LERADO GROUP 隆成集團

Lerado Group (Holding) Company Limited

Stock Code : 1225

Annual Report 2010

Contents

Corporate Information

EXECUTIVE DIRECTORS

HUANG Ying Yuan
(Chairman and Chief Executive Officer)
HUANG CHEN Li Chu (Vice Chairman)
CHEN Chun Chieh
CHEN Chao Jen

INDEPENDENT NON-EXECUTIVE DIRECTORS

LIM Pat Wah Patrick
HUANG Zhi Wei
CHERN Shyh Feng

AUDIT COMMITTEE

LIM Pat Wah Patrick (Chairman)
HUANG Zhi Wei
CHERN Shyh Feng

REMUNERATION COMMITTEE

HUANG Ying Yuan (Chairman)
LIM Pat Wah Patrick
HUANG Zhi Wei
CHERN Shyh Feng

COMPANY SECRETARY

LEUNG Man Fai

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Unit 1-3 30/F Universal Trade Centre
3-5A Arbuthnot Road
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR

HSBC Securities Services (Bermuda) Limited
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, Ltd
The Hongkong and Shanghai Banking Corporation
Limited

SOLICITOR

Sidley Austin

AUDITOR

Deloitte Touche Tohmatsu

Company Profile

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

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

We 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

	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*
Revenue	**1,677,598**	1,291,848	1,490,884
Profit before interest expenses and tax	**124,005**	82,659	73,901
As a percentage of revenue	**7.4%**	6.4%	5.0%
EBITDA	**165,572**	120,162	119,023
As a percentage of revenue	**9.9%**	9.3%	8.0%
Profit attributable to owners of the company	**104,922**	70,248	56,943
As a percentage of revenue	**6.3%**	5.4%	3.8%
Total assets	**1,535,283**	1,204,554	1,137,676
Total capital employed*	**1,131,474**	934,946	871,174
Equity attributable to owners of the company	**1,045,674**	933,368	869,679
Earnings per share (HK cents)	**13.99**	9.65	7.83
Return on average capital employed	**10.6%**	7.8%	6.8%
Current ratio	**2.2**	3.1	2.9
Average inventory turnover (days)	**62**	73	60
Average trade debtor turnover (days)	**48**	60	50
Gearing ratio	**0.08**	–	–

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

Management Discussion and Analysis

FINANCIAL REVIEW

The Group recorded consolidated turnover of HK$1,677.6 million for the year ended 31 December 2010 (2009: HK$1,291.8 million), representing a year-on-year increase of 29.9%. Gross profit increased from HK$347.2 million of 2009 by 25.5% to HK$435.6 million.

Due to increasing raw material and labour costs, the gross profit margin for the year under review slightly decreased by 0.9% to 26.0%. During the year, the prices of plastic and metal pipe continued to increase, and the Group's production cost was under pressure. Staff salary and benefit expenses for the year amounted to HK$286.4 million, representing an increase in the weight in the Group's consolidated turnover from 16.5% of 2009 to 17.1%. In view of this, the Group has negotiated with its customers for price adjustments and gradually ceased to undertake orders with a lower profit margin. To uphold the policy of continued development of advanced products, the Group has continued to invest more resources in production innovation and enhancement during the year, and as a result, the research and development expenses increased by HK$7.7 million compared to last year.

Profit attributable to equity holders for the year was HK$104.9 million (2009: HK$70.2 million), representing an increase of 49.4% as compared to last year, whereas earnings per share increased from HK$9.65 cents of last year to HK$13.99 cents. The results were encouraging.

BUSINESS REVIEW

The Group is mainly engaged in the manufacture of juvenile and infant products and retail sales of juvenile and infant products.

Manufacture and Distribution of Juvenile and Infant Products

Although the global economy remained shadowed by the financial tsunami, the Group's manufacture of juvenile and infant products business recorded remarkable growth during the period under review. The Group's revenue from export to the United States increased by 34.6%, whereas the revenue from export to Europe also increased by 40.1%, generating an operating revenue of HK$733.7 million and HK$526.2 million respectively. In terms of products, sales revenue generated from the Group's core product, strollers, recorded a year-on-year increase of 51.4% from last year to HK$725.9 million, whereas sales revenue from safety car seats also achieved an increase of 26.9%. In general, the revenue of the manufacture business for the year amounted to HK$1,431.0 million, up by 29.9% from last year, and the segment profit was HK$159.7 million.

