of investment properties amounted to HK$2.2 million in 2006 was generated from the investment property, which had smaller floor areas. During the year, the Group exchanged the usages of the mentioned properties. The larger property became Group's investment property and generated HK$37.2 million gain on fair value changes as at 31 December 2007. At 10 December 2007, the Group entered into a provisional sale and purchase agreement with a purchaser to sell the investment property for a consideration of HK$88.8 million. The Board considered that the disposal a good opportunity for the Group to realize a better value for the property. The sale completed on 29 February 2008 and the total net proceeds of approximately HK$88.0 million from disposal had been applied as general working capital of the Group.

PROSPECTS

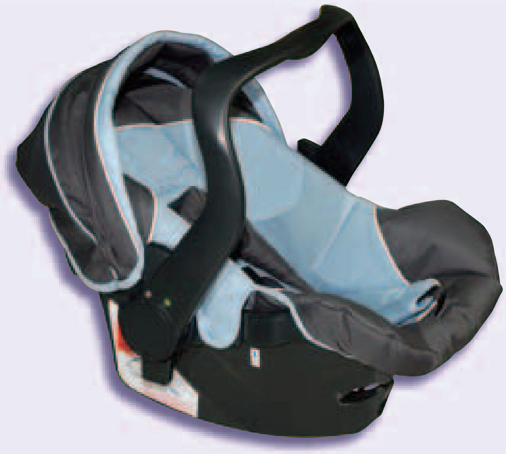
Similar to many PRC manufacturers, inflation fueled by raising raw materials, energy and labour costs is a key concern of the Group. In addition, changes in trade and tax rules and RMB appreciation are all unfavorable factors to the Group's operation. Apart from applying the stringent cost control measures and optimized production flow to minimize costs of sales, the Group now is assessing to outsource more production activities to other factories to further enhance its competivity. The Group also started to evaluate the feasibility of setting up new production bases in other countries providing lower operating costs. Besides, the Group will strictly implement the policy of screening out models with extremely low margins in order to reserve production capacity for higher value production orders.

The Group will strengthen sale and marketing activities to further expand market share in overseas market. In view of bright prospect in car seats, the Group will foster and develop high quality customer groups to increase our market share. Besides, the Group will also allocate more resources in strengthening its design capabilities and developing innovative products to the market so as to drive a sustainable sales growth. Furthermore, the

REVENUE BY REGION



	2007		2006
United States	44.8%	United States	45.5%
Europe	27.3%	Europe	25.9%
Australia	4.9%	Australia	3.6%
South America	8.2%	South America	9.4%
Others	14.8%	Others	15.6%



Group will continue to implement cross-selling sale and marketing strategy for pushing up car seats sales from the existing stroller buyers.

The rising disposable incomes and the country's one-child policy in PRC induce China's urban parents to be willing to spend more and more monies on that one child. The PRC will definitely continue to be a major market. The Group will continue to identify suitable business development and investment opportunities to increase our market penetration in PRC.

Liquidity and financial resources

The Group adopts a conservative policy in its financial management and maintains a solid financial position. The Board is in the opinion that the Group has sufficient resources to support its operations and meet its foreseeable capital expenditure.

As at 31 December 2007, the Group had cash and bank balances, mainly in US dollars and Renminbi of HK$159.3 million (2006: HK$259.8 million) and was free of bank borrowings (2006: nil). The drop of the balances was mainly due to an increase of inventory level of HK$52.7 million and an addition of prepaid lease payments of HK$28.8 million in December 2007.

As at 31 December 2007, the Group had net current assets of HK$417.1 million (2006: HK$369.3 million) and a current ratio of 2.7 (2006: 2.9). Trade receivable and inventory turnover were 50 days (2006: 51 days) and 56 days (2006: 52 days) respectively.

The gearing ratio, being the bank loan divided by the shareholders' equity, as at 31 December 2007 was nil (2006: nil).

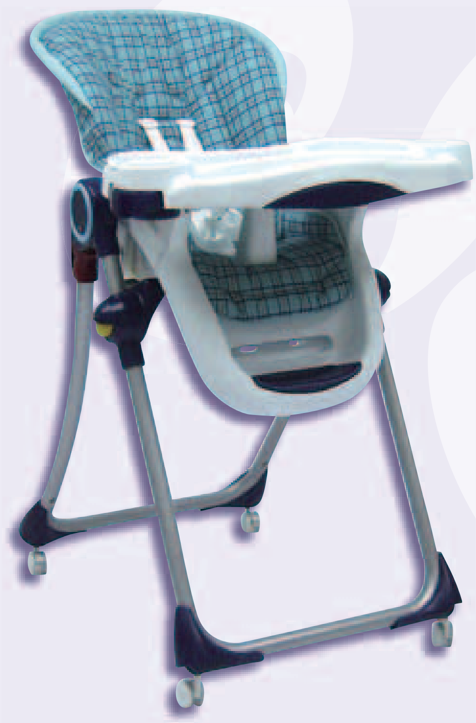
Exchange risk exposure and contingent liabilities

The sales of the Group are mainly denominated in US dollars and purchases are mainly in HK dollars, Renminbi and New Taiwanese dollars. The Group does not foresee significant risk in exchange rate fluctuation.

As at 31 December 2007, the Group had no significant contingent liabilities.

Employees and remuneration policies

As at 31 December 2007, the Group employed a total workforce of around 5,600 staff members, of which above 5,400 worked in the PRC offices and production sites, above 100 in Taiwan mainly for marketing, sales support and research and development, 25 in the US office for marketing, sales support and research and development and 10 in HK for finance and administration.



DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. HUANG Ying Yuan, aged 57, is a founding member and the Chairman of the Company. Mr. Huang has 31 years of experience in the infant products industry. Mr. Huang oversees the Group's strategic planning and has particular responsibility for marketing. Mr. Huang is the spouse of Mrs. Huang Chen Li Chu, Vice Chairman of the Company.

Mr. YANG Yu Fu, aged 55, was appointed an Executive Director and Vice Chairman of the Company on 1 December 2007. With effect from 14 February 2008, Mr. Yang has been appointed as the Chief Executive Officer of the Company. Mr. Yang worked at China Productivity Center in Taiwan for almost 20 years and acted as the department head to manage the operations in Tai Chung Regional Office before he left the Center. Prior to joining China Productivity Center, Mr. Yang held management positions in various enterprises. He obtained a bachelor's degree in industrial engineering from National Taipei University of Technology and master's degrees in management from both Chaoyang University of Technology Taiwan, and Regis University, U.S.A. Mr. Yang is responsible for the Group's business development.

Mrs. HUANG CHEN Li Chu, aged 58, was appointed an Executive Director of the Company in 1998. Mrs. Huang has worked in the infant products industry in Taiwan for over 29 years and established her own research and development company whose operations were acquired by the Group in early 1998. Mrs. Huang is in charge of the Group's research and development operations. Mrs. Huang is the spouse of Mr. Huang Ying Yuan, Chairman of the Company.

Mr. CHEN Chun Chieh, aged 33, was appointed an Executive Director of the Company on 3 April 2008. Mr. Chen has been working for the Group since 2002 and was participating in business development in the PRC market. He obtained a bachelor's degree in international trade from Ling Tung University, Taiwan and master's degree in business administration from Lawrence Technical University, U.S.A. Mr. Chen is responsible for the Group's management and business development in the PRC market.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LIM Pat Wah Patrick, aged 48, is a senior advisor of an advisory firm. Mr. Lim is a Chartered Financial Analyst and a fellow member of Association of Chartered Certified Accountants. He obtained a bachelor's degree in accounting from Birmingham University, a master's degree in management of information systems from the London School of Economics and Political Science and a master's degree in management from University of Sydney. Mr. Lim has over 23 years of experience in accounting and finance. Mr. Lim was first appointed an Independent Non-executive Director of the Company in November 1998.

Mr. HUANG Zhi Wei, aged 69, is currently the Executive Vice President of Guangdong General Chamber of Commerce. Mr. Huang has spent over a decade in economic-related government sectors in China. He served as the Deputy Director General of Guangdong Department of Foreign Trade & Economic Cooperation and the Director General of Guangdong Board of Investment from 1993 to 2000 respectively. He also served as the Executive Officer of Foshan Economic Committee from 1984 to 1992. Prior to this, he worked as an engineer in Foshan Power Plant for almost 10 years and served as the Chief Engineer and Deputy General Manager of Foshan Household Electrical Appliances Corporation from 1981 to 1984. Mr. Huang graduated from the Central China University of Science and Engineering, majored in electric engineering. Mr. Huang was appointed an Independent Non-executive Director of the Company on 30 September 2004.

Mr. Tyrone Lin, aged 64, holds a bachelor's degree in economics from Soochow University in Taiwan. Mr. Lin has solid experience in corporate banking, specializing in credit control and risk assessment. He had worked in BNP Paribas, Taipei branch for 20 years and he was the Senior Vice President when he left the bank in 2004. Prior to that, he had been with Irving Trust Company (now Bank of New York) for over 10 years. Mr. Lin is currently a financial advisor to a manufacturing enterprise with operations in the Greater China region. Mr. Lin was appointed an Independent Non-executive Director of the Company on 6 November 2006.

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identify and formulate corporate governance practices appropriate to the Company's needs.

The Company's corporate governance practices are based on the principles ("Principles") and code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company has applied the principles as set out in the CG Code and complied with all the Code Provisions throughout the year.

The Company periodically reviews its corporate governance practices to ensure that operations are corresponding with the good corporate governance practices as set out in the CG Code.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The management and control of the business of the Company are vested in its Board. It is the duty of the Board to establish policies, strategies and plans, and to provide leadership in the attainment of the objective of creating value to shareholders.

The Board reserves for its decisions on all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company, with a view to ensure that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the executives. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

Composition

The Board currently comprises seven members, consisting of four executive directors and three independent non-executive directors.

During the year ended 31 December 2007, the Board of the Company comprises the following directors:

Executive directors:
HUANG Ying Yuan, *Chairman*
CHEN Hsing Shin, *Vice Chairman and Chief Executive Officer (deceased at 14 February 2008)*
YANG Yu Fu, *Vice Chairman (appointed on 1 December 2007)*
HUANG CHEN Li Chu, *Vice Chairman*
LEUNG Man Fai *(resigned on 1 December 2007)*

Independent non-executive directors:
LIM Pat Wah Patrick
HUANG Zhi Wei
Tyrone LIN

Mrs. Huang Chen Li Chu is the spouse of Mr. Huang Ying Yuan.

