Lerado Group (Holding) Company Limited

Stock Code : 1225

2008 Annual Report

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

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
Chinatrust Commercial Bank
Shanghai Commercial Bank

SOLICITORS
Sidley Austin

AUDITORS
Deloitte Touche Tohmatsu

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 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

	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*
Revenue	**1,490,884**	1,208,715	1,125,465
Profit before interest expenses and tax	**73,901**	55,050	97,762
As a percentage of revenue	**5.0%**	4.6%	8.7%
EBITDA	**119,023**	60,690	127,372
As a percentage of revenue	**8.0%**	5.0%	11.3%
Profit attributable to equity holders	**56,943**	48,022	86,219
As a percentage of revenue	**3.8%**	4.0%	7.7%
Total assets	**1,137,676**	1,070,287	979,420
Total capital employed*	**871,174**	813,775	780,438
Shareholders' equity	**869,679**	806,647	772,227
Earnings per share (HK cents)	**7.83**	6.63	11.94
Return on average capital employed	**6.8%**	6.1%	11.7%
Current ratio	**2.9**	2.7	2.9
Average inventory turnover (days)	**60**	56	52
Average trade debtor turnover (days)	**50**	50	51

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

The Group reported consolidated turnover of HK$1,490.9 million (2007: HK$1,208.7 million) for the year ended 31 December 2008 representing a growth of 23.3% over last year. The profit attributable to equity holders of the Company increased by 18.6% to HK$56.9 million (2007: HK$48.0 million). Basic earnings per share increased from HK6.63 cents to HK7.83 cents.

BUSINESS REVIEW

Revenue

Contributed by the sound performance of the first half of the year, revenue of the Group for the year increased by 23.3% to approximately HK$1,490.9 million (2007: HK$1,208.7 million).

Through selling new product models and cross-selling to stroller customers, the Group successfully increased the sales of "car seats and boosters" by 39.2% as compared to last year, accounting for 14.2% of the total revenue of the Group. Revenue from the

Group's "Others" also generated a remarkable increase. Sales of this category increased by 54.4%, mainly contributed by the encouraging sales performance of medical care products.

Gross Profit

During the year, the Group was subject to operating pressure mainly from significant inflation of raw material and energy prices. Through the implementation of more stringent cost control, adjusted product mix, launch of new product models and other measures, the Group successfully increased the overall gross profit margin to 21.9% from 17.6% of the last year. The Group recorded a gross profit margin of approximately HK$327.2 million for the year, representing a growth of 54.0% from last year.

Marketing and Distribution Costs

The Group's marketing and distribution costs amounted to approximately HK$110.6 million for the year, representing an increase of 36.6% from last year. This was mainly attributable to the increased sales commissions and transportation costs during the year, as well as expenses incurred from the retail and wholesale business of infant products newly established in the PRC during the year. The weight of marketing and distribution costs to revenue increased from 6.7% of the last year by approximately 0.7% to 7.4% in 2008.

Research and Development Costs

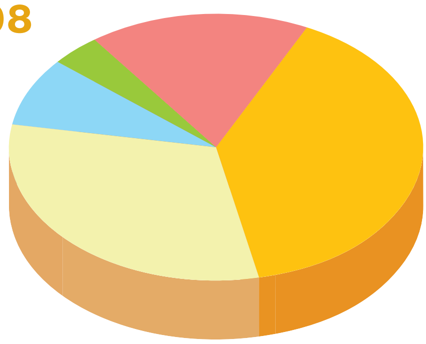
In addition, research and development costs increased to approximately HK$44.1 million from approximately HK$32.5 million of the previous year. The Group values the importance of continuous product development in meeting market demand, and has devoted more resources into research and development during the year, with an emphasis on improvement in product lines of car seats and boosters as well as medical care products. As at 31 December 2008, the Group has around 100 technologies under patent application, and it is expected that most of these will be approved in the coming year.

Administrative Expenses

The Group's administrative expenses for the year was approximately HK$111.5 million,

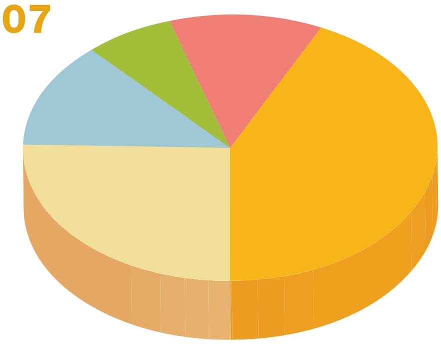
REVENUE BY PRODUCT

2008



Strollers	37.3%
Miscellaneous infant products	26.7%
Car seats and boosters	14.2%
Beds and playards	7.2%
Others	14.6%

2007



Strollers	42.9%
Miscellaneous infant products	25.7%
Car seats and boosters	12.6%
Beds and playards	7.1%
Others	11.7%

representing an increase of 12.8% from the last year, mainly attributable to the expenses incurred from the retail and wholesale business of infant products newly established in the PRC during the year. The weight of administrative expenses to sales revenue decreased by approximately 0.7% from 8.2% of last year to 7.5% in 2008.

Investment Income

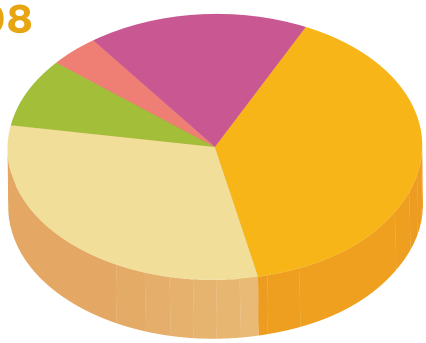
In respect of investment income, the Group recorded a decrease from approximately HK$22.0 million of last year to approximately HK$6.8 million in 2008. The main reason was that the Group recorded gain on fair value changes of derivative instruments amounting to approximately HK$13.4 million last year, whilst the gain for the year was HK$2.7 million. Also, the interest income of the Group recorded a decrease of approximately HK$4.5 million from last year due to significant bank interest rate cuts.

PROSPECTS

During the first half of the year, oil price has reached record-highs, and both raw material prices and manufacture costs have increased significantly. In addition, the outbreak of the financial tsunami during the fourth quarter of the year has led to global economic recession and weakened consumption. Same as most manufacturers in the PRC, the Group faced an unprecedented difficult operating environment. Nevertheless, with efforts in incessantly improving its product quality and a diversification strategy, the Group launched a number of new product models during the year, and successfully maintained a growth

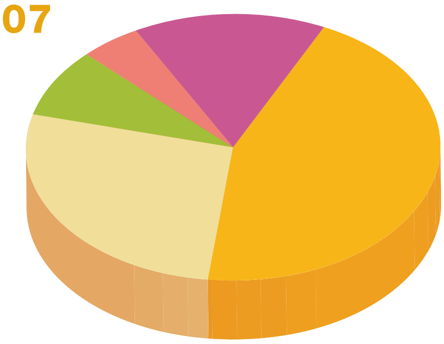
REVENUE BY REGION

2008



United States	39.7%
Europe	31.1%
South America	8.1%
Australia	4.1%
Others	17.0%

2007



United States	44.8%
Europe	27.3%
South America	8.2%
Australia	4.9%
Others	14.8%

momentum in its sales, pushing its sales revenue up by 23.3% to the record-high of approximately HK$1,490.9 million.

Looking forward, the financial tsunami will further toughen and complicate the global business milieu. With a weakening consumption demand in the major markets in the United States and Europe, the manufacturing industry will unavoidably be exposed to a severe operating environment. Moreover, as banks feel reluctant to make available operating loans to small and medium enterprises under the global credit crisis, the production capacity of the manufacturing industry will shrink further. We firmly believe that as the Group maintains nil gearing ratio, the Group is equipped with adequate cash to cope with future uncertain operating situation with flexibility. On the other hand, it is noticed that certain elements unfavourable to the operation of the Group have receded against the backdrop of the financial tsunami, including the rocketing plastic and steel prices, the continued appreciation of renminbi, and the tightening economic measures of the PRC government.

The Group will persist in its existing operating strategies in reinforcing its sales and marketing activities to further increase its market share. Also, the Group will continue to devote its resources in product research and

development and enhance its management efficiency, in an effort to accelerate the pace of product development to meet market demand.