Retail sales of Juvenile and Infant Products

During the year, the Group strived to enhance the efficiency of the retail shops for juvenile and infant products and closed ones with weak performance. As at 31 December 2010, the Group had 38 retail shops, which were 8 less than last year. Despite the decrease in the number of retail shops and one-off losses incurred from closing of shops, the revenue from the retail business recorded an increase of 26.1% to HK$69.5 million as compared to last year, and the segment loss also narrowed to HK$26.3 million.

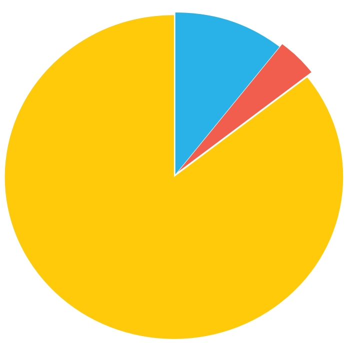
PROSPECTS

Looking into the future, the Group anticipates the revenue to further increase in 2011, while it is concerned about the influence of the tsunami in Japan on the global economy. The Group firmly believes that its core competitiveness lies in outstanding research and development staff and flexible production capacity. The Group will proactively formulate product development and marketing plans with its customers and maintain a close partnership with them. In addition, the management will continue to seek methods to enhance its production efficiency such as adopting the Toyota Production System (TPS) and other production systems to lower its production cost.

In spite of a possible asset bubble in the PRC, the Group remains cautiously optimistic towards the juvenile and infant product market in the PRC. At the beginning of 2011, the Group has completed the restructuring for its

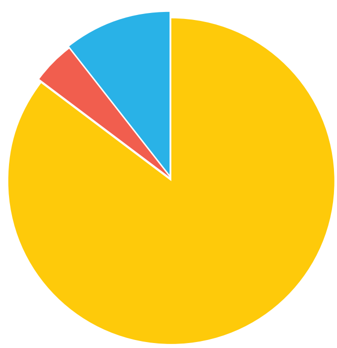
REVENUE BY BUSINESS

2010



Manufacture and distribution of juvenile and infant products	85.3%
Retail sale of juvenile and infant products	4.1%
All others	10.6%

2009



Manufacture and distribution of juvenile and infant products	85.3%
Retail sale of juvenile and infant products	4.3%
All others	10.4%

Management Discussion and Analysis

retail business, and has relocated its headquarters to Shanghai. Upon completion of the restructuring, the retail business will reinforce central management and streamline the supporting staff across different areas, which will in turn enhance the Group's negotiation power with its suppliers and reduce the human resource costs. Coupled with the anticipated rapid and steady growth in China's GDP in the future, the Group foresees the retail business to bring more lucrative returns to its shareholders.

CAPITAL INVESTMENTS

During the year, the Group has established two wholly-owned subsidiaries in Guangdong and Hubei to increase the production capacity for its manufacture business, with the share capital amounting to approximately HK$30.5 million.

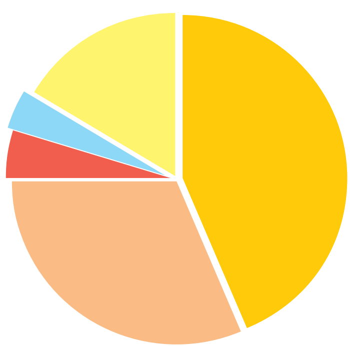
In line with the restructuring of its retail business, the Group has established three wholly-owned subsidiaries in the PRC, with the share capital amounting to approximately HK$2.9 million. These subsidiaries are all located in cities in Southern China and are engaged in the sale of juvenile and infant products.

CASH FLOW AND FINANCIAL RESOURCES

During the year, the Group generated cash from operation of HK$128.3 million (2009: HK$214.7 million). This figure represented profit before tax of HK$123.7 million, plus adjustments for non-cash items such as depreciation and amortization of HK$44.0 million and the net decrease in working capital of HK$39.4 million.