With effect from 14 February 2008. Mr. Yang Yu Fu has been appointed as the Chief Executive Officer of the Company.

With effect from 3 April 2008. Mr. Chen Chun Chieh has been appointed as executive director of the Company.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

Appointment and Succession Planning of Directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's bye-laws. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Each of the independent non-executive directors of the Company is appointed for a specific term of one to three years and shall be subject to retirement by rotation once every three years.

In accordance with the Company's bye-laws, at each annual general meeting of the Company, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation, all directors are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

The Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's bye-laws, Yang Yu Fu, Chen Chun Chieh and Huang Zhi Wei shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Board recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 25 April 2008 contains detailed information of the directors standing for re-election.

Induction and Continuing Development for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The directors are also continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities.

BOARD MEETINGS

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The individual attendance (either in person or through other electronic means of communication) of each director at the regular Board meetings during the year ended 31 December 2007 is set out below:

	Attendance/ Number of Meetings
Executive Directors:	
HUANG Ying Yuan *(Chairman)*	8/8
CHEN Hsing Shin (*Vice Chairman and Chief Executive Officer*) (*deceased at 14 February 2008*)	5/8
YANG Yu Fu (*Vice Chairman*) *(appointed on 1 December 2007)*	2/2
HUANG CHEN Li Chu *(Vice Chairman)*	8/8
LEUNG Man Fai (*resigned on 1 December 2007)*	5/6
Independent Non-Executive Directors:	
LIM Pat Wah Patrick	8/8
HUANG Zhi Wei	8/8
Tyrone Lin	8/8

Practices and Conduct of Meetings

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to enable them to make informed decisions. The Board and each director also have separate and independent access to the executives whenever necessary.

The Chief Executive Officer, Qualified Accountant, and Company Secretary attend all regular Board meetings and when necessary, committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman and Chief Executive Officer are held by Mr. Huang Ying Yuan and Mr. Yang Yu Fu (Mr. Chen Hsing Shin acted as Chief Executive Officer till 14 February 2008) respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the executives, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. In addition, the Chairman has particular responsibility for strategic planning and marketing.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for formulating the organisational structure, control systems and internal procedures and processes for the Board's approval. In addition, with relevant expertise, he also has particular responsibility for production operations and PRC retail business.

BOARD COMMITTEES

The Board has established two committees, namely, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and are available to shareholders upon request.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the individual's working experience and duties and the performance of the individual and the Company as well as market practice and conditions.

During 2007, the Remuneration Committee met to review the overall remuneration of the directors and the proposal on distribution of bonus to the executive directors for 2006.

The attendance records of individual members at the Remuneration Committee meeting in 2007 are set out below:

	Attendance/ Number of Meeting
HUANG Ying Yuan (Chairman)	1/1
LIM Pat Wah Patrick	1/1
HUANG Zhi Wei	1/1
Tyrone LIN	1/1

Audit Committee

The Audit Committee comprises three independent non-executive directors, including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the Qualified Accountant or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held meetings during the year ended 31 December 2007 to review the interim and annual financial results and reports, financial reporting and compliance procedures, risk management and internal control system and the re-appointment of the external auditors.

The attendance records of individual members at Audit Committee meetings in 2007 are set out below:

	Attendance/ Number of Meetings
LIM Pat Wah Patrick (Chairman)	2/2
HUANG Zhi Wei	2/2
Tyrone LIN	2/2

INTERNAL CONTROLS

The Board has the ultimate responsibility to maintain a sound and effective internal control system for the Group to safeguard the sharehoders' investment and the Group's assets and to ensure strict compliance with relevant laws, rules and regulations. The Audit Committee is responsible for reviewing the effectiveness of the internal control system and reporting to the Board.

The Company endeavours to implement a sound risk management and internal control system. The Board has delegated to the management the implementation of such systems of internal controls and has entrusted the Audit Committee with the responsibility to conduct a review of the internal controls of the Group which cover the material controls including financial, operational and compliance controls and risk management functions.

The Board has conducted a review of the Company's internal control systems for the year, including financial, operational and compliance control and risk management functions and has assessed the effectiveness of internal controls by considering reviews performed by the Audit Committee and the management. No material internal control aspects of any significant problems were noted. Both of the Audit Committee and the Board were satisfied that the internal control system of the Group has been functioned effectively during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2007.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 24.

AUDITORS' REMUNERATION

The Company's external auditors are Deloitte Touche Tohmatsu. The remuneration paid/payable to Deloitte Touche Tohmatsu in respect of audit services and non-audit services for the year ended 31 December 2007 amounted to approximately HK$2,040,000 and HK$369,000 respectively.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders'meetings are contained in the Company's bye-laws. Details of such rights to demand a poll and the poll procedures are included in all related circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be posted on the websites of the Company and of the Stock Exchange on the same day of the shareholders' meeting.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, normally attend the annual general meetings and other relevant shareholders' meetings to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 26 of the annual report.

An interim dividend of HK$1.5 cents per share amounting to HK$10,880,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK$3.5 cents per share, amounting to approximately HK$25,444,000, to the shareholders on the register of members on 13 June 2008.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Certain of the Group's freehold and leasehold land and buildings were revalued at 31 December 2007. The revaluation resulted in a surplus over carrying values by HK$13,979,000, of which HK$13,072,000 has been credited directly to the property revaluation reserve and HK$907,000 has been credited to consolidated income statement, respectively.

The Group revalued its investment properties at the year end date. The gain on fair value changes of investment properties, which has been credited directly to consolidated income statement, amounted to HK$37,240,000.

Details of these and other movements during the year in the property, plant and equipment and investment properties of the Group are set out in notes 14 and 15 to the consolidated financial statements, respectively.

SHARE CAPITAL

Details of movements during the year in share capital of the Company are set out in note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2007 and 2006 were as follows:

	2007 *HK$'000*	2006 *HK$'000*
Contributed surplus	**244,461**	244,461
Accumulated profits	**8,187**	2,456
	252,648	246,917

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Huang Ying Yuan *(Chairman)*	
Mrs. Huang Chen Li Chu *(Vice Chairman)*	
Mr. Chen Hsing Shin *(Vice Chairman)*	(deceased on 14 February 2008)
Mr. Yang Yu Fu *(Vice Chairman)*	(appointed on 1 December 2007)
Mr. Chen Chun Chieh	(appointed on 3 April 2008)
Mr. Leung Man Fai	(resigned on 1 December 2007)

Independent non-executive directors:

Mr. Lim Pat Wah Patrick
Mr. Huang Zhi Wei
Mr. Tyrone Lin

Pursuant to clause 86 of the Company's bye-laws, Mr. Yang Yu Fu and Mr. Chen Chun Chieh, being directors appointed during the year, shall held offices only until the next following general meeting after their appointments and will therefore retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

In accordance with clause 87 of the Company's bye-laws, Mr. Huang Zhi Wei retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election. All other directors will continue in office.

The terms of office of the independent non-executive directors are subject to retirement by rotation in accordance with the Company's bye-laws.

DIRECTORS' SERVICE CONTRACTS

Mr. Huang Ying Yuan and Mrs. Huang Chen Li Chu have entered into service agreements with the Company for a period of three years commencing 1 December 1998 and will continue thereafter unless and until terminated by either party by three months' prior written notice.

Other than as disclosed above, no directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in shares and underlying shares of the Company

	Number of shares held as				
Name of director	**Beneficial owner**	**Spouse interests**	**Total interests**	**Approximate percentage of the issued share capital of the Company**	**Number of share options**
Mr. Huang Ying Yuan	104,153,360	43,336,180 *(Note 1)*	147,489,540	20.3	7,000,000 *(Note 2)*
Mrs. Huang Chen Li Chu	43,336,180	104,153,360 *(Note 1)*	147,489,540	20.3	7,000,000 *(Note 3)*
Mr. Chen Hsing Shin	—	96,805,800 *(Note 4)*	96,805,800	13.3	3,500,000

Notes:

1. The spouse interest represents the shares held by the spouse of Mr. Huang Ying Yuan and Mrs. Huang Chen Li Chu, respectively. Mrs. Huang Chen Li Chu is the spouse of Mr. Huang Ying Yuan.

2. It represents 4,000,000 share options beneficially owned by Mr. Huang Ying Yuan and 3,000,000 share options held by his spouse.

3. It represents 3,000,000 share options beneficially owned by Mrs. Huang Chen Li Chu and 4,000,000 share options held by her spouse.

4. During the year, Mr. Chen Hsing Shin transferred his owned shares to Hwa Foo Investment Limited. Mrs. Chen Tsai Su Hua, spouse of Mr. Chen Hsing Shin, owned 70% issued share capital of Hwa Foo Investment Limited.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, which were recorded in the register maintained 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, as at 31 December 2007.

SHARE OPTIONS

Particulars of the share option schemes and the movements in share options of the Company are set out in note 28 to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than share options holdings disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements 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 SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2007, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long position in shares and underlying shares of the Company

Name of shareholders	Capacity	Number of issued ordinary share held	Percentage of the issued share capital of the Company
Allianz Aktiengesellschaft	Corporate interest *(Note i)*	66,032,000	9.1%
Dresdner Bank Aktiengesellschaft	Corporate interest *(Note i)*	66,032,000	9.1%
Veer Palthe Voute NV	Investment manager *(Note i)*	66,032,000	9.1%
Mr. David Michael Webb	Beneficial owner *(Note ii)*	36,742,000	5.1%
Mr. Chen An Hsin	Corporate interest *(Note iii)*	36,689,675	5.1%
Gold Field Business Ltd.	Beneficial owner *(Note iii)*	36,689,675	5.1%

Note:

(i) Veer Palthe Voute NV was 100% indirectly owned by Dresdner Bank Aktiengesellschaft, which was 81.1% indirectly owned by Allianz Aktiengesellschaft.

(ii) Mr. David Michael Webb beneficially owns 5,110,000 shares, and in addition, he holds 31,632,000 shares through Preferable Situation Assets Limited, which is 100% directly owned by him.

(iii) Mr. Chen An Hsin owns the entire interest of Gold Field Business Ltd.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 31 December 2007.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the independent non-executive directors independent.