Under the impact of the global financial tsunami, exports of the PRC have inevitably been affected during the fourth quarter of 2008. However, as the PRC market is supported by a solid foundation and powered by the continually rising consumption demand of urban dwellers and the middle class, its GDP recorded a 9.0% increase in 2008, whereas retail sales recorded a year-on-year growth of 21.6%. The PRC government has promulgated a series of stimulus plans to drive the economic growth and enhance domestic spending. We believe that the force of the financial tsunami on the PRC will be relatively gentle as compared to the United States and European countries, and the retail sales will continue to rise. The Group will continue to propel the sales of self-operated brand developed specifically for the PRC market. Moreover, the Group will not rule out the possibility of exploring business development and investments opportunities to enhance the market share of the Group in the PRC so as to achieve the operating objectives of the Company and pursue more prosperous return for our shareholders.

Capital Investments

During the year, the Group increased its shareholding in a subsidiary from 76.6% to 96.6% at a consideration of approximately HK$7.7 million. The subsidiary is engaged in the production of stroller wheels, which are mainly sold to the Group.

As the consumer market for infant products in the PRC is growing, the Group has established six wholly-owned subsidiaries in the PRC during the year. The share capital amounted to approximately HK$45.4 million. All the subsidiaries are located in cities in Southern China and are engaged in sales of infant products. The Group will establish pilot points of sales network through these companies and develop the retail business of infant products with practical and active operating strategies.

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 2008, the Group had cash and bank balances, mainly in US dollars and RMB, of HK$179.9 million (2007: HK$159.3 million) and was free of bank borrowings (2007: nil).

As at 31 December 2008, the Group had net current assets of HK$475.8 million (2007: HK$417.1 million) and a current ratio of 2.9 (2007: 2.7). Trade receivable and inventory turnover were 50 days (2007: 50 days) and 60 days (2007: 56 days) respectively.

The gearing ratio, being the bank loan divided by the shareholders' equity, as at 31 December 2008 was nil (2007: nil).

Exchange risk exposure and contingent liabilities

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollars, Renminbi, US dollars, Euro dollars and New Taiwan dollars. The management believes the Group's working capital is not exposed to any significant foreign exchange risk. Foreign exchange risk arising from transactions denominated in foreign currencies are managed whenever necessary by the Group, using foreign exchange forward contracts with major and reputable financial institutions.

As at 31 December 2008, the Group had no significant contingent liabilities.

Employees and remuneration policies

As at 31 December 2008, the Group employed a total workforce of around 5,400 staff members, of which around 5,300 worked in the PRC offices and production sites, above 90 in Taiwan mainly for marketing, sales support and research and development, 29 in the US office for marketing, sales support and research and development and 10 in HK for finance and administration.

EXECUTIVE DIRECTORS

Mr. HUANG Ying Yuan, aged 58, is a founding member and the Chairman of the Company. Mr. Huang has 32 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 56, 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 59, was appointed an Executive Director of the Company in 1998. Mrs. Huang has worked in the infant products industry in Taiwan for over 30 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. He obtained a master's degree in business administration from Lawrence Technical University, U.S.A. Mr. Chen is responsible for the strategic planning and finance of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LIM Pat Wah Patrick, aged 49, is the chairman of the SME committee of the Hong Kong Venture Capital Association. Mr. Lim is a Chartered Financial Analyst and a fellow member of Association of Chartered Certified Accountants. Mr. Lim holds Hong Kong Securities Institute specialist certificate (Corporate Finance). 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 24 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 70, 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 65, 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 2008, 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 and Chief Executive Officer*
(appointed on 14 February 2008 as Chief Executive Officer)
HUANG CHEN Li Chu, *Vice Chairman*
CHEN Chun Chieh *(appointed on 3 April 2008)*

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.

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, Huang Ying Yuan, Lim Pat Wah Patrick and Tyrone Lin 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 27 April 2009 contains detailed information of the directors standing for re-election.

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 2008 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*)	0/8
YANG Yu Fu *(Vice Chairman and Chief Executive Officer)* *(appointed on 14 February 2008 as Chief Executive Officer)*	8/8
HUANG CHEN Li Chu *(Vice Chairman)*	8/8
CHEN Chun Chieh (*appointed on 3 April 2008)*	7/8

	Attendance/ Number of Meetings
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 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 business development.

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 the year ended 31 December 2008, the Remuneration Committee met to review the overall remuneration of the directors and the proposal on distribution of bonus to the executive directors for the year ended 31 December 2007.

The attendance records of individual members at the Remuneration Committee meeting during the year ended 31 December 2008 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 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 2008 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 during the year ended 31 December 2008 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 shareholders' 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.

Deloitte Touche Tohmatsu, the Group's external auditors, reported matters concerning internal control of the Group for the year ended 31 December 2008 in according with Hong Kong Standards on Auditing to the Audit Committee during its regular meetings.

During the year ended 31 December 2008, the Board considered the internal control systems effective and adequate. No material internal control aspects of any significant problems were noted.

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 2008.

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 2008.

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 30.

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 2008 amounted to approximately HK$1,609,000 and HK$936,000 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 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 of the Company for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 32 of the annual report.

An interim dividend of HK1.5 cents per share amounting to HK$10,911,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK3.5 cents per share to the shareholders on the register of members on 18 June 2009, amounting to approximately HK$25,439,000, and the retention of the remaining profit for the year.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16 to 18 June 2009, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 15 June 2009.

PROPERTY, PLANT AND EQUIPMENT

The Group's leasehold land and buildings were revalued at 31 December 2008. The revaluation resulted in a net surplus over carrying values amounting to HK$12,643,000, of which HK$13,864,000 has been credited directly to the property revaluation reserve and HK$1,221,000 has been charged to consolidated income statement.

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

During the year, the Company repurchased certain of its own shares through the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 27 to the consolidated financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

Details of other movements during the year in the 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 the balance sheet date were as follows:

	2008	2007
	HK$'000	*HK$'000*
Contributed surplus	**244,461**	244,461
Accumulated profits	**10,554**	8,187
	255,015	252,648

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. Yang Yu Fu *(Vice Chairman)*
Mr. Chen Chun Chieh (appointed on 3 April 2008)
Mr. Chen Hsing Shin *(Vice Chairman)* (deceased on 14 February 2008)

Independent non-executive directors:

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

In accordance with clause 87 of the Company's bye-laws, Mr. Huang Ying Yuan, Mr. Lim Pat Wah Patrick and Mr. Tyrone Lin retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other directors will continue in office.

The terms of office of all 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

At 31 December 2008, 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 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 interest	Corporate interest	Total interests	Approximate percentage of the issued share capital of the Company	Number of share options
Mr. Huang Ying Yuan	104,153,360	48,400,180 *(note 1)*	–	152,553,540	21.0%	7,000,000 *(note 2)*
Mrs. Huang Chen Li Chu	48,400,180	104,153,360 *(note 1)*	–	152,553,540	21.0%	7,000,000 *(note 3)*
Mr. Yang Yu Fu	2,144,000	–	–	2,144,000	0.3%	7,000,000
Mr. Chen Chun Chieh	318,000	–	96,805,800 *(note 4)*	97,123,800	13.4%	700,000

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 wife 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 wife.

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 husband.

4. The corporate interest represents the shares held by Hwa Foo Investment Limited, which is controlled by Mr. Chen Chun Chieh.

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 2008.

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 consolidated financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than share option 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

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interest in the issued share capital of the Company.

Long position in shares and underlying shares of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Franklin Templeton Investment Corp.	Corporate interest	61,138,032	8.4%
Commerzbank AG	Corporate interest	43,645,000	6.0%
Mr. Chen An Hsin	Corporate interest *(note)*	36,689,675	5.0%
Gold Field Business Ltd.	Beneficial owner *(note)*	36,689,675	5.0%

Note: 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 interest or short position in the issued share capital of the Company as at 31 December 2008.

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 are 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 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$869,000.