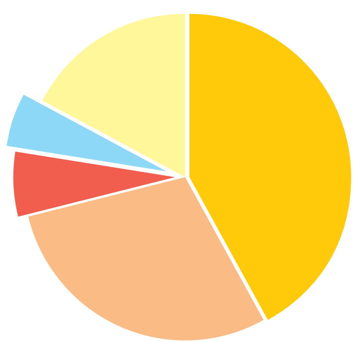
REVENUE BY REGION

2010



The United States of America	43.7%
Europe	31.4%
South America	4.8%
Australia	3.9%
Others	16.2%

2009



The United States of America	42.2%
Europe	29.1%
South America	6.2%
Australia	5.5%
Others	17.0%

Management Discussion and Analysis

As at 31 December 2010, the Group's bank balances and cash, mainly in US dollars and Renminbi, was HK$396.7 million. After deducting a borrowing of HK$85.8 million, the Group recorded a net bank balances and cash of HK$310.9 million as at 31 December 2010, as compared to HK$304.1 million as at 31 December 2009. The borrowing, bearing interest at prevailing market rate, was unsecured bank loan due within one year. At 31 December 2010, the Group's gearing ratio, expressing as total bank borrowings to equity attributable to owners of the Company was 0.08 (2009: nil).

As at 31 December 2010, the Group had net current assets of HK$546.6 million (2009: HK$512.3 million) and a current ratio of 2.2 (2009: 3.1). Trade receivable and inventory turnover were 48 days (2009: 60 days) and 62 days (2009: 73 days) respectively.

EXCHANGE RISK EXPOSURE AND CONTINGENT LIABILITIES

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollar, Renminbi, US dollar, Euro and New Taiwan dollar. 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 2010, the Group had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group employed a total workforce of around 5,600 staff members, of which above 5,400 worked in the PRC offices and production sites, above 100 in Taiwan mainly for marketing, sales support and research and development, 28 in the US office for marketing, sales support and research and development and 8 in HK for finance and administration.

TERMINATION OF THE PROPOSED ISSUANCE OF TAIWAN DEPOSITARY RECEIPTS

In light of the uncertain market conditions and in order to protect the rights of the shareholders of the Company, the Company decided not to proceed with the proposed issuance of Taiwan Depositary Receipts on 9 August 2010. The termination of the proposed issuance of Taiwan Depositary Receipts did not have any adverse effect on the Company's financial position. The Company will review its position in considering whether and when to relaunch the proposed issuance of Taiwan Depositary Receipts.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. HUANG Ying Yuan, aged 60, is a founding member, the Chairman and the Chief Executive Officer of the Company. Mr. Huang has 34 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.

Mrs. HUANG CHEN Li Chu, aged 61, was appointed an Executive Director of the Company in 1998. Mrs. Huang has worked in the infant products industry in Taiwan for over 32 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 35, 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.

Mr. CHEN Chao-Jen, aged 56, joined the Group in 1992 and has worked as the general manager for the manufacturing business of the Group. Mr. Chen is the deputy chairman of the China Toy Association, the honorary chairman of the Gunagdong Toy Association and the deputy chairman of the Zhongshan Taiwan Business Investors Social Association. Mr. Chen obtained his undergraduate degree in management from the "National Chung Hsing University" in Taiwan. Mr. Chen is a cousin-in-law of Mr. Huang Ying Yuan, Chairman of the Company and a cousin of Mrs. Huang Chen Li Chu, Vice Chairman of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LIM Pat Wah Patrick, aged 51, is a corporate finance and development advisor of a consultancy company. Mr. Lim is a Chartered Financial Analyst and a fellow member of Association of Chartered Certified Accountants. He holds HKSI 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 26 years of experience in accounting and finance. He was the chairman of the SME committee of the Hong Kong Venture Capital Association for the period from June 2008 to May 2009. Mr. Lim was appointed as Independent Non-executive Director of the Company in 20 November 1998.