CONNECTED TRANSACTIONS

There were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$3,165,000.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Except the repurchase of the Company's shares in May 2006 as set out in note 27 to the consolidated financial statements, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year ended 31 December 2007.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the board of directors, who are authorised by the shareholders in the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 28 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2007.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 34 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the board

Huang Ying Yuan
Chairman
18 April 2008

Deloitte.
德勤

TO THE MEMBERS OF LERADO GROUP (HOLDING) COMPANY LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Lerado Group (Holding) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 83, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated 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 RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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 Group as at 31 December 2007 and of the Group's profit 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	5	**1,208,715**	1,125,465
Cost of sales		**(996,279)**	(866,131)
Gross profit		**212,436**	259,334
Investment income	6	**21,988**	6,552
Other income		**4,756**	19,054
Marketing and distribution costs		**(80,973)**	(62,535)
Research and development expenses		**(32,494)**	(26,872)
Administrative expenses		**(98,851)**	(93,843)
Other expenses		**(8,817)**	(5,969)
Gain on fair value changes of investment properties		**37,240**	2,200
Share of result of an associate		**(235)**	(159)
Finance costs	7	**(6)**	(4)
Profit before taxation		**55,044**	97,758
Income tax expense	8	**(7,467)**	(9,410)
Profit for the year	9	**47,577**	88,348
Attributable to:			
Equity holders of the Company		**48,022**	86,219
Minority interests		**(445)**	2,129
		47,577	88,348
Dividends	12	**50,770**	39,707
Earnings per share	13		
Basic		**HK6.63 cents**	HK11.94 cents
Diluted		**HK6.61 cents**	HK11.93 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$ '000
Non-current assets			
Property, plant and equipment	14	321,106	333,330
Investment properties	15	—	17,900
Prepaid lease payments	16	63,213	34,588
Intellectual property rights	17	11,232	20,069
Investment in an associate	18	7,487	7,870
Available-for-sale-investments	19	4,347	4,225
Deferred tax assets	20	1,703	1,930
		409,088	419,912
Current assets			
Inventories	21	179,903	127,175
Trade and other receivables and prepayments	22	210,653	170,174
Prepaid lease payments	16	849	717
Derivative financial instruments	23	21,676	1,550
Taxation recoverable		802	53
Bank balances and cash	24	159,280	259,839
		573,163	559,508
Asset classified as held for sale	15	88,036	—
		661,199	559,508
Current liabilities			
Trade and other payables and accruals	25	213,923	182,514
Taxation payables		6,064	5,589
Loan from a minority shareholder	26	780	780
Derivative financial instruments	23	11,048	1,330
		231,815	190,213
Liabilities associated with an asset classified as held for sale	15	12,242	—
		244,057	190,213
Net current assets		417,142	369,295
Total assets less current liabilities		826,230	789,207

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$ '000
Capital and reserves			
Share capital	27	72,532	72,194
Reserves		734,115	700,033
Equity attributable to equity holders of the Company		806,647	772,227
Minority interests		7,128	8,211
Total equity		813,775	780,438
Non-current liability			
Deferred tax liabilities	20	12,455	8,769
		826,230	789,207

The consolidated financial statements on pages 26 to 83 were approved and authorised for issue by the Board of Directors on 18 April 2008 and are signed on its behalf by:

Huang Ying Yuan
Director

Yang Yu Fu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company												
	Share capital *HK$'000* *(Note 27)*	Share premium *HK$'000*	Special reserve *HK$'000*	Property revaluation reserve *HK$'000*	Statutory surplus reserve fund *HK$'000*	Enterprise expansion fund *HK$'000*	Translation reserve *HK$'000*	Share option reserve *HK$'000*	Capital redemption reserve *HK$'000*	Acc-umulated profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2006	72,210	90,056	38,510	58,900	16,612	1,067	5,758	–	1,131	424,165	708,409	16,921	725,330
Exchange differences arising from translation of the foreign operations	–	–	–	–	–	–	14,141	–	–	–	14,141	–	14,141
Share of changes in equity of associates that recognised directly in equity	–	–	–	–	–	–	(71)	–	–	–	(71)	–	(71)
Revaluation surplus on land and buildings	–	–	–	5,507	–	–	–	–	–	–	5,507	–	5,507
Deferred tax liability arising on revaluation of properties	–	–	–	(2,993)	–	–	–	–	–	–	(2,993)	–	(2,993)
Net income recognised directly in equity	–	–	–	2,514	–	–	14,070	–	–	–	16,584	–	16,584
Profit for the year	–	–	–	–	–	–	–	–	–	86,219	86,219	2,129	88,348
Total recognised income for the year	–	–	–	2,514	–	–	14,070	–	–	86,219	102,803	2,129	104,932
Shares repurchased during the year	(16)	–	–	–	–	–	–	–	–	–	(16)	–	(16)
Premium on shares repurchased	–	(72)	–	–	–	–	–	–	–	–	(72)	–	(72)
Transfer of reserve upon cancellation of shares	–	–	–	–	–	–	–	–	16	(16)	–	–	–
Employee share-based payments	–	–	–	–	–	–	–	810	–	–	810	–	810
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(10,839)	(10,839)
Transfer of statutory reserves	–	–	–	–	3,946	2,024	–	–	–	(5,970)	–	–	–
Dividends recognised as distributions *(note 12)*	–	–	–	–	–	–	–	–	–	(39,707)	(39,707)	–	(39,707)
	(16)	(72)	–	–	3,946	2,024	–	810	16	(45,693)	(38,985)	(10,839)	(49,824)
At 31 December 2006	72,194	89,984	38,510	61,414	20,558	3,091	19,828	810	1,147	464,691	772,227	8,211	780,438
Exchange differences arising from translation of foreign operations	–	–	–	–	–	–	30,991	–	–	–	30,991	–	30,991
Share of changes in equity of associates that recognised directly in equity	–	–	–	–	–	–	(148)	–	–	–	(148)	–	(148)
Revaluation surplus on land and buildings	–	–	–	13,072	–	–	–	–	–	–	13,072	–	13,072
Deferred tax liability arising on revaluation of properties	–	–	–	(8,981)	–	–	–	–	–	–	(8,981)	–	(8,981)
Net income recognised directly in equity	–	–	–	4,091	–	–	30,843	–	–	–	34,934	–	34,934
Profit for the year	–	–	–	–	–	–	–	–	–	48,022	48,022	(445)	47,577
Total recognised income for the year	–	–	–	4,091	–	–	30,843	–	–	48,022	82,956	(445)	82,511
Exercise of share options	338	2,010	–	–	–	–	–	(523)	–	–	1,825	–	1,825
Share options lapsed during the year	–	–	–	–	–	–	–	(77)	–	77	–	–	–
Employee share-based payments	–	–	–	–	–	–	–	409	–	–	409	–	409
Transfer of statutory reserves	–	–	–	–	6,732	–	–	–	–	(6,732)	–	–	–
Dividends recognised as distributions *(note 12)*	–	–	–	–	–	–	–	–	–	(50,770)	(50,770)	–	(50,770)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	–	–	(638)	(638)
	338	2,010	–	–	6,732	–	–	(191)	–	(57,425)	(48,536)	(638)	(49,174)
At 31 December 2007	72,532	91,994	38,510	65,505	27,290	3,091	50,671	619	1,147	455,288	806,647	7,128	813,775

The special reserve represents the difference between the nominal value of shares of Lerado Group Limited together with its share premium and the nominal value of the Company's shares issued for the acquisition at the time of a group reorganisation.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China, other than Hong Kong and Taiwan (the "PRC"), the PRC subsidiaries of the Company are required to maintain two statutory reserves, being a statutory surplus reserve fund and an enterprise expansion fund which are not distributable. Appropriations to such reserves are made out of profit for the year as per the statutory accounts of the PRC subsidiaries and the amount and allocation basis are decided by the respective boards of directors annually.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 *HK$'000*	2006 *HK$'000*
OPERATING ACTIVITIES		
Profit before taxation	55,044	97,758
Adjustments for:		
Amortisation of intellectual property rights	3,819	3,956
Amortisation of prepaid lease payments	849	835
Depreciation of property, plant and equipment	34,121	32,477
Discount on acquisition of an additional interests in a subsidiary	—	(6,523)
Employee share-based payments	409	810
Finance costs	6	4
Gain on disposal of prepaid lease payments	—	(3,255)
Gain on fair value changes of derivative financial instruments	(13,420)	(288)
Gain on fair value changes of investment properties	(37,240)	(2,200)
Impairment loss on intellectual property rights	4,998	1,862
Impairment loss on trade receivables	1,165	3,352
Interest income	(8,312)	(5,901)
Loss on disposal of property, plant and equipment	464	45
Net write-down of inventories	21,684	6,245
Share of result of an associate	235	159
Surplus arising on revaluation of land and buildings	(907)	(797)
Operating cash flows before movements in working capital	62,915	128,539
Increase in inventories	(72,355)	(10,806)
Increase in derivative financial instruments	3,868	572
(Increase) decrease in trade and other receivables and prepayments	(39,325)	12,059
Increase in trade and other payables	33,466	10,057
Cash (used in) generated from operations	(11,431)	140,421
Hong Kong Profits Tax paid	(5,796)	(2,548)
Taxation paid in other jurisdictions	(3,958)	(2,606)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(21,185)	135,267
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(28,059)	(20,882)
Payment for leasehold land	(26,025)	(7,965)
Deposit received in respect of an asset classified as held for sale	8,880	—
Interest received	8,312	5,901
Proceeds on disposal of property, plant and equipment	2,081	928
Proceeds on disposal of leasehold land	—	10,189
Acquisition of additional interests in a subsidiary	—	(4,316)
NET CASH USED IN INVESTING ACTIVITIES	(34,811)	(16,145)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 *HK$'000*	2006 *HK$'000*
FINANCING ACTIVITIES		
Dividends paid	(50,770)	(39,707)
Dividend paid to a minority shareholder of a subsidiary	(638)	—
Interest paid	(6)	(4)
Proceeds from issue of shares upon exercise of share options	1,825	—
Repurchase of shares	—	(88)
NET CASH USED IN FINANCING ACTIVITIES	(49,589)	(39,799)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(105,585)	79,323
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	259,839	178,423
Effect of foreign exchange rate changes	5,026	2,093
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR represented bank balances and cash	159,280	259,839

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 36.