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

During the year, the Company repurchased its own shares on the Stock Exchange. All ordinary shares repurchased during the year were cancelled during the year, and the issued share capital of the Company was reduced by the par value of the repurchased ordinary shares so cancelled. The purchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year. Details of the repurchases of the Company during the year are set forth in note 27 to the financial statements.

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 share option schemes as an incentive to directors and eligible employees, details of these schemes 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 2008.

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
22 April 2009

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 32 to 95, which comprise the consolidated balance sheet as at 31 December 2008, 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 2008 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
22 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 *HK$'000*	2007 *HK$'000*
Revenue	*5*	**1,490,884**	1,208,715
Cost of sales		**(1,163,673)**	(996,279)
Gross profit		**327,211**	212,436
Investment income	*6*	**6,759**	21,988
Other income		**9,408**	4,756
Marketing and distribution costs		**(110,595)**	(80,973)
Research and development expenses		**(44,060)**	(32,494)
Administrative expenses		**(111,455)**	(98,851)
Other expenses		**(2,786)**	(8,817)
Gain on fair value changes of investment properties		**–**	37,240
Share of result of an associate		**(581)**	(235)
Finance cost	*7*	**(417)**	(6)
Profit before taxation		**73,484**	55,044
Income tax expense	*8*	**(16,052)**	(7,467)
Profit for the year	*9*	**57,432**	47,577
Attributable to:			
Equity holders of the Company		**56,943**	48,022
Minority interests		**489**	(445)
		57,432	47,577
Dividends	*12*	**36,371**	50,770
Earnings per share	*13*		
Basic		**HK7.83 cents**	HK6.63 cents
Diluted		**HK7.83 cents**	HK6.61 cents

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	14	325,144	321,106
Investment properties	15	–	–
Prepaid lease payments	16	65,644	63,213
Intellectual property rights	17	8,431	11,232
Investment in an associate	18	6,741	7,487
Available-for-sale investments	19	4,664	4,347
Deferred tax assets	20	2,125	1,703
		412,749	409,088
Current assets			
Inventories	21	204,605	179,903
Trade and other receivables and prepayments	22	323,443	210,653
Prepaid lease payments	16	858	849
Derivative financial instruments	23	15,297	21,676
Taxation recoverable		852	802
Bank balances and cash	24	179,872	159,280
		724,927	573,163
Asset classified as held for sale	15	–	88,036
		724,927	661,199
Current liabilities			
Trade and other payables and accruals	25	223,926	213,923
Taxation payable		15,373	6,064
Loan from a minority shareholder	26(c)	–	780
Derivative financial instruments	23	9,785	11,048
		249,084	231,815
Liabilities associated with an asset classified as held for sale	15	–	12,242
		249,084	244,057
Net current assets		475,843	417,142
Total assets less current liabilities		888,592	826,230

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	27	**72,681**	72,532
Reserves		**796,998**	734,115
Equity attributable to equity holders of the Company		**869,679**	806,647
Minority interests		**1,495**	7,128
Total equity		**871,174**	813,775
Non-current liability			
Deferred tax liabilities	20	**17,418**	12,455
		888,592	826,230

The consolidated financial statements on pages 32 to 95 were approved and authorised for issue by the Board of Directors on 22 April 2009 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 2008

	Attributable to equity holders of the Company												
	Share capital *HK$'000*	Share premium *HK$'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$'000*	Accumulated profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2007	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	–	–	–	–	–	–	30,991	–	–	–	30,991	–	30,991
Share of an associate's exchange reserve	–	–	–	–	–	–	(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 to statutory reserves	–	–	–	–	6,732	–	–	–	–	(6,732)	–	–	–
Dividends recognised as distributions *(note 12)*	–	–	–	–	–	–	–	–	–	(50,770)	(50,770)	–	(50,770)
Dividend paid to a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(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
Exchange differences arising from translation	–	–	–	–	–	–	28,498	–	–	–	28,498	–	28,498
Share of an associate's exchange reserve	–	–	–	–	–	–	(165)	–	–	–	(165)	–	(165)
Revaluation surplus on land and buildings	–	–	–	13,864	–	–	–	–	–	–	13,864	–	13,864
Transfer on disposal of relevant properties	–	–	–	(15,043)	–	–	–	–	–	15,043	–	–	–
Deferred tax liability arising on revaluation of properties	–	–	–	(3,072)	–	–	–	–	–	–	(3,072)	–	(3,072)
Net (expense) income recognised directly in equity	–	–	–	(4,251)	–	–	28,333	–	–	15,043	39,125	–	39,125
Profit for the year	–	–	–	–	–	–	–	–	–	56,943	56,943	489	57,432
Total recognised (expense) income for the year	–	–	–	(4,251)	–	–	28,333	–	–	71,986	96,068	489	96,557
Shares repurchased and cancelled	(61)	(185)	–	–	–	–	–	–	61	(61)	(246)	–	(246)
Exercise of share options	210	1,276	–	–	–	–	–	(350)	–	–	1,136	–	1,136
Share options lapsed during the year	–	–	–	–	–	–	–	(339)	–	339	–	–	–
Employee share-based payments	–	–	–	–	–	–	–	2,445	–	–	2,445	–	2,445
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(6,122)	(6,122)
Transfer to statutory reserves	–	–	–	–	1,895	–	–	–	–	(1,895)	–	–	–
Dividends recognised as distributions *(note 12)*	–	–	–	–	–	–	–	–	–	(36,371)	(36,371)	–	(36,371)
	149	1,091	–	–	1,895	–	–	1,756	61	(37,988)	(33,036)	(6,122)	(39,158)
At 31 December 2008	72,681	93,085	38,510	61,254	29,185	3,091	79,004	2,375	1,208	489,286	869,679	1,495	871,174

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 (the "PRC"), the PRC subsidiaries of the Company are required to maintain two statutory reserves, being the "statutory surplus reserve fund" and the "enterprise expansion fund", both of which are not distributable. Appropriations to such reserves are made out of the profit for the year as per the statutory financial statements of relevant PRC subsidiary. The amount and allocation basis are decided by the respective board of directors annually.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 *HK$'000*	2007 *HK$'000*
OPERATING ACTIVITIES		
Profit before taxation	**73,484**	55,044
Adjustments for:		
Amortisation of intellectual property rights	**2,786**	3,819
Amortisation of prepaid lease payments	**1,495**	849
Deficit (surplus) arising on revaluation of land and buildings	**1,221**	(907)
Depreciation of property, plant and equipment	**39,620**	34,121
Employee share-based payments	**2,445**	409
Finance cost	**417**	6
Gain on fair value changes of derivative financial instruments	**(2,669)**	(13,420)
Gain on fair value changes of investment properties	**—**	(37,240)
Impairment loss on intellectual property rights	**—**	4,998
Impairment loss on trade receivables	**4,449**	1,165
Interest income	**(3,767)**	(8,312)
Loss on disposal of property, plant and equipment	**25**	464
Recovery of doubtful debts	**(1,636)**	—
Share of result of an associate	**581**	235
Write-down of inventories	**12,285**	21,684
Operating cash flows before movements in working capital	**130,736**	62,915
Increase in inventories	**(36,638)**	(72,355)
Increase in derivative financial instruments	**7,785**	3,868
Increase in trade and other receivables and prepayments	**(115,254)**	(39,325)
Increase in trade and other payables and accruals	**9,573**	33,466
Cash used in operations	**(3,798)**	(11,431)
Hong Kong Profits Tax paid	**—**	(5,796)
Taxation paid in other jurisdictions	**(5,501)**	(3,958)
NET CASH USED IN OPERATING ACTIVITIES	**(9,299)**	(21,185)
INVESTING ACTIVITIES		
Proceeds from disposal of asset classified as held for sale	**79,156**	—
Deposit received in respect of asset classified as held for sale	**—**	8,880
Interest received	**3,767**	8,312
Proceeds from disposal of property, plant and equipment	**2,214**	2,081
Purchase of property, plant and equipment	**(19,739)**	(28,059)
Acquisition of additional interests in a subsidiary	**(6,122)**	—
Payment of leasehold land	**—**	(26,025)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**59,276**	(34,811)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Dividends paid	**(36,371)**	(50,770)
Interest paid	**(417)**	(6)
Repurchase of shares	**(246)**	–
Proceeds from issue of shares upon exercise of share options	**1,136**	1,825
Dividend paid to a minority shareholder of a subsidiary	**–**	(638)
NET CASH USED IN FINANCING ACTIVITIES	**(35,898)**	(49,589)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**14,079**	(105,585)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**159,280**	259,839
Effect of foreign exchange rate changes	**6,513**	5,026
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**179,872**	159,280

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 35.