Mr. HUANG Zhi Wei, aged 72, 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. CHERN Shyh Feng, aged 43, is the founder and Chairman of Paralink Asset Management Asia Limited. Mr. Chern has extensive experience in banking, finance and accounting and held executive positions at several international financial institutions and listed companies. Mr. Chern obtained his Bachelor Degree in Accounting from the Ohio State University in United States of America and Master Degrees in Accounting and Business Administration in Finance respectively from the University of Illinois in United States of America. Mr. Chern has held executive positions at several investment banks, securities houses and asset management companies in Taiwan, Shanghai and Hong Kong. He was lecturer of Taiwan Securities and Futures Markets International Development Fund and Faculty of Banking and Finance of Tamkang University in Taipei. Mr. Chern performed as independent non-executive directors of several Taiwan listed companies including ADDA Corporation (stock code: TW 3071) (Year 2008), Tung Kai Technology Engineering Company Limited (stock code: TW 3018) (Year 2007 and 2008), Aker Technology Company Limited (stock code: TW 6174) (Years 2006 to 2008) and Azion Corporation (stock code: TW 6148) (Years 2005 to 2008). Mr. Chern was appointed as Independent Non-executive Director of the Company in 6 November 2009.

Corporate Governance Report

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 2010, the Board of the Company comprises the following directors:

Executive directors:

HUANG Ying Yuan, *Chairman*
YANG Yu Fu, *Vice Chairman and Chief Executive Officer (resigned on 28 January 2011)*
HUANG CHEN Li Chu, *Vice Chairman*
CHEN Chun Chieh

Independent non-executive directors:

LIM Pat Wah Patrick
HUANG Zhi Wei
CHERN Shyh Feng

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.

Pursuant to clause 86 of the Company's bye-laws. Chen Chao Jen, being a director appointed after last general meeting shall held office only until the next following general meeting after his appointment and will therefore retire at the forthcoming annual general meeting but, being eligible, offer himself for re-election.

In accordance with clause 87 of the Company's bye-laws, Chen Chun Chieh and Lim Pat Wah Patrick 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 11 April 2011 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 2010 is set out below:

	Attendance/ Number of Meetings
Executive Directors:	
HUANG Ying Yuan *(Chairman)*	8/8
YANG Yu Fu *(Vice Chairman and Chief Executive Officer) (resigned on 28 January 2011)*	2/8
HUANG CHEN Li Chu *(Vice Chairman)*	8/8
CHEN Chun Chieh	8/8
Independent Non-Executive Directors:	
LIM Pat Wah Patrick	6/8
HUANG Zhi Wei	6/8
CHERN Shyh Feng	6/8

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 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 2010, 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 2009.

The attendance records of individual members at the Remuneration Committee meeting during the year ended 31 December 2010 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
CHERN Shyh Feng	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 2010 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 2010 are set out below:

	Attendance/ Number of Meetings
LIM Pat Wah Patrick *(Chairman)*	2/2
HUANG Zhi Wei	2/2
CHERN Shyh Feng	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 2010 in according with Hong Kong Standards on Auditing to the Audit Committee during its regular meetings.

During the year ended 31 December 2010, 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 2010.

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 2010.

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

AUDITORS' REMUNERATION

The Company's external auditors are Deloitte Touche Tohmatsu. The remuneration paid/payable to Deloitte Touche Tohmatsu in respect of audit services and non-audit services for the year ended 31 December 2010 amounted to approximately HK$1,485,000 and HK$382,000 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 2010.

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 2010 are set out in the consolidated statement of comprehensive income on page 26.

An interim dividend of HK2.5 cents per share amounting to HK$18,752,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK6.5 cents per share to the shareholders on the register of members on 31 May 2011, amounting to approximately HK$48,787,000, and the retention of the remaining profit for the year.

PROPERTY, PLANT AND EQUIPMENT

The Group's leasehold land and buildings were revalued at 31 December 2010. The revaluation resulted in a gain amounting to HK$40,245,000, of which HK$37,835,000 has been credited directly to the property revaluation reserve and HK$2,410,000 has been credited to consolidated statement of comprehensive income.

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

Details of 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 end of the reporting period were as follows:

	2010	2009
	HK$'000	*HK$'000*
Contributed surplus	**244,461**	244,461
Accumulated profits	**5,766**	10,386
	250,227	254,847

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

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

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

DIRECTORS

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

Executive directors:

Mr. Huang Ying Yuan *(Chairman)*
Mrs. Huang Chen Li Chu *(Vice Chairman)*
Mr. Chen Chun Chieh
Mr. Chen Chao Jen (appointed on 28 January 2011)
Mr. Yang Yu Fu *(Vice Chairman)* (resigned on 28 January 2011)

Independent non-executive directors:

Mr. Lim Pat Wah Patrick
Mr. Huang Zhi Wei
Mr. Chern Shyh Feng

Pursuant to clause 86 of the Company's bye-laws, Mr. Chen Chao Jen, being a director appointed after last general meeting, shall held office only until the next following general meeting after his appointment and will therefore retire at the forthcoming annual general meeting but, being eligible, offer himself for re-election.