The functional currency of the Company is United States dollars ("US$"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) — Int 8	Scope of HKFRS 2
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

Except this, the adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(continued)*

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Condition and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) — Int 12	Service Concession Arranagements[4]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

On acquisition of additional interest in subsidiaries, goodwill is calculated as the difference between the consideration paid for the additional interest and the carrying amount of the net assets of the subsidiaries attributable to the additional interest acquired. If the Group's additional interest in the net assets of the subsidiaries exceeds the consideration paid for the additional interest, the excess is recognised in the consolidated income statement.

Investments in associates

An associate is an entity, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Non-current assets held for sale

Non-current assets are reclassified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as asset held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods are recognised when goods are delivered and title has passed.

Rental income, including rental invoiced in advance, from properties under operating leases, is recognised on a straight-line basis over the term of the relevant lease.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised where the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment including land and buildings, held for use in the production, rental or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Depreciation is provided to write off the cost or fair value of property, plant and equipment other than construction in progress and freehold land over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

If an item of investment property becomes an item of property, plant and equipment because its use has changed as evidenced by end of lease, any difference between the carrying amount and the fair value of that item at the date of transfer is included in profit or loss.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Prepaid lease payments

Prepaid lease payments represent up-front payments to acquire leasehold land interests are stated at cost and amortised over the period of the lease on a straight-line basis.

Intellectual property rights

Intellectual property rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated to write off the cost of the intellectual property rights over their estimated useful lives, using the straight-line method.

Gains or losses arising from derecognition of intellectual property rights are measured at the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the consolidated income statement when the assets are derecognised.

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollar) at the rates of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised and included in finance costs in the consolidated income statement in the period in which they are incurred.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement schemes, which are defined contribution schemes, are charged as an expense when employees have rendered service entitling them to the contribution.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis.

Financial assets at fair value through profit or loss

The Group's financial assets classified as financial assets at fair value through profit or loss are derivatives that are not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances, are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are neither classified as financial assets at fair value through profit or loss nor loans and receivables.

The Group's available-for-sale equity investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured. They are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale investments, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Other financial liabilities including trade and other payables and loans from a minority shareholder are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equity-settled share-based payment transactions

Share options granted on or before 7 November 2002 and vested prior to 1 January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the share options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of share options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Share options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

Share options granted and vested on or after 1 January 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Impairment losses on tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainly at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment loss on intellectual property rights

The Group's net book value of intellectual property rights as at 31 December 2007 was approximately HK$11,232,000 (2006: HK$20,069,000). The Group amortises the intellectual property rights on a straight-line basis over their estimated useful lives. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive economic benefits from the use of the intellectual property rights. During the year ended 31 December 2007, as sales and manufacturing of certain models of strollers declined substantially, the carrying amount of the respective intellectual property rights of HK$4,998,000 (2006: HK$1,862,000) was impaired. For the remaining intellectual property rights, if the related sales are to deteriorate in the future, resulting in the recoverable amount of the intellectual property rights being less than their carrying amount, a further impairment loss will be recognised as an expense to reduce the carrying amount of the intellectual property rights to their recoverable amount.

Impairment loss on trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of trade receivables was HK$184,364,000 (net of allowance for doubtful debts of HK$9,711,000).

Allowance for inventories

The management of the Group reviews its inventories at each balance sheet date and make allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in production. Management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and make allowance for obsolete items. As at 31 December 2007, the carrying amount of inventories was approximately HK$179,903,000 (2006: HK$127,175,000) which is net of allowance for inventories of approximately HK$32,123,000 (2006: HK$10,439,000).

5. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three major operating divisions — strollers, beds and playards and miscellaneous infant products. These divisions are the bases on which the Group reports its primary segment information.

Principal activities are as follows:

Strollers — manufacture and distribution of strollers

Beds and playards — manufacture and distribution of beds and playards

Miscellaneous infant products — manufacture and distribution of miscellaneous infant products such as soft goods, car seats, high chairs, bouncers and walkers

Others — manufacture and distribution of battery-operated ride-on cars and other products

Segment information about these businesses is presented below:

2007
INCOME STATEMENT

	Strollers *HK$'000*	Beds and playards *HK$'000*	Mis-cellaneous infant products *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
REVENUE					
External sales	518,828	86,216	463,017	140,654	1,208,715
RESULTS					
Segment results	(1,256)	(172)	(2,086)	(429)	(3,943)
Investment income					21,988
Gain on fair value changes of investment properties					37,240
Share of result of an associate					(235)
Finance cost					(6)
Profit before taxation					55,044
Income tax expense					(7,467)
Profit for the year					47,577

5. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

2007
BALANCE SHEET

	Strollers HK$'000	Beds and playards HK$'000	Mis-cellaneous infant products HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	378,337	46,259	254,605	107,754	786,955
Investment in an associate					7,487
Unallocated corporate assets					275,845
Consolidated total assets					1,070,287
LIABILITIES					
Segment liabilities	106,800	15,368	68,802	22,894	213,864
Unallocated corporate liabilities					42,648
Consolidated total liabilities					256,512

2007
OTHER INFORMATION

	Strollers HK$'000	Beds and playards HK$'000	Mis-cellaneous infant products HK$'000	Others HK$'000	Consolidated HK$'000
Capital additions	12,204	1,779	8,434	5,642	28,059
Depreciation of property, plant and equipment	16,199	2,115	10,261	5,546	34,121
Amortisation of intellectual property rights and prepaid lease payments	2,129	267	2,113	159	4,668
Impairment loss on intellectual property rights	4,998	—	—	—	4,998
Impairment loss on trade receivables	85	13	325	742	1,165
Loss on disposal of property, plant and equipment	166	—	298	—	464
Employee share-based payment	360	49	—	—	409
Write down of inventories	10,858	1,636	7,181	2,009	21,684

5. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

2006
INCOME STATEMENT

	Strollers HK$'000	Beds and playards HK$'000	Mis-cellaneous infant products HK$'000	Others HK$'000	Consolidated HK$'000
REVENUE					
External sales	505,842	107,270	390,911	121,442	1,125,465
RESULTS					
Segment results	39,002	6,382	34,105	9,680	89,169
Investment income					6,552
Gain on fair value changes of investment properties					2,200
Share of result of an associate					(159)
Finance cost					(4)
Profit before taxation					97,758
Income tax expense					(9,410)
Profit for the year					88,348

2006
BALANCE SHEET

	Strollers HK$'000	Beds and playards HK$'000	Mis-cellaneous infant products HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	326,817	57,347	230,722	71,168	686,054
Investment in an associate					7,870
Unallocated corporate assets					285,496
Consolidated total assets					979,420
LIABILITIES					
Segment liabilities	85,080	17,340	63,110	16,976	182,506
Unallocated corporate liabilities					16,476
Consolidated total liabilities					198,982

5. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

2006
Other Information

	Strollers *HK$'000*	Beds and playards *HK$'000*	Mis-cellaneous infant products *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Capital additions	9,510	2,025	7,366	1,981	20,882
Depreciation of property, plant and equipment	14,555	2,637	10,570	4,715	32,477
Amortisation of intellectual property rights and prepaid lease payments	2,161	265	2,125	240	4,791
Impairment loss on intellectual property rights	1,862	—	—	—	1,862
Impairment loss on trade receivables	1,342	286	1,169	555	3,352
Loss on disposal of property, plant and equipment	—	—	—	45	45
Employee share-based payment	354	58	310	88	810
Write down of inventories	2,845	607	2,206	587	6,245

Geographical segments

The Group's manufacturing function is carried out in the PRC and the marketing function, sales support and research and development are carried out in Taiwan and the United States of America. The operations in Hong Kong include mainly finance and corporate administration.

The Group's operations are principally located in the PRC, Taiwan, Hong Kong and the United States of America. The Group's administration is carried out in Taiwan and Hong Kong and the manufacturing function is carried out in the PRC.

5. SEGMENT INFORMATION

Geographical segments *(continued)*

The following table provides an analysis of the Group's sales by geographical market based on geographical locations of customers, irrespective of the origin of the goods:

	2007 HK$'000	2006 HK$'000
United States of America	541,260	512,651
Europe	330,137	291,098
Australia	58,655	40,060
South America	98,711	105,709
Others	179,952	175,947
	1,208,715	1,125,465

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical areas in which the assets are located:

	Carrying amount		Additions to property, plant and equipment	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Segment assets				
PRC	466,823	386,094	23,516	19,606
Taiwan	248,983	191,918	2,139	1,186
Hong Kong	50,390	108,042	594	90
United States of America	20,759	—	1,810	—
	786,955	686,054	28,059	20,882

6. INVESTMENT INCOME

	2007 HK$'000	2006 HK$'000
Bank interest income	8,312	5,901
Net gain on fair value changes of derivative financial instruments	13,420	288
Property rental income net of negligible outgoing expense	256	363
	21,988	6,552

7. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on bank overdrafts	**6**	4

8. INCOME TAX EXPENSE

	2007	2006
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**2,421**	4,623
The PRC	**5,093**	2,521
Other jurisdictions	**972**	888
	8,486	8,032
Underprovision in prior years:		
The PRC	**649**	1,411
Other jurisdictions	**59**	128
	708	1,539
Deferred taxation *(note 20)*:		
Current year	**(213)**	(161)
Attributable to a change in tax rate	**(1,514)**	—
	(1,727)	(161)
	7,467	9,410

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit.

The statutory tax rate for the PRC subsidiaries is 24% and those subsidiaries regarded as export enterprises by local tax authority are subject to a preferential income tax rate of 12%. During the year, all PRC subsidiaries were qualified as export enterprise.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 12% to 25% for PRC subsidiaries from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. INCOME TAX EXPENSE *(continued)*

The income tax expense can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2007 *HK$'000*	2006 *HK$'000*
Profit before taxation	55,044	97,758
Tax at Hong Kong Profits Tax rate of 17.5% (2006: 17.5%)	9,633	17,108
Tax effect of expenses not deductible for tax purpose	4,542	2,342
Tax effect of income not taxable for tax purpose	(9,278)	(9,120)
Under(over)provision in respect of prior years	708	1,539
Tax effect of losses not recognised	6,827	—
Utilisation of tax losses previously not recognised	(2,688)	(1,983)
Effect of tax relief granted to PRC subsidiaries	(1,756)	(2,242)
Effect of different tax rates of subsidiaries operate in other jurisdictions	993	1,766
Decrease in opening deferred tax liabilities resulting from an increase in applicable tax rate	(1,514)	—
Income tax expense	7,467	9,410

Details of deferred taxation are set out in note 20.