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 the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — INT 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) — INT 12	Service Concession Arrangements
HK(IFRIC) — INT 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs 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, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) — INT 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) — INT 13	Customer Loyalty Programmes[5]
HK(IFRIC) — INT 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) — INT 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) — INT 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) — INT 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods ending on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group'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 and revised standards, amendments or interpretations will have no material impact on the results and 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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investment in an associate

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 the associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in the associate is 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 associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the 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.

Non-current assets held for sale

Non-current assets are classified as held for sale if their 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 (or disposal group) is available for immediate sale in its present condition.

Non-current assets classified as 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.

Sales 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production 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.

Depreciation is provided to write off the cost of other items of property, plant and equipment other than construction in progress 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment *(CONTINUED)*

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 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 using the fair value model. Gains or losses arising from changes in the fair value of investment property 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate 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 a foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(CONTINUED)*

Financial assets *(CONTINUED)*

Effective interest method (CONTINUED)

Income is recognised on an effective interest basis.

Financial assets at fair value through profit or loss

The Group's 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 that do not have a quoted market price in an active market and whose fair value cannot be reliably measured 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(CONTINUED)*

Financial assets *(CONTINUED)*

Impairment of financial assets (CONTINUED)

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 losses 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 measured at cost, 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

Financial liabilities including trade and other payables and loan 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 and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(CONTINUED)*

Derecognition *(CONTINUED)*

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.

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 lapse 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 option 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 option reserve.

At the time when the share options are exercised, the amount previously recognised in share option 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 option 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment losses on tangible and intangible assets *(CONTINUED)*

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 judgements, 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 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 2008, the carrying amount of trade receivable is HK$222,584,000 (2007: HK$184,364,000), net of allowance for doubtful debts of HK$11,855,000 (2007: 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 2008, the carrying amount of inventories is HK$204,605,000 (2007: HK$179,903,000).

5. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into four major operating divisions which includes strollers, car seats and boosters, 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
Car seats and boosters	—	manufacture and distribution of car seats and boosters
Beds and playards	—	manufacture and distribution of beds and playards
Miscellaneous infant products	—	manufacture and distribution of miscellaneous infant products such as soft goods, high chairs, bouncers and walkers
Others	—	manufacture and distribution of battery operated ride-on cars and medical care products; retail sales of infant products and others.

5. SEGMENT INFORMATION *(CONTINUED)*

Business segments *(CONTINUED)*

Segment information about these businesses is presented below:

2008

CONSOLIDATED INCOME STATEMENT

	Strollers	Car seats and boosters	Beds and playards	Miscellaneous infant products	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE						
External sales	556,792	211,750	107,797	397,431	217,114	1,490,884
RESULTS						
Segment results	34,133	17,871	4,760	18,811	3,941	79,516
Investment income						6,759
Unallocated corporate expenses						(11,793)
Share of result of an associate						(581)
Finance cost						(417)
Profit before taxation						73,484
Income tax expense						(16,052)
Profit for the year						57,432

5. SEGMENT INFORMATION *(CONTINUED)*

Business segments *(CONTINUED)*

2008

CONSOLIDATED BALANCE SHEET

	Strollers HK$'000	Car seats and boosters HK$'000	Beds and playards HK$'000	Miscellaneous infant products HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS						
Segment assets	355,441	85,024	52,573	247,761	187,325	928,124
Investment in an associate						6,741
Unallocated corporate assets						202,811
Consolidated total assets						1,137,676
LIABILITIES						
Segment liabilities	83,168	31,052	15,769	55,978	37,894	223,861
Unallocated corporate liabilities						42,641
Consolidated total liabilities						266,502

2008

OTHER INFORMATION

	Strollers HK$'000	Car seats and boosters HK$'000	Beds and playards HK$'000	Miscellaneous infant products HK$'000	Others HK$'000	Consolidated HK$'000
Capital additions	3,493	1,329	675	2,389	11,853	19,739
Depreciation of property, plant and equipment	14,703	5,019	2,549	9,979	7,370	39,620
Amortisation of intellectual property rights and prepaid lease payments	1,295	201	318	2,240	227	4,281
Impairment loss on trade receivables	1,603	624	317	851	1,054	4,449
Loss on disposal of property, plant and equipment	25	–	–	–	–	25
Employee share-based payment	1,049	308	174	629	285	2,445
Write-down of inventories to net realisable value	5,913	1,363	692	2,662	1,655	12,285

5. SEGMENT INFORMATION *(CONTINUED)*

Business segments *(CONTINUED)*

2007

CONSOLIDATED INCOME STATEMENT

	Strollers	Car seats and boosters	Beds and playards	Miscellaneous infant products	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE						
External sales	518,828	152,068	86,216	310,949	140,654	1,208,715
RESULTS						
Segment results	3,595	711	508	(432)	111	4,493
Investment income						21,988
Gain on fair value changes of investment properties						37,240
Unallocated corporate expenses						(8,436)
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

CONSOLIDATED BALANCE SHEET

	Strollers HK$'000	Car seats and boosters HK$'000	Beds and playards HK$'000	Miscellaneous infant products HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS						
Segment assets	378,337	39,059	46,259	215,546	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	15,748	15,368	53,054	22,894	213,864
Unallocated corporate liabilities						42,648
Consolidated total liabilities						256,512

2007

OTHER INFORMATION

	Strollers HK$'000	Car seats and boosters HK$'000	Beds and playards HK$'000	Miscellaneous infant products HK$'000	Others HK$'000	Consolidated HK$'000
Capital additions	12,204	1,823	1,779	6,611	5,642	28,059
Depreciation of property, plant and equipment	16,199	2,168	2,115	8,093	5,546	34,121
Amortisation of intellectual property rights and prepaid lease payments	2,129	52	267	2,061	159	4,668
Impairment loss on intellectual property rights	4,998	–	–	–	–	4,998
Impairment loss on trade receivables	85	13	13	312	742	1,165
Loss on disposal of property, plant and equipment	166	–	–	298	–	464
Employee share-based payments	360	–	49	–	–	409
Write-down of inventories to net realisable value	10,858	1,676	1,636	5,505	2,009	21,684

Note: Certain figures in the business segments for the year ended 31 December 2007 were reclassified to conform with current year's presentation.

5. SEGMENT INFORMATION *(CONTINUED)*

Geographical segments

The Group's operations are principally located in the PRC, Taiwan, Hong Kong and the United States of America (the "USA"). 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 USA. The operations in Hong Kong include mainly finance and corporate administrations.

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

	2008	2007
	HK$'000	*HK$'000*
The USA	**592,392**	541,260
Europe	**463,955**	330,137
South America	**120,784**	98,711
Australia	**60,688**	58,655
Others*	**253,065**	179,952
	1,490,884	1,208,715

* Others mainly include the PRC, Japan and Canada.