In accordance with clause 87 of the Company's bye-laws, Mr. Chen Chun Chieh and Mr. Lim Pat Wah Patrick 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 2010, 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 of Hong Kong Limited 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**
Mr. Huang Ying Yuan	2,966,000	1,234,000	148,353,540 *(note 2)*	152,553,540 *(note 2)*	20.3%
Mrs. Huang Chen Li Chu	1,234,000	2,966,000 *(note 1)*	148,353,540 *(note 2)*	152,553,540	20.3%
Mr. Chen Chun Chieh	1,018,000	—	96,805,800 *(note 3)*	97,823,800	13.0%

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. The corporate interest represents the shares held by Intelligence Hong Kong Group Limited, which is controlled by Mr. Huang Ying Yuan and Mrs. Huang Chen Li Chu.

3. 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code, as at 31 December 2010.

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 2010, 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 shareholder had notified the Company of relevant interests in the issued share capital of the Company.

Long position in shares and underlying shares of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. David Michael Webb	Personal interest	52,528,000	7.0%

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 2010.

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

Other than those disclosed in note 26 to the consolidated financial statements, 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

Other than disclosed in note 26 to the consolidated financial statements, 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$1,014,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers represented approximately 32% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 8% of total sales. The aggregate purchases attributable to the Group's five largest suppliers during the year represented approximately 16% of the total purchases of the Group.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, owning more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers of the Group.

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 consolidated financial statements.

EMOLUMENT POLICY

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

The emoluments of the directors of the Company are decided by the Remuneration Committee, 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 scheme 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 2010.

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
30 March 2011

Deloitte.
德勤

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

We have audited the consolidated financial statements of Lerado Group (Holding) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 85, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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.

Independent Auditor's Report

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 2010, 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
30 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	5	**1,677,598**	1,291,848
Cost of sales		**(1,241,958)**	(944,645)
Gross profit		**435,640**	347,203
Other income		**12,968**	14,764
Other gains and losses	6	**(4,809)**	660
Marketing and distribution costs		**(131,676)**	(124,673)
Research and development expenses		**(54,374)**	(46,680)
Administrative expenses		**(131,095)**	(105,020)
Other expenses		**(2,768)**	(3,011)
Share of result of an associate		**119**	(584)
Finance cost	7	**(278)**	—
Profit before taxation		**123,727**	82,659
Income tax expense	8	**(18,750)**	(12,328)
Profit for the year	9	**104,977**	70,331
Other comprehensive income (expense)			
Exchange differences arising from translation		**29,441**	2,110
Share of exchange difference of an associate		**(181)**	18
Gain on revaluation of land and buildings		**37,835**	22,041
Deferred tax liability arising on revaluation of land and buildings		**(9,824)**	(4,464)
Other comprehensive income for the year (net of tax)		**57,271**	19,705
Total comprehensive income for the year		**162,248**	90,036
Profit for the year attributable to:			
Owners of the Company		**104,922**	70,248
Non-controlling interests		**55**	83
		104,977	70,331
Total comprehensive income attributable to:			
Owners of the Company		**162,193**	89,953
Non-controlling interests		**55**	83
		162,248	90,036
Earnings per share	13		
Basic		**HK13.99 cents**	HK9.65 cents
Diluted		**HK13.97 cents**	HK9.54 cents