9. PROFIT FOR THE YEAR

	2007 HK$'000	2006 HK$'000
Profit for the year has been arrived at after charging:		
Salaries, allowances and bonuses including those of directors	180,581	156,672
Contributions to retirement benefit schemes, including those of directors	7,584	6,733
Employee share-based payments	409	810
Total employee benefits expense including those of directors	188,574	164,215
Depreciation of property, plant and equipment	34,121	32,477
Amortisation of prepaid lease payments (included in cost of sales)	849	835
Amortisation of intellectual property rights (included in other expenses)	3,819	3,956
Auditors' remuneration	2,223	1,896
Cost of inventories recognised as an expense	973,746	859,051
Impairment loss on trade receivables	1,165	3,352
Impairment loss on intellectual property rights (included in other expenses)	4,998	1,862
Loss on disposal of property, plant and equipment	464	45
Net foreign exchange losses	4,561	2,458
Write-down of inventories to net realisable value	21,684	8,646
and after crediting:		
Discount on acquisition of additional interests in a subsidiary (included in other income)	–	6,523
Gain on disposal of prepaid lease payment (included in other income)	–	3,255
Reversal of write-down of inventories	–	2,401
Surplus arising on revaluation of land and buildings	907	797

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2006: eight) directors are as follows:

2007

	Huang Ying Yuan HK$'000	Huang Chen Li Chu HK$'000	Chen Hsing Shin (Note i) HK$'000	Yang Yu Fu (Note ii) HK$'000	Leung Man Fai (Note iii) HK$'000	Lim Pat Wah Patrick HK$'000	Huang Zhi Wei HK$'000	Tyrone Lin HK$'000	Total HK$'000
Fees	–	–	–	–	–	160	160	160	480
Other emoluments									
Salaries and allowances	2,049	1,491	1,748	199	1,387	–	–	–	6,874
Bonuses	2,500	1,500	1,000	1,000	–	–	–	–	6,000
Contributions to retirementbenefits schemes	–	–	–	–	89	–	–	–	89
Total emoluments	4,549	2,991	2,748	1,199	1,476	160	160	160	13,443

2006

	Huang Ying Yuan HK$'000	Huang Chen Li Chu HK$'000	Chen Hsing Shin (Note i) HK$'000	Yang Yu Fu (Note ii) HK$'000	Leung Man Fai (Note iii) HK$'000	Lim Pat Wah Patrick HK$'000	Huang Zhi Wei HK$'000	Tyrone Lin HK$'000	Total HK$'000
Fees	–	–	–	130	–	160	150	30	470
Other emoluments									
Salaries and allowances	2,053	1,382	1,615	–	1,014	–	–	–	6,064
Bonuses	2,368	2,368	2,368	–	396	–	–	–	7,500
Contributions to retirementbenefits schemes	–	–	–	–	52	–	–	–	52
Total emoluments	4,421	3,750	3,983	130	1,462	160	150	30	14,086

Notes:

(i) Mr. Chen Hsing Shin deceased on 14 February 2008.

(ii) Mr. Yang Yu Fu resigned as an non-executive director on 1 November 2006 and was appointed as an executive director on 1 December 2007.

(iii) Mr. Leung Man Fai resigned as an executive director on 1 December 2007.

(iv) Mr. Tyrone Lin was appointed as a non-executive director on 6 November 2006.

No directors waived any emoluments in the year ended 31 December 2007 (2006: nil).

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, five (2006: four) were directors of the Company whose emoluments are included in the disclosure in note 10 above. In 2006, the emoluments of the remaining one individual are as follows:

	2007 *HK$'000*	2006 *HK$'000*
Salaries and allowances	–	662
Bonus	–	369
Total emoluments	–	1,031

No emoluments were paid by the Group to the directors or the above individual as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDENDS

	2007 *HK$'000*	2006 *HK$'000*
2006 final dividend of HK5.5 cents (2005 final dividend: HK3 cents) per share	39,890	21,658
2007 interim dividend of HK1.5 cents (2006 interim dividend: HK2.5 cents) per share	10,880	18,049
	50,770	39,707

A final dividend for the year ended 31 December 2007 of HK$3.5 cents (2006: HK5.5 cents) per share has been proposed by the Board of Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2007 *HK$'000*	2006 *HK$'000*
Profit for the year attributable to equity holders of the Company	**48,022**	86,219
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**724,780,088**	721,993,294
Effect of dilutive potential ordinary shares in respect of share options	**1,847,065**	815,189
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**726,627,153**	722,808,483

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST OR VALUATION							
At 1 January 2006	224,826	6,103	155,374	69,701	10,330	3,240	469,574
Exchange realignment	5,958	1	5,779	1,832	364	156	14,090
Additions	1,335	–	13,370	2,536	2	3,639	20,882
Disposals	–	(735)	(6,635)	(1,173)	(168)	–	(8,711)
Transfer	2,191	–	–	–	–	(2,191)	–
Adjustment on valuation	(8,323)	–	–	–	–	–	(8,323)
At 31 December 2006	225,987	5,369	167,888	72,896	10,528	4,844	487,512
Exchange realignment	11,537	2	11,914	3,738	768	754	28,713
Additions	2,688	730	4,553	4,987	3,675	11,426	28,059
Disposals	(298)	(12)	(611)	(1,493)	(2,243)	(1,942)	(6,599)
Transfer	10	–	–	–	–	(10)	–
Transfer from investment properties *(note 15)*	17,900	–	–	–	–	–	17,900
Transfer to investment properties *(note 15)*	(51,300)	–	–	–	–	–	(51,300)
Adjustment on valuation	(3,202)	–	–	–	–	–	(3,202)
At 31 December 2007	203,322	6,089	183,744	80,128	12,728	15,072	501,083
Comprising:							
At cost	–	6,089	183,744	80,128	12,728	15,072	297,761
At valuation – 2007	203,322	–	–	–	–	–	203,322
	203,322	6,089	183,744	80,128	12,728	15,072	501,083
DEPRECIATION							
At 1 January 2006	–	4,502	80,835	45,326	7,392	–	138,055
Exchange realignment	1,563	1	3,020	1,143	288	–	6,015
Provided for the year	13,064	49	12,201	6,573	590	–	32,477
Eliminated on disposals	–	(735)	(5,770)	(1,086)	(147)	–	(7,738)
Adjustment on valuation	(14,627)	–	–	–	–	–	(14,627)
At 31 December 2006	–	3,817	90,286	51,956	8,123	–	154,182
Exchange realignment	3,593	1	6,729	2,547	543	–	13,413
Provided for the year	14,092	124	12,598	6,511	796	–	34,121
Eliminated on disposals	–	(9)	(498)	(1,487)	(2,060)	–	(4,054)
Transfer to investment properties *(Note 15)*	(504)	–	–	–	–	–	(504)
Adjustment on valuation	(17,181)	–	–	–	–	–	(17,181)
At 31 December 2007	–	3,933	109,115	59,527	7,402	–	179,977
CARRYING VALUE							
At 31 December 2007	203,322	2,156	74,629	20,601	5,326	15,072	321,106
At 31 December 2006	225,987	1,552	77,602	20,940	2,405	4,844	333,330

Note: Owner-occupied leasehold land are included in property, plant and equipment only when the allocation between the land and buildings elements cannot be made reliably.

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Certain buildings erected on the lands of the Group in the PRC were not granted formal title of their ownership. At 31 December 2007, the carrying value of buildings in the PRC for which the Group had not been granted formal title amounted to HK$65,650,000 (2006: HK$67,280,000). In the opinion of directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Freehold land	Nil
Leasehold land and buildings	2% or the remaining period of the leases, if shorter
Leasehold improvements	10-20%
Plant and machinery	10-20%
Furniture, fixtures and equipment	20-33$^1/_3$%
Motor vehicles	20-50%

The carrying value of land and buildings held by the Group at the balance sheet date comprises:

	2007 *HK$'000*	2006 *HK$'000*
Held in Hong Kong under medium-term leases	25,500	51,300
Held in the PRC under medium term land use rights	139,592	136,867
Held in Taiwan, freehold	38,230	37,820
	203,322	225,987

The Group revalued its land and buildings at the year end date. The revaluation resulted in a surplus over carrying value by HK$13,979,000 (2006: HK$6,304,000), of which HK$13,072,000 (2006: HK$5,507,000) has been credited directly to the property revaluation reserve and HK$907,000 (2006: HK$797,000) has been credited to the consolidated income statement, respectively.

Certain leasehold land and buildings of the Group with a carrying value of HK$250,000 (2006: HK$297,000) as at 31 December 2007 were valued by the directors, who estimated that their fair value was not materially different from their carrying amount.

The remaining land and buildings of the group were revalued at 31 December 2007 by Grant Sherman Appraisal Limited ("Grant Sherman"), a firm of independent property valuers not connected with the Group. The land and buildings in Hong Kong and in the PRC of an aggregate carrying value of HK$32,192,000 (2006: HK$57,170,000) were valued on an open market value basis. The remaining land and buildings in the PRC amounting to HK$132,650,000 (2006: HK$130,700,000) and the land and buildings in Taiwan amounting to HK$38,230,000 (2006: HK$37,820,000) were valued on depreciated replacement cost basis.

If the land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation at HK$121,800,000 (2006: HK$146,287,000).

15. INVESTMENT PROPERTIES/ASSET CLASSIFIED AS HELD FOR SALE

	HK$'000
FAIR VALUE	
At 1 January 2006	15,700
Gain on fair value changes recognised in the income statement	2,200
At 31 December 2006	17,900
Transfer to property, plant and equipment	(17,900)
Transfer from property, plant and equipment	50,796
Gain on fair value changes recognised in the income statement	37,240
Transfer to asset held for sale	(88,036)
At 31 December 2007	—

During the year, the Group transferred investment properties with an aggregated carrying amount of approximately HK$17,900,000 to property, plant and equipment. Also, the Group transferred land and buildings previously classified as property, plant and equipment with an aggregated revalued amount of approximately HK$50,796,000 to investment properties. The fair values of the investment properties and property, plant and equipment on the date of transfer were valued by the Grant Sherman, a firm of independent professional valuers not connected with the Group, which were not materially different from their carrying amounts at the date of transfer.