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

	Carrying amount		**Additions to property, plant and equipment**	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets				
The PRC	**574,590**	466,823	**16,836**	23,516
Taiwan	**254,030**	248,983	**1,806**	2,139
Hong Kong	**70,482**	50,390	**16**	594
The USA	**27,617**	20,759	**1,081**	1,810
	926,719	786,955	**19,739**	28,059

6. INVESTMENT INCOME

	2008	2007
	HK$'000	*HK$'000*
Bank interest income	**3,767**	8,312
Gain on fair value changes of derivative financial instruments	**2,669**	13,420
Property rental income net of negligible outgoing expenses	**323**	256
	6,759	21,988

7. FINANCE COST

	2008	2007
	HK$'000	*HK$'000*
Interest on bank borrowings	**417**	6

8. INCOME TAX EXPENSE

	2008	2007
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**1,945**	2,421
PRC Enterprise Income Tax	**10,763**	5,093
Other jurisdictions	**905**	972
	13,613	8,486
Underprovision in prior years:		
PRC Enterprise Income Tax	**585**	649
Other jurisdictions	**428**	59
	1,013	708
Deferred taxation *(note 20)*:		
Current year	**1,426**	(213)
Attributable to a change in tax rate	**—**	(1,514)
	1,426	(1,727)
	16,052	7,467

8. INCOME TAX EXPENSE *(CONTINUED)*

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

The statutory tax rate for the Group's PRC subsidiaries was 24% for the year ended 31 December 2007. As qualified export enterprises, these PRC subsidiaries were levied at a reduced PRC Enterprise Income Tax rate of 12% for the year ended 31 December 2007. On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the PRC Enterprise Income Tax rate of the Group's PRC subsidiaries was increased from 12% to 25% from January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries is entitled to an exemption from PRC Enterprise Income Tax for two years starting from its first profit making year, followed by a 50% relief in PRC Enterprise Income Tax rate for the next three years. 2007 is the first year of tax exemption granted to that subsidiary. Under the New Law, the relief shall continue and be accounted for based on the new PRC Enterprise Income Tax rate of 25%.

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

8. INCOME TAX EXPENSE *(CONTINUED)*

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

	2008 HK$'000	2007 HK$'000
Profit before taxation	**73,484**	55,044
Tax at Hong Kong Profits Tax rate of 16.5% (2007: 17.5%)	**12,125**	9,633
Tax effect of share of loss of an associate	**96**	41
Tax effect of expenses not deductible for tax purpose	**2,231**	4,501
Tax effect of income not taxable for tax purpose	**(2,913)**	(9,278)
Underprovision in prior years	**1,013**	708
Tax effect of tax losses not recognised	**7,973**	6,827
Utilisation of tax losses previously not recognised	**(2,221)**	(2,688)
Effect of tax exemption granted to PRC subsidiaries	**(2,991)**	(1,756)
Effect of different tax rates of subsidiaries operate in other jurisdictions	**739**	993
Decrease in opening deferred tax liabilities resulting from an increase in applicable tax rate	**–**	(1,514)
Income tax expense	**16,052**	7,467

Details of movements in deferred taxation are set out in note 20.

9. PROFIT FOR THE YEAR

	2008 HK$'000	2007 HK$'000
Profit for the year has been arrived at after charging:		
Salaries, allowances and bonuses, including those of directors	**214,533**	180,581
Contributions to retirement benefit schemes, including those of directors	**6,909**	7,584
Employee share-based payments	**2,445**	409
Total employee benefits expense, including those of directors	**223,887**	188,574
Amortisation of prepaid lease payments	**1,495**	849
Amortisation of intellectual property rights (included in other expenses)	**2,786**	3,819
Auditor's remuneration	**2,061**	2,223
Depreciation of property, plant and equipment	**39,620**	34,121
Deficit arising on revaluation of land and buildings	**1,221**	—
Impairment loss on trade receivables	**4,449**	1,165
Impairment loss on intellectual property rights (included in other expenses)	**—**	4,998
Loss on disposal of property, plant and equipment	**25**	464
Net foreign exchange losses	**—**	4,561
Write-down of inventories to net realisable value	**12,285**	21,684
and after crediting:		
Net foreign exchange gains	**370**	—
Surplus arising on revaluation of land and buildings	**—**	907

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2007: eight) directors are as follows:

2008

	Huang Ying Yuan HK$'000	Huang Chen Li Chu HK$'000	Yang Yu Fu HK$'000	Chen Chun Chieh *(note i)* HK$'000	Chen Hsing Shin *(note ii)* HK$'000	Lim Pat Wah Patrick HK$'000	Huang Zhi Wei HK$'000	Tyrone Lin HK$'000	Total HK$'000
Fees	–	–	–	–	–	200	160	160	520
Other emoluments									
Salaries and allowances	2,069	1,502	2,463	397	172	–	–	–	6,603
Performances related incentive payments	3,400	2,000	600	1,000	–	–	–	–	7,000
Total emoluments	5,469	3,502	3,063	1,397	172	200	160	160	14,123

2007

	Huang Ying Yuan HK$'000	Huang Chen Li Chu HK$'000	Yang Yu Fu HK$'000	Leung Man Fai *(note iii)* HK$'000	Chen Hsing Shin *(note ii)* 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	199	1,387	1,748	–	–	–	6,874
Performances related incentive payments	2,500	1,500	1,000	–	1,000	–	–	–	6,000
Contributions to retirement benefit schemes	–	–	–	89	–	–	–	–	89
Total emoluments	4,549	2,991	1,199	1,476	2,748	160	160	160	13,443

Notes:

(i) Mr. Chen Chun Chieh was appointed as an executive director on 3 April 2008.

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

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

No directors had waived any emoluments for both years.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2007: five) were directors of the Company whose emoluments are included in the disclosure in note 10 above. The emolument of the remaining individual is as follows:

	2008	2007
	HK$'000	*HK$'000*
Salaries and other benefits	**1,186**	–
Performances related incentive payments	**99**	–
	1,285	–

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

	2008	2007
	HK$'000	*HK$'000*
2007 final dividend of HK3.5 cents		
(2007: 2006 final dividend of HK5.5 cents) per share	**25,460**	39,890
2008 interim dividend of HK1.5 cents		
(2007: 2007 interim dividend of HK1.5 cents) per share	**10,911**	10,880
	36,371	50,770

A final dividend for the year ended 31 December 2008 of HK3.5 cents (2007: HK3.5 cents) per share, amounting to approximately HK$25,439,000, 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:

	2008	2007
	HK$'000	*HK$'000*
Profit for the year attributable to equity holders of the Company	**56,943**	48,022

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**726,865,642**	724,780,088
Effect of dilutive potential ordinary shares in respect of share options	**416,814**	1,847,065
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**727,282,456**	726,627,153

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 2007	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
Exchange realignment	10,379	(3)	11,080	3,392	717	932	26,497
Additions	583	2,361	5,758	10,179	662	196	19,739
Disposals	–	(2,522)	(1,580)	(384)	(1,344)	(1,959)	(7,789)
Transfer	14,241	–	–	–	–	(14,241)	–
Adjustment on valuation	(8,003)	–	–	–	–	–	(8,003)
At 31 December 2008	220,522	5,925	199,002	93,315	12,763	–	531,527
Comprising:							
At cost	–	5,925	199,002	93,315	12,763	–	311,005
At valuation – 2008	220,522	–	–	–	–	–	220,522
	220,522	5,925	199,002	93,315	12,763	–	531,527
DEPRECIATION							
At 1 January 2007	–	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
Exchange realignment	3,458	(3)	6,645	2,423	459	–	12,982
Provided for the year	17,188	295	13,377	7,871	889	–	39,620
Eliminated on disposals	–	(2,522)	(1,451)	(368)	(1,209)	–	(5,550)
Adjustment on valuation	(20,646)	–	–	–	–	–	(20,646)
At 31 December 2008	–	1,703	127,686	69,453	7,541	–	206,383
CARRYING VALUES							
At 31 December 2008	220,522	4,222	71,316	23,862	5,222	–	325,144
At 31 December 2007	203,322	2,156	74,629	20,601	5,326	15,072	321,106

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 of the Group erected on the lands in the PRC were not granted formal title of their ownership. At 31 December 2008, the carrying value of buildings in the PRC for which the Group had not been granted formal title amounted to HK$85,380,000 (2007: HK$65,650,000). In the opinion of the directors, the absence of formal title does not impair the value of the relevant building. 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 values of land and buildings held by the Group at the balance sheet date comprises:

	2008	2007
	HK$'000	*HK$'000*
Held in Hong Kong under long-term leases	**24,500**	25,500
Held in the PRC under medium term land use rights	**160,144**	139,592
Held in Taiwan, freehold	**35,878**	38,230
	220,522	203,322

The Group revalued its land and buildings at the year end date. The revaluation resulted in a net surplus over carrying values amounting to HK$12,643,000 (2007: HK$13,979,000), of which HK$13,864,000 (2007: HK$13,072,000) has been credited directly to the property revaluation reserve and a deficit of HK$1,221,000 (2007: a surplus of HK$907,000) has been recognised in the consolidated income statement.