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 *HK$'000*	2009 *HK$'000*
Non-current assets			
Property, plant and equipment	*14*	**416,432**	344,627
Prepaid lease payments	*15*	**100,690**	83,295
Intellectual property rights	*16*	**3,107**	5,542
Investment in an associate	*17*	**6,113**	6,175
Available-for-sale investments	*18*	**4,879**	4,672
Deferred tax assets	*19*	**473**	1,319
Deposits paid for lease premium of land		**4,208**	3,084
		535,902	448,714
Current assets			
Inventories	*20*	**244,965**	174,596
Trade and other receivables and prepayments	*21*	**348,306**	270,820
Prepaid lease payments	*15*	**2,095**	1,810
Derivative financial instruments	*22*	**6,435**	2,957
Taxation recoverable		**887**	1,580
Bank balances and cash	*23*	**396,693**	304,077
		999,381	755,840
Current liabilities			
Trade and other payables and accruals	*24*	**342,969**	233,374
Taxation payable		**21,138**	10,167
Unsecured bank borrowings	*25*	**85,800**	—
Derivative financial instruments	*22*	**2,857**	—
		452,764	243,541
Net current assets		**546,617**	512,299
		1,082,519	961,013

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Capital and reserves			
Share capital	27	**75,057**	74,730
Reserves		**970,617**	858,638
Equity attributable to owners of the Company		**1,045,674**	933,368
Non-controlling interests		**–**	1,578
Total equity		**1,045,674**	934,946
Non-current liability			
Deferred tax liabilities	19	**36,845**	26,067
		1,082,519	961,013

The consolidated financial statements on pages 26 to 85 were approved and authorised for issue by the Board of Directors on 30 March 2011 and are signed on its behalf by:

Huang Ying Yuan
DIRECTOR

Chen Chun Chieh
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners 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$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2009	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
Profit for the year	–	–	–	–	–	–	–	–	–	70,248	70,248	83	70,331
Exchange differences arising from translation	–	–	–	–	–	–	2,110	–	–	–	2,110	–	2,110
Share of exchange difference of an associate	–	–	–	–	–	–	18	–	–	–	18	–	18
Gain on revaluation of land and buildings	–	–	–	22,041	–	–	–	–	–	–	22,041	–	22,041
Deferred tax liability arising on revaluation of land and buildings	–	–	–	(4,464)	–	–	–	–	–	–	(4,464)	–	(4,464)
Total comprehensive income for the year	–	–	–	17,577	–	–	2,128	–	–	70,248	89,953	83	90,036
Exercise of share options	2,049	13,314	–	–	–	–	–	(2,313)	–	–	13,050	–	13,050
Share options lapsed during the year	–	–	–	–	–	–	–	(99)	–	99	–	–	–
Employee share-based payments	–	–	–	–	–	–	–	665	–	–	665	–	665
Transfer to statutory reserves	–	–	–	–	3,742	–	–	–	–	(3,742)	–	–	–
Dividends recognised as distributions *(note 12)*	–	–	–	–	–	–	–	–	–	(39,979)	(39,979)	–	(39,979)
At 31 December 2009 and 1 January 2010	74,730	106,399	38,510	78,831	32,927	3,091	81,132	628	1,208	515,912	933,368	1,578	934,946
Profit for the year	–	–	–	–	–	–	–	–	–	104,922	104,922	55	104,977
Exchange differences arising from translation	–	–	–	–	–	–	29,441	–	–	–	29,441	–	29,441
Share of exchange difference of an associate	–	–	–	–	–	–	(181)	–	–	–	(181)	–	(181)
Gain on revaluation of land and buildings	–	–	–	37,835	–	–	–	–	–	–	37,835	–	37,835
Deferred tax liability arising on revaluation of land and buildings	–	–	–	(9,824)	–	–	–	–	–	–	(9,824)	–	(9,824)
Total comprehensive income for the year	–	–	–	28,011	–	–	29,260	–	–	104,922	162,193	55	162,248
Share repurchased and cancelled	(62)	(580)	–	–	–	–	–	–	62	(62)	(642)	–	(642)
Exercise of share options	389	2,524	–	–	–	–	–	(427)	–	–	2,486	–	2,486
Share options lapsed during the year	–	–	–	–	–	–	–	(24)	–	24	–	–	–
Acquisition of additional interests in a subsidiary	–	–	802	–	–	–	–	–	–	–	802	(1,633)	(831)
Transfer to statutory reserves	–	–	–	–	6,825	–	–	–	–	(6,825)	–	–	–
Dividends recognised as distributions *(note 12)*	–	–	–	–	–	–	–	–	–	(52,533)	(52,533)	–	(52,533)
At 31 December 2010	75,057	108,343	39,312	106,842	39,752	3,091	110,392	177	1,270	561,438	1,045,674	–	1,045,674

The special reserve of the Group includes the following:

(a) A credit amount of HK$38,510,000 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 the group reorganisation.