On 10 December 2007, the Group entered into a provisional sale agreement with the purchaser to dispose the investment properties at a consideration of approximately HK$88,036,000. Accordingly, the investment properties were reclassified to an asset classified as held for sale. The consideration of approximately HK$88,036,000 was taken to be as the fair value as at balance sheet date, which gave rise to a gain on fair value changes credited directly to the consolidated income statement.

The Group received a sale deposit of approximately HK$8,880,000 in respect of the asset classified as held for sale during the year ended 31 December 2007. Together with the associated deferred tax liability of HK$3,362,000 as set out in note 20, the aggregate balance of HK$12,242,000 was classified as liabilities associated with an asset classified as held for sale in the consolidated balance sheet. The disposal of the asset was completed on 29 February 2008.

16. PREPAID LEASE PAYMENTS

The Group's prepared lease payments of HK$64,062,000 (2006: HK$35,305,000) represent leasehold land in the PRC held under medium-term lease. An amount of HK$849,000 (2006: HK$717,000) is classified as current assets for reporting purpose.

17. INTELLECTUAL PROPERTY RIGHTS

	HK$'000
COST	
At 1 January 2006	85,891
Exchange realignment	687
At 31 December 2006	86,578
Exchange realignment	318
At 31 December 2007	86,896
AMORTISATION AND IMPAIRMENT	
At 1 January 2006	60,214
Exchange realignment	477
Provided for the year	3,956
Impairment loss recognised in the year	1,862
At 31 December 2006	66,509
Exchange realignment	338
Provided for the year	3,819
Impairment loss recognised in the year	4,998
At 31 December 2007	75,664
CARRYING VALUE	
At 31 December 2007	11,232
At 31 December 2006	20,069

The amount represents the carrying amount of the Group's intellectual property rights acquired in 1998. The intellectual property rights entitle the Group to manufacture infant products using the registered technology for a period of 4 to 18 years from the date of acquisition. The net carrying amount is therefore amortised over the remaining useful lives, using the straight-line method.

Periodical reviews on the carrying amount of intellectual property rights are performed by the directors and specialists of the Group. During the year ended 31 December 2007, as sales and manufacturing of certain models of strollers declined substantially, the carrying amount of the respective intellectual property rights of HK$4,998,000 was impaired. Impairment loss is recognised as expense.

18. INVESTMENT IN AN ASSOCIATE

	2007 *HK$'000*	2006 *HK$'000*
Cost of unlisted investment	11,700	11,700
Less: Impairment loss	(3,600)	(3,600)
	8,100	8,100
Share of post-acquisition reserves	(613)	(230)
	7,487	7,870

During the year ended 31 December 2006, the Group converted a loan to Weblink Technology Limited ("Weblink"), the Group's associate incorporated in the British Virgin Islands ("BVI"), of a gross amount of approximately HK$11,700,000 (against which an impairment loss of HK$3,600,000 was made in previous years), into equity interest in Weblink. Since all shareholders of Weblink also converted their loans in proportion to their respective shareholdings, the Group's 30% equity interest in Weblink remained unchanged. There was no changes in the equity interest in Weblink during the year ended 31 December 2007.

Details of the Group's associates at 31 December 2007 are as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Effective interest in the issued share capital/ registered capital held	Principal activity
Weblink	Incorporated	BVI	US$100	30%	Investment holding
FLT Hong Kong Technology Limited*	Incorporated	BVI	US$1	30%	Trading of optical fibre peripheral products
珠海保稅區隆宇光電科技有限公司*	Established	PRC	US$1,548,000	30%	Manufacturing and distribution of optical fibre peripheral products

* wholly-owned subsidiaries of Weblink

18. INVESTMENT IN AN ASSOCIATE *(continued)*

The summarised consolidated financial information of Weblink is set out below:

	2007 *HK$'000*	2006 *HK$'000*
Total assets	30,103	29,347
Total liabilities	(5,146)	(3,115)
Net assets	24,957	26,232
Group's share of net assets of an associate	7,487	7,870
Revenue	17,620	22,924
Loss for the year	(782)	(530)
Group's share of results of an associate for the year	(235)	(159)

19. AVAILABLE-FOR-SALE INVESTMENTS

The Group's available-for-sale investments at 31 December 2007 represent non-current investments in unlisted equity securities issued by private entities incorporated in the PRC and Taiwan. They do not have a quoted market price in an active market and as the range of reasonable fair value estimates is so significant, the corresponding fair values cannot be measured reliably. Accordingly, the investments are measured at cost less impairment at the balance sheet date.

20. DEFERRED TAXATION/LIABILITY ASSOCIATED WITH AN ASSET CLASSIFIED AS HELD FOR SALE

The following are the major deferred tax (assets) liabilities (recognised) provided and movements thereon during the current and prior years:

	Difference between accounting and tax depreciation *HK$'000*	Revaluation of investment properties and other properties *HK$'000*	Others *HK$'000*	Total *HK$'000*
At 1 January 2006	198	4,939	(1,153)	3,984
(Credit) charge to the income statement for the year	(476)	584	(269)	(161)
Charge to equity for the year	—	2,993	—	2,993
Exchange difference	—	—	23	23
At 31 December 2006	(278)	8,516	(1,399)	6,839
(Credit) charge to the income statement for the year	(538)	227	98	(213)
Charge to equity for the year	—	2,698	—	2,698
Transfer to liabilities associated with an assetheld for sale *(note 15)*	—	(3,362)	—	(3,362)
Effect of change in tax rate				
— credit to income statement for the year	—	—	(1,514)	(1,514)
— charge to equity for the year	—	6,283	—	6,283
Exchange difference	—	—	21	21
At 31 December 2007	(816)	14,362	(2,794)	10,752

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

	2007 *HK$'000*	2006 *HK$'000*
Deferred tax assets	(1,703)	(1,930)
Deferred tax liabilities	12,455	8,769
	10,752	6,839

At 31 December 2007, the Group had unused tax losses of HK$60,973,000 (2006: HK$37,319,000) available for offset against future profits. Deferred tax assets thereon have not been recognised because of the unpredictability of future profit streams. The unused tax losses will expire in five year's time from their initial recognition.

21. INVENTORIES

	2007 *HK$'000*	2006 *HK$'000*
Raw materials	66,677	59,170
Work in progress	32,073	23,271
Finished goods	81,153	44,734
	179,903	127,175

Following the substantial decline in the orders from an active customer of the Group, management critically assessed the net realisable values of certain raw materials in stock which were acquired to cater for the orders from this customer. As a result, allowances amounted to a total of HK$13,686,000 (2006: Nil) had been made in the current year to reduce the carrying amounts of such stocks to their estimated net realisable value. Allowances for inventories made in the current year amounted to a total of HK$21,684,000 (2006: HK$6,245,000).

The carrying amount of inventories as at the balance sheet date has been arrived at after charging cumulative allowances of HK$32,123,000 (2006: HK$10,439,000).

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2007 *HK$'000*	2006 *HK$'000*
Trade receivables	194,075	156,464
Less: allowance for doubtful debts	(9,711)	(8,546)
	184,364	147,918
Other receivables	13,035	17,375
Prepayments	13,254	4,881
Trade and other receivables	210,653	170,174

The Group allows an average credit period of 60 days to its customers. The following is an aged anlaysis of trade receivables net of allowance for doubtful debts at the reporting date:

	2007 *HK$'000*	2006 *HK$'000*
Within 30 days	104,168	84,295
31 to 90 days	78,477	59,303
Over 90 days	1,719	4,320
	184,364	147,918

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines its credit limits. Credit sales are made to customers with a satisfactory trustworthy credit history. Credit limits attributed to customers are reviewed regularly.

As at balance sheet dates, the directors considered the trade receivables which are neither past due nor impaired are of good credit quality.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$23,201,000 (2006: HK$17,138,000) which were past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2007 *HK$'000*	2006 *HK$'000*
Within 30 days	4,025	3,993
31 to 90 days	17,457	8,825
Over 90 days	1,719	4,320
Total	23,201	17,138

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

Movements in the allowance for doubtful debts

	2007 *HK$'000*	2006 *HK$'000*
Balance at beginning of the year	8,546	6,879
Impairment losses recognised on trade receivables	1,165	3,352
Amounts written off as uncollectible	—	(1,685)
Balance at end of the year	9,711	8,546

23. DERIVATIVE FINANCIAL INSTRUMENTS

As at balance sheet dates, major terms of the outstanding foreign currency forward contracts are as follows:

Notional amount	Forward Contract Rates
31 December 2007:	
34 contracts to buy US$50,000,000 in total	US$1 to RMB6.8460 — 7.2996
34 contracts to sell US$50,000,000 in total	US$1 to RMB6.8047 — 7.3040
31 December 2006:	
29 contracts to buy US$25,000,000 in total	US$1 to RMB7.4500 — 7.7433
29 contracts to sell US$25,000,000 in total	US$1 to RMB7.6314 — 7.7787

All the above contracts will mature within 1 month to 12 months (2006: within 3 months to 12 months).

The above financial instruments are measured at fair value based on a valuation at 31 December 2007 conducted by Grant Sherman.

24. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise bank balances and short-term bank deposits that are interest bearing at market interest rates and are with maturity of three months or less. The bank deposits carry interest at rates ranged from 1.0% to 5.5% (2006: 0.7% to 5.0%) per annum.