At 31 December 2008, certain leasehold land and buildings in the PRC of the Group with carrying values of HK$422,000 (2007: HK$250,000) as at 31 December 2008 were valued by the directors, who estimated that their fair value was not materially different from the carrying amount.

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

Other than the above, the land and buildings of the Group were revalued at 31 December 2008 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$31,516,000 (2007: HK$32,192,000) were valued on an open market value basis. The remaining land and buildings in the PRC amounting to HK$152,706,000 (2007: HK$132,650,000) and the land and buildings in Taiwan amounting to HK$35,878,000 (2007: HK$38,230,000) 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$134,229,000 (2007: HK$121,800,000).

15. INVESTMENT PROPERTIES/ASSET CLASSIFIED AS HELD FOR SALE

	HK$'000
FAIR VALUE	
At 1 January 2007	17,900
Transfer to property, plant and equipment *(note 14)*	(17,900)
Transfer from property, plant and equipment *(note 14)*	50,796
Gain on fair value changes recognised in the income statement	37,240
Transfer to asset classified as held for sale	(88,036)
At 31 December 2007 and at 31 December 2008	–

During the year ended 31 December 2007, the Group has reclassified an investment property 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 as 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, 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 of the investment properties at a consideration of HK$88,036,000. Accordingly, the investment properties were reclassified to an asset classified as held for sale. The consideration of HK$88,036,000 was taken 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 for the year ended 31 December 2007.

15. INVESTMENT PROPERTIES/ASSET CLASSIFIED AS HELD FOR SALE *(CONTINUED)*

The Group received a sale deposit of 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 aggregated balance of HK$12,242,000 was classified as liabilities associated with an asset classified as held for sale in the consolidated balance sheet as at 31 December 2007. The disposal of the asset was completed on 29 February 2008. The remaining part of the consideration of HK$79,156,000 was received during the year.

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments of HK$66,502,000 (2007: HK$64,062,000) represent leasehold land in the PRC held under medium-term lease. An amount of HK$858,000 (2007: HK$849,000) is classified under current assets for reporting purpose.

17. INTELLECTUAL PROPERTY RIGHTS

	HK$'000
COST	
At 1 January 2007	86,578
Exchange realignment	318
At 31 December 2007	86,896
Exchange realignment	(925)
At 31 December 2008	85,971
AMORTISATION AND IMPAIRMENT	
At 1 January 2007	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
Exchange realignment	(910)
Provided for the year	2,786
At 31 December 2008	77,540
CARRYING VALUES	
At 31 December 2008	8,431
At 31 December 2007	11,232

17. INTELLECTUAL PROPERTY RIGHTS *(CONTINUED)*

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 ranging from 4 to 18 years commencing from the date of acquisition. The net carrying amount will therefore be amortised over the remaining useful lives, using the straight-line method.

Periodical reviews on the carrying amount of intellectual property rights was performed by the directors of the Group. A number of these intellectual property rights were determined to be impaired because of technical obsolescence during the year ended 31 December 2007. No impairment loss was considered necessary during the year.

18. INVESTMENT IN AN ASSOCIATE

	2008	2007
	HK$'000	*HK$'000*
Cost of unlisted investment	**11,700**	11,700
Less: impairment losses recognised	**(3,600)**	(3,600)
	8,100	8,100
Share of post-acquisition losses and reserves	**(1,359)**	(613)
	6,741	7,487

18. INVESTMENT IN AN ASSOCIATE *(CONTINUED)*

Details of the Group's associates at 31 December 2008 and 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 Technology Limited ("Weblink")	Incorporated	British Virgin Islands ("BVI")	US$100	30%	Investment holding
FLT Hong Kong Technology Limited*	Incorporated	BVI	US$1	30%	Trading of optical fibre peripheral products
珠海保税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:

	2008	2007
	HK$'000	*HK$'000*
Total assets	**28,060**	30,103
Total liabilities	**(5,590)**	(5,146)
Net assets	**22,470**	24,957
Group's share of net assets of an associate	**6,741**	7,487
Revenue	**18,991**	17,620
Loss for the year	**(1,936)**	(782)
Group's share of result of an associate for the year	**(581)**	(235)

19. AVAILABLE-FOR-SALE INVESTMENTS

The Group's available-for-sale investments at 31 December 2008 represent non-current investments in unlisted equity securities issued by private entities established in the PRC and Taiwan. They do not have a quoted market price in an active market. 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

The following are the major deferred tax (assets) liabilities recognised 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	Withholding income tax HK$'000	Others HK$'000	Total HK$'000
At 1 January 2007	(278)	8,516	–	(1,399)	6,839
Exchange difference	–	–	–	21	21
(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 asset classified as held 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
At 1 January 2008	(816)	14,362	–	(2,794)	10,752
Exchange difference	–	–	–	43	43
(Credit) charge to the income statement for the year	(724)	(305)	1,540	915	1,426
Charge to equity for the year	–	3,072	–	–	3,072
At 31 December 2008	(1,540)	17,129	1,540	(1,836)	15,293

20. DEFERRED TAXATION *(CONTINUED)*

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:

	2008	2007
	HK$'000	*HK$'000*
Deferred tax assets	**(2,125)**	(1,703)
Deferred tax liabilities	**17,418**	12,455
	15,293	10,752

According to the New Law as mentioned in note 8, starting from 1 January 2008, 10% withholding income tax will be imposed on dividends relating to profits generated by the companies established in the PRC for the calendar year 2008 onwards to their foreign shareholders. Deferred taxation has been provided for in respect of the undistributed profits from these PRC subsidiaries amounting to approximately HK$15,400,000.

At 31 December 2008, the Group had unused tax losses of HK$95,833,000 (2007: HK$60,973,000) 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

	2008	2007
	HK$'000	*HK$'000*
Raw materials	**67,920**	66,677
Work in progress	**32,557**	32,073
Finished goods	**104,128**	81,153
	204,605	179,903

21. INVENTORIES *(CONTINUED)*

During the year, allowance of HK$12,285,000 (2007: HK$21,684,000) was made on obsolete and slow-moving inventory items identified.

Followed the substantial decline in the orders from an active customer of the Group during the year ended 31 December 2007, management critically assessed the net realisable values of certain raw materials in the inventories which were purchased to cater for the orders for this customer. As a result, allowances amounted to a total of HK$13,686,000 had been recognised for the year ended 31 December 2007 to reduce the carrying amounts of such inventories to their estimated net realisable value.

At 31 December 2008, the carrying amount of inventories has been arrived at after charging cumulative allowances of HK$44,408,000 (2007: HK$32,123,000).

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**234,439**	194,075
Less: allowance for doubtful debts	**(11,855)**	(9,711)
	222,584	184,364
Purchase deposits, other receivables and deposits	**37,736**	13,035
Advance to a supplier	**47,118**	—
Prepayments	**16,005**	13,254
Trade and other receivables and prepayments	**323,443**	210,653

Other receivables are unsecured, interest-free and repayable on demand.