(b) A credit amount of HK$802,000 represents the difference between the cost of acquisition of additional interest in one subsidiary and the carrying amount of the non-controlling interest at the date of which they were acquired by the Group.

The capital redemption reserve represents the aggregate par value of shares which have been repurchased and cancelled.

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 Statement of Cash Flows

For the year ended 31 December 2010

	2010 *HK$'000*	2009 *HK$'000*
OPERATING ACTIVITIES		
Profit before taxation	**123,727**	82,659
Adjustments for:		
Amortisation of intellectual property rights	**2,768**	2,789
Amortisation of prepaid lease payments	**2,095**	1,544
Depreciation of property, plant and equipment	**39,114**	35,704
Employee share-based payments	**—**	665
Finance cost	**278**	—
Gain on fair value changes of derivative financial instruments	**(5,398)**	(1,637)
Gain on revaluation of land and buildings	**(2,410)**	(2,756)
Impairment loss on trade receivables	**7,625**	7,638
Impairment loss on intellectual property rights	**—**	222
Interest income	**(4,374)**	(1,786)
Loss on disposal of property, plant and equipment	**3,177**	400
Recovery of doubtful debts	**(2,430)**	(2,350)
Share of result of an associate	**(119)**	584
Write-down of inventories	**3,711**	288
Operating cash flows before movements in working capital	**167,764**	123,964
(Increase) decrease in inventories	**(73,097)**	29,721
(Increase) decrease in trade and other receivables and prepayments	**(81,698)**	47,335
Decrease in derivative financial instruments	**4,777**	4,192
Increase in trade and other payables and accruals	**110,579**	9,448
Cash from operations	**128,325**	214,660
Hong Kong Profits Tax paid	**(35)**	(885)
Taxation paid in other jurisdictions	**(6,184)**	(12,461)
Interest paid	**(278)**	—
NET CASH FROM OPERATING ACTIVITIES	**121,828**	201,314
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(62,992)**	(32,010)
Payment for leasehold land	**(16,165)**	(20,026)
Deposits paid for lease premium of land	**(1,007)**	(3,084)
Interest received	**4,374**	1,786
Proceeds from disposal of property, plant and equipment	**3,084**	2,633
NET CASH USED IN INVESTING ACTIVITIES	**(72,706)**	(50,701)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 *HK$'000*	2009 *HK$'000*
FINANCING ACTIVITIES		
New bank loans raised	**85,800**	—
Acquisition of additional interests in a subsidiary	**(831)**	—
Proceeds from issue of shares upon exercise of share options	**2,486**	13,050
Dividends paid	**(52,533)**	(39,979)
Repurchase of shares	**(642)**	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**34,280**	(26,929)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**83,402**	123,684
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**304,077**	179,872
Effect of foreign exchange rate changes	**9,214**	521
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**396,693**	304,077

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 new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners
HK — Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements or disclosures set out in these consolidated financial statements.

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 and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

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

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard will have no material impact on the amounts reported in respect of the Groups' financial assets and financial liabilities.

The directors anticipate that the application of the other new and revised Standards, Amendments and Interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared 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.

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. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

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 statement of comprehensive income 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over the policy.

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 statement of financial position at cost as adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income. 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

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

Revenue from the sale of goods is recognised when goods are delivered and the 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 recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment, excluding 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, if any.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position 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 end of the reporting period.

Any revaluation increase arising on the revaluation of land and buildings is recognised in other comprehensive income and accumulated in property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to the profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss 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 items of property, plant and equipment other than construction in progress less that residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 profit or loss when the assets are derecognised.

Leasing

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 profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense 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.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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. Exchange difference arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange difference arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which a foreign operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss 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 services entitling them to the contribution.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 statement of comprehensive income 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 end of the reporting period.

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. 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 the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. 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.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses, if any, on the same basis as intangible assets acquired separately.

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 in the consolidated statement of financial position 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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 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 to the net carrying amount on initial recognition.

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.