25. TRADE AND OTHER PAYABLES AND ACCRUALS

	2007 *HK$'000*	2006 *HK$'000*
Trade payables	138,500	120,436
Accrued expenses	39,803	38,385
Other payables	35,620	23,693
	213,923	182,514

25. TRADE AND OTHER PAYABLES AND ACCRUALS *(continued)*

The following is an aged analysis of trade payables at the balance sheet date:

	2007 HK$'000	2006 HK$'000
Within 30 days	70,428	49,477
31 to 90 days	61,703	65,517
Over 90 days	6,369	5,442
Trade payables	138,500	120,436

The average credit period on purchases of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

26. RELATED PARTY DISCLOSURES

During the year, the Group had transactions and/or balances with the directors and/or related parties. The transactions during the year and balances with them at the balance sheet date, are as follows:

(a) Transactions with related parties:

Name of parties	Interested directors	Nature of transactions	2007 HK$'000	2006 HK$'000
好萊兒嬰兒用品有限公司	Mr. Huang Ying Yuan *(note i)*	Sales made by the Group	–	3,169
Yojin Industrial Corporation	Mr. Huang Ying Yuan	Rental expenses paid by the Group *(note v)*	577	581
	Mrs. Huang Chen Li Chu *(note ii)*	Sales of property, plant and equipments by the Group	–	7
Mr. Chen Chin Yuan	Mr. Chen Hsing Shin *(note iii)*	Rental expenses paid by the Group *(note v)*	24	90
Mr. Chen Hung Jung	Mrs. Huang Chen Li Chu *(note iv)*	Rental expenses paid by the Group *(note v)*	88	83

26. RELATED PARTY DISCLOSURES *(continued)*

(b) Transactions with directors:

Name of director	Nature of transactions	2007 HK$'000	2006 HK$'000
Mr. Huang Ying Yuan	Rental expenses paid by the Group *(note v)*	220	209
Mr. Chen Hsing Shin	Rental expenses paid by the Group *(note v)*	220	209

(c) Other than the above, at 31 December 2007, the Group also had a loan from a minority shareholder of HK$780,000 (2006: HK$780,000). The loan was made by the minority shareholder to a subsidiary in proportion to its interests in that subsidiary. The loan is unsecured, interest-free and repayable on demand.

(d) Compensation of key management personnel

The remunerations of directors, who are the key management of the Group, during the year are as follows:

	2007 HK$'000	2006 HK$'000
Short-term benefits	12,874	13,564
Post-employment benefits	89	52
	12,963	13,616

The remunerations of directors were decided by the board of directors, which is authorised by the shareholders, having regard to the performance of the individuals and market trends.

Notes:

i. 好萊兒嬰兒用品有限公司 is controlled by Mr. Huang Tien Cheng, who is a brother of Mr. Huang Ying Yuan, a director of the Company.

ii. Both Mr. Huang Ying Yuan and Mrs. Huang Chen Li Chu have beneficial interests in Yojin Industrial Corporation.

iii. Mr. Chen Chin Yuan is a brother of Mr. Chen Hsing Shin, a director of the Company.

iv. Mr. Chen Hung Jung is a brother of Mrs. Huang Chen Li Chu, a director of the Company.

v. The rentals were charged in accordance with the terms of the relevant tenancy agreements agreed by both parties.

27. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2006, 31 December 2006 and 31 December 2007	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2006	722,096,724	72,210
Shares repurchased and cancelled	(156,000)	(16)
At 31 December 2006	721,940,724	72,194
Exercise of share options	3,380,000	338
At 31 December 2007	725,320,724	72,532

In May 2006, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$*
May 2006	156,000	0.56	0.55	86,955

There was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year ended 31 December 2007.

28. SHARE OPTIONS

The Company adopted a share option scheme on 2 December 1998 (the "1998 Scheme") for the primary purpose of providing incentives to directors and eligible employees. Under the 1998 Scheme, the board of directors of the Company may grant share options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. A share option may be exercised in accordance with the terms of the 1998 Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date.

At 31 December 2007, the number of shares in respect of which share options had been granted and remained outstanding under the 1998 Scheme was 10,500,000 (2006: 13,000,000), representing 1.4% (2006: 1.8%) of the shares of the Company in issue at that date.

28. SHARE OPTIONS *(continued)*

As a result of the amendments of Chapter 17 of the Listing Rules on 1 September 2001, certain terms of the 1998 Scheme are no longer in compliance with the Listing Rules and the Company can no longer grant any further share options under the 1998 Scheme without being in breach of the Listing Rules. Accordingly, the Company terminated the 1998 Scheme and adopted a new share option scheme (the "2002 Scheme"), which was approved at the Company's annual general meeting held on 30 May 2002, for the primary purpose of providing incentives to directors and eligible participants.

Except that no further share options may be granted under the 1998 Scheme subsequent to its termination, all the other provisions of the 1998 Scheme will remain in force so as to give effect to the exercise of all outstanding share options granted under the 1998 Scheme prior to 1 September 2001 and all such share options will remain valid and exercisable in accordance with the provisions of the 1998 Scheme.

According to the 2002 Scheme, the Board of the Company may offer to grant share options to eligible employees, including directors of the Company or any of its subsidiaries and any suppliers, consultants, agents and advisers who have contributed to the Group, to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted.

Any offer to grant share options should be accepted within 30 days from the date of offer. The total number of shares in respect of which options may be granted under the 2002 Scheme and any other share option scheme of the Company at any time shall not exceed 10% of the shares of the Company in issue at any point in time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Share options granted to substantial shareholders or any of its associates in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The directors may at its absolute discretion determine the period during which a share option may be exercised, such period to expire not later than 10 years from the date of grant of the share option. No share option may be granted more than 10 years after the date of approval of the 2002 Scheme. Subject to earlier termination by the Company in general meeting or by the Board's meeting, the 2002 Scheme shall be valid and effective for a period of 10 years after the date of adoption of the 2002 Scheme. The exercise price is determined by the directors and shall not be less than the highest of (i) the closing price of the Company's shares on the date on which the share option is offered, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of offer, and (iii) the nominal value of the share.

On 14 February 2006, the Company granted share options to certain eligible employees to subscribe for a total of 8,000,000 shares in the Company (equally divided into two batches, namely Batch I and Batch II) at an exercise price of HK$0.54 per share under the 2002 Scheme.

On 26 November 2007, the Company granted share options to certain eligible employees to subscribe for a total of 28,000,000 shares in the Company (equally divided into two batches, namely Batch I and Batch II) at an exercise price of HK$0.64 per share under the 2002 Scheme.

28. SHARE OPTIONS *(continued)*

The eligible employees have rights to exercise their respective share options at any time during the period from the date after the share options have been vested to the expiry date.

The following table discloses movements in the Company's share options during the year ended 31 December 2006 and 2007:

		Number of shares subject to share options							
	Date of grant	Outstanding at 1 January 2006	Granted during the year	Lapsed during the year	Outstanding at 31 December 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2007
Category 1: Directors									
Mr. Huang Ying Yuan	18 August 1999	4,000,000	–	–	4,000,000	–	–	–	4,000,000
Mrs. Huang Chen Li Chu	18 August 1999	3,000,000	–	–	3,000,000	–	–	–	3,000,000
Mr. Chen Hsing Shin (deceased on 14 February 2008)	18 August 1999	3,500,000	–	–	3,500,000	–	–	–	3,500,000
Mr. Leung Man Fai	18 August 1999	2,500,000	–	–	2,500,000	–	–	(2,500,000)	–
Mr. Yang Yu Fu	26 November 2007	–	–	–	–	7,000,000	–	–	7,000,000
Total for directors		13,000,000	–	–	13,000,000	7,000,000	–	(2,500,000)	17,500,000
Category 2: Employees									
	14 February 2006	–	8,000,000	(386,000)	7,614,000	–	(3,380,000)	(500,000)	3,734,000
	26 November 2007	–	–	–	–	21,000,000	–	–	21,000,000
Total for employees		–	8,000,000	(386,000)	7,614,000	21,000,000	(3,380,000)	(500,000)	24,734,000
Total for all categories		13,000,000	8,000,000	(386,000)	20,614,000	28,000,000	(3,380,000)	(3,000,000)	42,234,000
Exercisable at the end of the year					13,000,000				10,848,000

28. SHARE OPTIONS *(continued)*

Details of specific categories of share options are as follows:

Date of grant	Vesting period	Exercise period	Exercise price *HK$*
18 August 1999	4.5 months	1 January 2000 — 17 August 2009	1.26
14 February 2006 (Batch I)	11 months	17 January 2007 — 16 January 2011	0.54
14 February 2006 (Batch II)	23 months	17 January 2008 — 16 January 2011	0.54
26 November 2007 (Batch I)	12 months	8 November 2008 — 7 November 2012	0.64
26 November 2007 (Batch II)	24 months	8 November 2009 — 7 November 2012	0.64

The estimated fair values of the share options granted on 14 February 2006 of Batch I and Batch II are HK$0.15 and HK$0.17 respectively.

The estimated fair values of the share options granted on 26 November 2007 of Batch I and Batch II are HK$0.11 and HK$0.10 respectively.

The closing prices of the Company's shares immediately before the dates on which the share options were granted was HK$ 0.66 for the year ended 31 December 2007 (2006: HK$0.65).

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$1.12.

The fair values of the share options granted during the year ended 31 December 2006 and 2007 under the 2002 Scheme was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2007	2006
Weighted average share price	**HK$0.66**	HK$0.65
Exercise price	**HK$0.64**	HK$0.54
Expected volatility (Batch I/Batch II)	**42.72%/45.94%**	45.15%/45.15%
Expected life	**3 to 4 years**	3 to 4 years
Hong Kong Monetary Authority Exchange Fund Notes	**1.59%/2.16%**	3.17%/3.18%
Expected dividend yield	**10.61%**	7.69%

Expected volatility was determined by using the historical volatility of the Company's share price over the past year. The expected life used in the model has been estimated taking into account of the effects of non transferability, exercise restrictions and behavioral considerations.

The value of a share option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of a share option.

In accordance with the above model, the Group recognised the total expense of HK$409,000 for the year ended 31 December 2007 (2006: HK$810,000) in relation to share options granted by the Company.

29. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that its subsidiaries will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising share capital and various reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors of the Company assess the annual budget prepared by management of the Company. Based on the proposed annual budget, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The directors of the Company also balance its overall capital structure through the payment of dividends, new share issues, as well as issue of new debt.

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2007 *HK$'000*	2006 *HK$'000*
Financial assets		
At fair value through profit or loss	21,676	1,550
Loans and receivables (including cash and cash equivalents)	343,965	407,974
Available-for-sale financial assets	4,347	4,225
Financial liabilities		
At fair value through profit or loss	11,048	1,330
Amortised cost	139,280	121,216

(b) Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, derivative financial instruments, bank balances and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and polices *(continued)*

Credit risk

The Group's principal financial assets include trade and other receivables and cash and cash equivalents. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group only extends credit to customers based upon careful evaluation of the customers' financial conditions and credit history. Credit sales of products are made to customers with an appropriate credit history. In addition, the Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's exposure to bad debts and concentration risk is minimal.