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:

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**118,539**	104,168
31 to 90 days	**91,431**	78,477
Over 90 days	**12,614**	1,719
	222,584	184,364

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 debts not impaired nor past due are of good credit quality.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$20,902,000 (2007: HK$23,201,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss after consideration on the credit quality of those individual customers, the ongoing relationship with Group and the aging of these receivables. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**13,014**	4,025
31 to 90 days	**2,017**	17,457
Over 90 days	**5,871**	1,719
Total	**20,902**	23,201

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

Movement in the allowance for doubtful debts

	2008	2007
	HK$'000	*HK$'000*
Balance at beginning of the year	**9,711**	8,546
Impairment loss recognised on receivables	**4,449**	1,165
Amount recovered during the year	**(1,636)**	—
Amount written off as uncollectible	**(669)**	—
Balance at end of the year	**11,855**	9,711

23. DERIVATIVE FINANCIAL INSTRUMENTS

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

Notional amount of foreign currency forward contracts (gross settlement)	Maturity date	Forward contract rates
Sell US$500,000	23/01/2009	RMB/US$6.5073
Sell US$500,000	24/02/2009	RMB/US$6.4696
Sell US$4,000,000	24/02/2009	RMB/US$6.4696
Sell US$500,000	24/03/2009	RMB/US$6.4262
Sell US$4,000,000	24/03/2009	RMB/US$6.4262
Sell US$500,000	17/04/2009	RMB/US$6.4100
Sell US$4,000,000	17/04/2009	RMB/US$6.4100
Sell US$500,000	15/05/2009	RMB/US$6.6600
Sell US$4,000,000	15/05/2009	RMB/US$6.6600
Sell US$500,000	19/06/2009	RMB/US$6.6150
Sell US$4,000,000	19/06/2009	RMB/US$6.6150
Sell US$500,000	15/07/2009	RMB/US$6.6150
Sell US$4,000,000	15/07/2009	RMB/US$6.6150

Notional amount of non-deliverable foreign currency forward contracts (net settlement)	Maturity date	Forward contract rates
Buy US$500,000	23/01/2009	RMB/US$6.4580
Buy US$500,000	24/02/2009	RMB/US$6.4150
Buy US$4,000,000	24/02/2009	RMB/US$6.4150
Buy US$500,000	24/03/2009	RMB/US$6.3700
Buy US$4,000,000	24/03/2009	RMB/US$6.3700
Buy US$500,000	17/04/2009	RMB/US$6.2965
Buy US$4,000,000	17/04/2009	RMB/US$6.2965
Buy US$500,000	15/05/2009	RMB/US$6.5660
Buy US$4,000,000	15/05/2009	RMB/US$6.5660
Buy US$500,000	19/06/2009	RMB/US$6.4900
Buy US$4,000,000	19/06/2009	RMB/US$6.4900
Buy US$500,000	15/07/2009	RMB/US$6.4740
Buy US$4,000,000	15/07/2009	RMB/US$6.4740

23. DERIVATIVE FINANCIAL INSTRUMENTS *(CONTINUED)*

Notional amount	Forward contract rates
At 31 December 2007:	
34 contracts to buy in total of US$50,000,000 (net settled)	US$1 to RMB6.8460 — 7.2990
34 contracts to sell in total of US$50,000,000 (gross settled)	US$1 to RMB6.8047 — 7.3040

To give details of foreign currency forward contracts as at 31 December 2007 would, in the opinion of the directors, result in particulars of excessive length.

All the above contracts will be matured within 1 month to 12 months (2007: within 1 month to 12 months).

The above financial instruments are measured at fair values based on a valuation conducted by Grant Sherman as at 31 December 2008 determined based on the difference between the market forward rates at the balance sheet date for the remaining duration of the outstanding contracts and their contracted forward rates and discounted using an appropriate discount rate to take account of the time value of money.

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 prevailing market interest rates and are with maturity of three months or less. The bank deposits carry interest at rates ranging from 0.5% to 1.5% (2007: 1.0% to 5.5%) per annum.

25. TRADE AND OTHER PAYABLES AND ACCRUALS

	2008	2007
	HK$'000	*HK$'000*
Trade payables	**136,243**	138,500
Accrued expenses	**43,857**	39,803
Other payables	**43,826**	35,620
	223,926	213,923

Other payables are unsecured, interest-free and repayable on demand.

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

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

	2008 HK$'000	2007 HK$'000
Within 30 days	**69,753**	70,428
31 to 90 days	**58,306**	61,703
Over 90 days	**8,184**	6,369
	136,243	138,500

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 balances with the directors 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	2008 HK$'000	2007 HK$'000
Yojin Industrial Corporation	Mr. Huang Ying Yuan Mrs. Huang Chen Li Chu *(note i)*	Rental expenses paid by the Group *(note ii)*	**599**	577
Mr. Chen Chin Yuan	Mr. Chen Hsing Shin *(note iii)*	Rental expenses paid by the Group *(note ii)*	**–**	24
Mr. Chen Hung Jung	Mrs. Huang Chen Li Chu *(note iv)*	Rental expenses paid by the Group *(note ii)*	**96**	88

26. RELATED PARTY DISCLOSURES *(CONTINUED)*

(b) Transactions with directors:

Name of director	Nature of transactions	2008 HK$'000	2007 HK$'000
Mr. Huang Ying Yuan	Rental expenses paid by the Group to director *(note ii)*	**240**	220
Mr. Chen Hsing Shin	Rental expenses paid by the Group to director	**40**	220

(c) As at 31 December 2007, the Group had a loan from a minority shareholder of HK$780,000. The loan was made by the minority shareholder to a subsidiary in proportion to its interests in that subsidiary.

(d) Compensation of key management personnel

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

	2008 HK$'000	2007 HK$'000
Short-term employee benefits	**13,603**	12,874
Post-employment benefits	**—**	89
	13,603	12,963

The remuneration of directors was decided by the board of directors, which is reviewed by the Remuneration Committee, having regard to the performance of the individuals and market trends.

Notes:

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

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

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

iv. Mr. Chen Hung Jung is a brother of Mrs. Huang Chen Li Chu.

27. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2007, 31 December 2007 and 31 December 2008	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2007	721,940,724	72,194
Exercise of share options	3,380,000	338
At 31 December 2007	725,320,724	72,532
Exercise of share options	2,104,000	210
Shares repurchased and cancelled	(610,000)	(61)
At 31 December 2008	726,814,724	72,681

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
Oct 2008	180,000	0.38	0.37	66
Nov 2008	430,000	0.43	0.41	180
	610,000			246

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 2008, the number of shares in respect of which share options had been granted and remained outstanding under the 1998 Scheme was 7,000,000 (2007: 10,500,000), representing 1.0% (2007: 1.4%) of the shares of the Company in issue at that date.

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 options will remain valid and exercisable in accordance with the provisions of the 1998 Scheme.

According to the 2002 Scheme, the board of directors 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 share 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.

28. SHARE OPTIONS *(CONTINUED)*

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 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.

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.

28. SHARE OPTIONS *(CONTINUED)*

The following table discloses movements in the Company's share options during the year ended 31 December 2008 and 2007:

		Number of shares subject to share options							
	Date of grant	Outstanding at 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2007	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2008
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. Yang Yu Fu	26 November 2007	–	7,000,000	–	–	7,000,000	–	–	7,000,000
Mr. Chen Chun Chieh	26 November 2007	–	700,000	–	–	700,000	–	–	700,000
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 (resigned on 1 December 2007)	18 August 1999	2,500,000	–	–	(2,500,000)	–	–	–	–
Total for directors		13,000,000	7,700,000	–	(2,500,000)	18,200,000	–	(3,500,000)	14,700,000
Category 2: Employees									
	14 February 2006	7,614,000	–	(3,380,000)	(500,000)	3,734,000	(2,104,000)	(194,000)	1,436,000
	26 November 2007	–	20,300,000	–	–	20,300,000	–	(2,822,000)	17,478,000
Total for employees		7,614,000	20,300,000	(3,380,000)	(500,000)	24,034,000	(2,104,000)	(3,016,000)	18,914,000
Total for all categories		20,614,000	28,000,000	(3,380,000)	(3,000,000)	42,234,000	(2,104,000)	(6,516,000)	33,614,000
Exercisable at the end of the year						10,848,000			21,026,000

28. SHARE OPTIONS *(CONTINUED)*

Details of specific categories of share options are as follows:

Date of grant	Vesting period	Exercisable 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 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 options granted on 26 November 2007 of Batch I and Batch II are HK$0.11 and HK$0.10, respectively.

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$0.73 (2007: HK$1.12).

The fair values of the share options granted 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)	**45.94%/42.72%**	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 share options vary with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of share option.

28. SHARE OPTIONS *(CONTINUED)*

In accordance with the above model, the Group recognised the total expense of HK$2,445,000 for the year ended 31 December 2008 (2007: HK$409,000) 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, share premium, special reserve, property revaluation reserve, statutory surplus reserve fund, enterprise expansion fund, translation reserve, share option reserve, capital redemption reserve and accumulated profits, net of bank balances, as disclosed in the consolidated financial statements.

The directors of the Company review the capital structure annually. 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

	2008	2007
	HK$'000	*HK$'000*
Financial assets		
At fair value through profit or loss, held for trading	**15,297**	21,676
Loans and receivables (including cash and cash equivalents)	**429,935**	356,679
Available-for-sale financial assets	**4,664**	4,347
Financial liabilities		
At fair value through profit or loss, held for trading	**9,785**	11,048
Amortised cost	**180,069**	174,900

30. FINANCIAL INSTRUMENTS *(CONTINUED)*

(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 the respective notes. The risks associated with these financial instruments include credit risk, market risk (currency risk, interest rate risk and other price 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.

Credit risk

The Group's principal financial assets include trade and other receivables, derivative financial instruments 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 2008 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 on 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 consider that the Group's exposure to bad debts and concentration risk is minimal.

The Group has concentration of credit risk as 44% of the total trade receivables as at 31 December 2008 (2007: 49%) was due from the Group's five largest customers. Those five largest customers are either reputable infant products traders or agents with long history of the Group. Management perform 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 13% (2007: 40%) of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sale, and approximately 34% (2007: 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 Renminbi ("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 US$, HK$, Euro dollars ("Euro") and New Taiwan dollars ("NTD"). Hence, exposures to exchange rate fluctuations arises. The Group currently does 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 contracts if it considers the risk to be significant.

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

	2008	2007
	HK$'000	*HK$'000*
Monetary Assets		
US$	**8,906**	2,092
HK$	**8,413**	29,184
EURO	**67,790**	—
NTD	**1,177**	3,475
Monetary Liabilities		
US$	**4,230**	3,082
HK$	**48,025**	52,625
EURO	**3,862**	—
NTD	**19,476**	29,463

30. FINANCIAL INSTRUMENTS *(CONTINUED)*

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

Market risk *(CONTINUED)*

(i) Currency risk (CONTINUED)

At the balance sheet dates, the Group had foreign currency forward contracts with an aggregated notional amount of US$55,000,000 (2007: US$100,000,000). Details are shown in note 23.

Sensitivity analysis

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

Since HK$ is pegged to US$, relevant foreign currency risk is minimal. Accordingly, their fluctuation is excluded from the sensitivity analysis. The following table details the Group's sensitivity to a 5% (2007: 5%) increase and decrease in US$ against the other foreign currency. 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 adjusts their translation at the year end for a 5% change in foreign currency rates. A 5% strengthening of US$ against NTD, EURO and RMB and 5% strengthening of RMB against HK$, NTD, EURO and USD will have the following profit (loss) on the results for the year, and vice versa.

	HK$ impact		NTD impact		EURO impact		RMB impact		USD impact	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Monetary assets and liabilities	**1,429**	954	**915**	1,143	**(3,196)**	–	**–**	–	**(234)**	50
Derivative financial instruments	**–**	–	**–**	–	**–**	–	**(765)**	(1,084)	**489**	552

(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 effect on fluctuation in interest rate is insignificant.

30. FINANCIAL INSTRUMENTS *(CONTINUED)*

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

Market risk *(CONTINUED)*

(iii) Other price risks

The Group does not expose to significant 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 detailed 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 net cash flows 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 2008 *HK$'000*
2008					
Non-derivative financial liabilities					
Trade and other payables	158,327	15,343	6,366	180,069	180,069
Derivative financial liabilities					
Foreign currency forward contracts					
– outflow	170	3,905	5,710	9,785	9,785
2007					
Non-derivative financial liabilities					
Trade and other payables	121,486	39,438	13,196	174,120	174,120
Loan from a minority shareholder	780	–	–	780	780
	122,266	39,438	13,196	174,900	174,900
Derivative financial liabilities					
Foreign currency forward contracts					
– outflow	702	1,651	8,695	11,048	11,048

(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 their fair values.

31. OPERATING LEASE COMMITMENTS AND ARRANGEMENTS

The Group as lessee

	2008 ***HK$'000***	2007 *HK$'000*
Minimum lease payments paid under operating leases during the year	**5,159**	2,739

31. OPERATING LEASE COMMITMENTS AND ARRANGEMENTS *(CONTINUED)*

The Group as lessee *(CONTINUED)*

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

	2008 **HK$'000**	2007 *HK$'000*
Within one year	**11,982**	1,242
In the second to fifth year inclusive	**40,270**	375
Over five years	**2,264**	719
	54,516	2,336

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

The Group as lessor

Property rental income earned during the year was HK$323,000 (2007: HK$256,000).

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

	2008 **HK$'000**	2007 *HK$'000*
Within one year	**123**	516
In the second to fifth year inclusive	**–**	558
	123	1,074

32. CAPITAL COMMITMENTS

	2008 **HK$'000**	2007 *HK$'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. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31 December 2008 is as follows:

	Notes	2008 HK$'000	2007 HK$'000
Total asset			
Investment in subsidiaries		**253,971**	244,660
Other receivables		**8**	224
Amount due from a subsidiary	(a)	**183,308**	186,234
Bank balances		**48**	24
		437,335	431,142
Total liabilities			
Other payables		**242**	156
Amounts due to subsidiaries	(a)	**12,729**	12,046
		12,971	12,202
		424,364	418,940
Capital and reserves			
Share capital		**72,681**	72,532
Reserves	(b)	**351,683**	346,408
		424,364	418,940

34. BALANCE SHEET OF THE COMPANY *(CONTINUED)*

Notes:

(a) Amount(s) due from (to) subsidiaries

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

(b) Reserves

	Share premium	Contributed surplus	Share option reserve	Capital redemption reserve	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	89,984	244,461	810	1,147	2,456	338,858
Profit for the year and total recognised income 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	619	1,147	8,187	346,408
Profit for the year and total recognised income for the year	–	–	–	–	38,460	38,460
Shares purchased and cancelled	(185)	–	–	61	(61)	(185)
Exercise of share options	1,276	–	(350)	–	–	926
Share options lapsed during the year	–	–	(339)	–	339	–
Employee share-based payments	–	–	2,445	–	–	2,445
Dividends recognised as distributions *(note 12)*	–	–	–	–	(36,371)	(36,371)
At 31 December 2008	**93,085**	**244,461**	**2,375**	**1,208**	**10,554**	**351,683**

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2008 and 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 Directly 2008 %	Directly 2007 %	Indirectly 2008 %	Indirectly 2007 %	Principal activities (note i)
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
Link Treasure Limited	BVI	US$5,000 ordinary shares	**–**	–	**100**	100	Provision of research and development services in Taiwan
中山市隆成日用制品有限公司	the PRC *(note ii)*	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	the PRC *(note ii)*	US$3,000,000 registered capital	**–**	–	**96.6**	76.6	Manufacture and trading of stroller wheels
小天使嬰童用品（中山）有限公司	the PRC *(note ii)*	US$2,400,000 registered capital	**–**	–	**100**	100	Manufacture and trading of infant products
上海隆成日用製品有限公司	the PRC *(note ii)*	US$6,260,000 registered capital	**–**	–	**100**	100	Manufacture and trading of nursery products
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

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Notes:

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

(ii) These PRC subsidiaries are foreign investment enterprises.

None of the subsidiaries had any debt securities subsisting 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				
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
REVENUE	1,271,035	1,047,328	1,125,465	1,208,715	**1,490,884**
PROFIT BEFORE TAXATION	80,394	13,993	97,758	55,044	**73,484**
INCOME TAX EXPENSE	(6,017)	(3,439)	(9,410)	(7,467)	**(16,052)**
PROFIT FOR THE YEAR	74,377	10,554	88,348	47,577	**57,432**
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	69,677	9,155	86,219	48,022	**56,943**
MINORITY INTEREST	4,700	1,399	2,129	(445)	**489**
	74,377	10,554	88,348	47,577	**57,432**

ASSETS AND LIABILITIES

	At 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
TOTAL ASSETS	952,851	909,183	979,420	1,070,287	**1,137,676**
TOTAL LIABILITIES	(218,413)	(183,853)	(198,982)	(256,512)	**(266,502)**
	734,438	725,330	780,438	813,775	**871,174**
EQUITY ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	717,626	708,409	772,227	806,647	**869,679**
MINORITY INTERESTS	16,812	16,921	8,211	7,128	**1,495**
	734,438	725,330	780,438	813,775	**871,174**