The Group has concentration of credit risk as 49% of the total trade receivables as at 31 December 2007 (2006: 43%) was due from the Group's five largest customers. These five largest customers are either reputable traders or agents with long business history with the Group. Management performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant. The historical experience in the collection of trade receivables from the five largest customers falls within the expectation of the directors.

Credit risk on bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Other than the concentration of credit risk on top five largest customers, the Group does not have other significant concentration of credit risk.

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and polices *(continued)*

Market risk

(i) Currency risk

Foreign currency risk management

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 40% of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sale, and approximately 42% of costs are denominated in currencies other than the group entities' functional currency.

The functional currencies of the Group's principal subsidiaries are US$ and Reminbi ("RMB"). While most of the Group's operations are transacted in the functional currency of the respective group entities, the Group undertakes certain sales and purchase transactions denominated in HK$ and New Taiwan dollars ("NTD") respectively, hence, exposures to exchange rate fluctuations arises. The Group currently has not formulated any hedging policies against its exposure to currency risk. Yet, the Group still manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and buying foreign currency forward contract if it considers the risk to be significant.

At the balance sheet dates, the carrying amounts of the Group's significant monetary assets, monetary liabilities and derivative financial instruments denominated in currencies other than the functional currency of relevant group entities are as follow:

Monetary assets:

	2007 *HK$'000*	2006 *HK$'000*
Assets		
US$	2,092	1,047
HK$	29,184	37,210
NTD	3,475	10,525

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and polices *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

Foreign currency risk management (continued)

Monetary liabilities:

	2007 *HK$'000*	2006 *HK$'000*
Liabilities		
US$	3,082	3,514
HK$	52,625	38,201
NTD	29,463	31,109

Derivative financial instruments:

	2007 *HK$'000*	2006 *HK$'000*
Assets		
RMB	21,676	1,550
Liabilities		
RMB	11,048	1,330

Sensitivity analysis

The Group is mainly exposed to the fluctuation of US$, NTD, HK$ and RMB.

The following tables detail the Group's sensitivity to a 5% increase and decrease in United States dollars against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and foreign currency forward contracts and adjusts their translation or fair value in the case of the forward contracts at the year end for a 5% change in foreign currency rates. A 5% strengthening of US$ against HK$, NTD and RMB will have the following profit (loss) on the results for the year, and vice versa.

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and polices *(continued)*

Market risk *(continued)*

(ii) (continued)

	HK$ impact		NTD impact		RMB impact	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Monetary assets and liabilities	**967**	41	**1,143**	906	**–**	–
Derivative financial instrucments	**–**	–	**–**	–	**(2,400)**	1,059

(ii) Interest rate risk

The Group does not expose to significant interest rate risk on financial instruments as the Group's financial liabilities are non-interest bearing. Also, the directors consider those interest bearing bank deposits are within short maturity period and the fluctuation in interest rate is insignificant.

(iii) Other price risks

The Group does not expose to price risks on financial instruments as its available-for-sale investments are stated at cost less impairment at the balance sheet dates.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative instruments settle on a net basis, undiscounted gross net cash outflows are presented.

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and polices *(continued)*

Liquidity risk *(continued)*

	0-30 days HK$'000	31-90 days HK$'000	91-365 days HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2007 HK$'000
2007					
Non-derivative financial liabilities					
Trade and other payables	85,866	39,438	13,196	138,500	138,500
Loan from a minority shareholder	780	—	—	780	780
	86,646	39,438	13,196	139,280	139,280
Derivative financial liabilities					
Foreign currency forward contracts — outflow	702	1,651	8,695	11,048	11,048

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and polices *(continued)*

Liquidity risk *(continued)*

	0-30 days	31-90 days	91-365 days	Total undiscounted cash flows	Carrying amount at 31 December 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006					
Non-derivative financial liabilities					
Trade and other payables	74,813	42,305	3,318	120,436	120,436
Loan from a minority shareholder	780	—	—	780	780
	75,593	42,305	3,318	121,216	121,216
Derivative financial liabilities					
Foreign currency forward contracts					
— outflow	—	20	1,310	1,330	1,330

(c) Fair value

The fair value of financial assets and financial liabilities (including derivative financial instruments) are determined in accordance with discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

31. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2007 *HK$'000*	2006 *HK$'000*
Minimum lease payments paid under operating leases in respect of rented premises during the year	2,739	2,832

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007 *HK$'000*	2006 *HK$'000*
Within one year	1,242	70
In the second to fifth year inclusive	375	—
Over five years	719	—
	2,336	70

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average term of 4 years and rentals are fixed for an average of 4 years.

The Group as lessor

Property rental income earned during the year was HK$256,000 (2006: HK$363,000).

At the balance sheet date, the Group had contracted with tenant for the following future minimum lease payments:

	2007 *HK$'000*	2006 *HK$'000*
Within one year	516	—
In the second to fifth year inclusive	558	—
	1,074	—

32. CAPITAL COMMITMENTS

	2007 *HK$'000*	2006 *HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	5,362	–

33. RETIREMENT BENEFIT SCHEME

The Group operates an MPF Scheme for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes a certain percentage of relevant payroll costs to the Scheme.

The employees of the Group's subsidiaries in the PRC and Taiwan are members of the state-managed retirement benefit schemes operated by the PRC and Taiwan government respectively. The PRC and Taiwan subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

34. POST BALANCE SHEET EVENT

Other than the completion of the disposal of the property held for sale at a consideration of approximately HK$88,036,000 as set out in note 15 to the consolidated financial statements, the Group had no other material post balance sheet events.

35. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31 December 2007 is as follows:

	Notes	2007 HK$'000	2006 HK$'000
Total asset			
Investment in subsidiaries		244,660	244,660
Other receivables		224	73
Amount due from a subsidiary	(a)	186,234	166,578
Bank balances		24	76
		431,142	411,387
Total liabilities			
Other payables		156	135
Amounts due to subsidiaries	(a)	12,046	200
		12,202	335
		418,940	411,052
Capital and reserves			
Share capital		72,532	72,194
Reserves	(b)	346,408	338,858
		418,940	411,052

Notes:

(a) Amount due from (to) subsidiaries

The amounts are unsecured, interest-free and repayable on demand.

35. BALANCE SHEET OF THE COMPANY *(continued)*

Notes: (continued)

(b) Reserves

	premium *HK$'000*	Share surplus *HK$'000*	Capital Contributed reserve *HK$'000*	Share redemption reserve *HK$'000*	option profits *HK$'000*	Accumulated Total *HK$'000*
At 1 January 2006	90,056	244,461	1,131	—	3,200	338,848
Profit for the year	—	—	—	—	38,979	38,979
Premium on shares repurchased	(72)	—	—	—	—	(72)
Transfer of reserve upon cancellation of shares	—	—	16	—	(16)	—
Employee share-based payments	—	—	—	810	—	810
Dividends recognised as distributions *(note 12)*	—	—	—	—	(39,707)	(39,707)
At 31 December 2006	89,984	244,461	1,147	810	2,456	338,858
Profit for the year	—	—	—	—	56,424	56,424
Exercise of share options	2,010	—	—	(523)	—	1,487
Share options lapsed during the year	—	—	—	(77)	77	—
Employee share-based payments	—	—	—	409	—	409
Dividends recognised as distributions *(note 12)*	—	—	—	—	(50,770)	(50,770)
At 31 December 2007	91,994	244,461	1,147	619	8,187	346,408

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company				Principal activities
			Directly		Indirectly		*(Note a)*
			2007 %	2006 %	2007 %	2006 %	
Angel Juvenile Products (Zhongshan) Co., Ltd.	PRC *(Note b)*	US$2,400,000 registered capital	–	–	100	100	Manufacture and trading of infant products
Lerado China Limited	BVI	HK$5,000 ordinary shares	–	–	100	100	Investment holding and trading of infant products in Taiwan
Lerado Group Limited	BVI	HK$10,702 ordinary shares	100	100	–	–	Investment holding
Lerado H.K. Limited	Hong Kong	HK$5,000 ordinary shares	–	–	100	100	Trading of infant products in Hong Kong
Link Treasure Limited	BVI	US$5,000 ordinary shares	–	–	100	100	Provision of research and development services in Taiwan
Shanghai Lerado Daily Article Co., Ltd.	PRC *(Note b)*	US$6,260,000 registered capital	–	–	100	100	Manufacture and trading of nursery products
中山市隆成日用制品有限公司	PRC *(Note b)*	US$20,750,000 registered capital	–	–	100	100	Manufacture and trading of infant products
中山市國宏塑膠製品有限公司	PRC *(Note b)*	US$2,800,000 registered capital	–	–	76.6	76.6	Manufacture and trading of stroller wheels
金和信股份有限公司	Taiwan	NTD205,000,000 ordinary shares	–	–	100	100	Provision of purchasing services and trading of infant products

Notes:

(a) The principal activities of the subsidiaries are carried out in the place of incorporation/establishment except as otherwise stated under principal activities above.

(b) These PRC subsidiaries are foreign investment enterprises.

None of the subsidiaries had any debt securities subsisted at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results, assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2003 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	**2007** ***HK$'000***
REVENUE	1,149,893	1,271,035	1,047,328	1,125,465	**1,208,715**
PROFIT BEFORE TAXATION	97,017	80,394	13,993	97,758	**55,044**
INCOME TAX EXPENSE	(16,421)	(6,017)	(3,439)	(9,410)	**(7,467)**
PROFIT FOR THE YEAR	80,596	74,377	10,554	88,348	**47,577**
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	81,170	69,677	9,155	86,219	**48,022**
MINORITY INTERESTS	(574)	4,700	1,399	2,129	**(445)**
	80,596	74,377	10,554	88,348	**47,577**

ASSETS AND LIABILITIES

	At 31 December				
	2003 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	**2007** ***HK$'000***
TOTAL ASSETS	1,006,219	952,851	909,183	979,420	**1,070,287**
TOTAL LIABILITIES	(299,819)	(218,413)	(183,853)	(198,982)	**(256,512)**
	706,400	734,438	725,330	780,438	**813,775**
EQUITY ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	687,936	717,626	708,409	772,227	**806,647**
MINORITY INTERESTS	18,464	16,812	16,921	8,211	**7,128**
	706,400	734,438	725,330	780,438	**813,775**