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. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

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

The Group's available-for-sale equity investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured and are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of reporting period. 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 affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, 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 instruments

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 (including all fees paid or received that form an integral part of the effective interest rates transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial liabilities

Financial liabilities including bank borrowings, trade and other payables 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.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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 the end of the reporting period. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition *(continued)*

On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Equity-settled share-based payment transactions

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 the end of the reporting period, 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 the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make 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 uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Impairment loss on trade receivables

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 2010, the carrying amount of trade receivables is HK$240,928,000 (2009: HK$200,012,000), net of allowance for doubtful debts of HK$22,338,000 (2009: HK$17,143,000).

Allowance for inventories

The management of the Group reviews its inventories at the end of the reporting period 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 on the market conditions at the end of reporting period by reference to the latest invoice prices. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. As at 31 December 2010, the carrying amount of inventories is HK$244,965,000 (2009: HK$174,596,000).

5. SEGMENT INFORMATION

For management purposes, the Group is currently organised into three operating divisions – manufacture and distribution of juvenile and infant products, retail sales of juvenile and infant products and all others. These divisions are the basis upon which the internal reports are prepared about the components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance.

5. SEGMENT INFORMATION *(continued)*

Specifically, the Group's operating and reportable segments under HKFRS 8 are as follows:

- manufacture and distribution of juvenile and infant products — manufacture and distribution of strollers, car seats, boosters, beds and playards and etc;
- retail sales of juvenile and infant products — retailing of milk powder, diapers, nursery products, food, apparel, strollers and etc;
- All others — manufacture and distribution of nursery and medical care products and etc.

The Group's Executive Directors make decisions according to the operating results of each segment and reports on the ageing analysis of inventories and trade receivables. No information of segment assets and liabilities is available for the assessment of performance of different business activities. Therefore, only segment results are presented.

Information regarding the above segments is reported below.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 December 2010

	Manufacture and distribution of juvenile and infant products HK$'000	Retail sales of juvenile and infant products HK$'000	All others HK$'000	Consolidated HK$'000
REVENUE				
External sales	1,431,008	69,453	177,137	1,677,598
Segment profit (loss)	159,662	(26,323)	(3,169)	130,170
Interest income				4,374
Gain on fair value change on derivative financial instruments				5,398
Central administrative costs				(16,056)
Finance cost				(278)
Share of result of an associate				119
Profit before taxation				123,727

5. SEGMENT INFORMATION *(continued)*

Segment revenue and results *(continued)*

For the year ended 31 December 2009

	Manufacture and distribution of juvenile and infant products *HK$'000*	Retail sales of juvenile and infant products *HK$'000*	All others *HK$'000*	Consolidated *HK$'000*
REVENUE				
External sales	1,101,706	55,096	135,046	1,291,848
Segment profit (loss)	124,447	(28,721)	(4,572)	91,154
Interest income				1,786
Gain on fair value change on derivative financial instruments				1,637
Central administrative costs				(11,334)
Share of result of an associate				(584)
Profit before taxation				82,659

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of interest income, gain on fair value change on derivative financial instruments, central administrative costs, share of result of an associate, finance cost and income tax expense. This is the measure reported to the Group's Executive Directors for the purposes of resources allocation and performance assessment.

5. SEGMENT INFORMATION *(continued)*

Other segment information

For the year ended 31 December 2010

	Manufacture and distribution of juvenile and infant products *HK$'000*	**Retail sales of juvenile and infant products** *HK$'000*	**All others** *HK$'000*	**Consolidated** *HK$'000*
Amounts included in the measure of segment profit or loss:				
Capital additions	**72,482**	**2,110**	**5,572**	**80,164**
Depreciation of property, plant and equipment	**29,508**	**2,984**	**6,622**	**39,114**
Amortisation of intellectual property rights and prepaid lease payments	**4,594**	**–**	**269**	**4,863**
Impairment loss on trade receivables	**2,920**	**–**	**4,705**	**7,625**
Loss on disposal of property, plant and equipment	**472**	**2,685**	**20**	**3,177**
Write-down of inventories to net realisable value	**9**	**3,137**	**565**	**3,711**
Recovery of doubtful debts	**(1,871)**	**–**	**(559)**	**(2,430)**

For the year ended 31 December 2009

	Manufacture and distribution of juvenile and infant products *HK$'000*	Retail sales of juvenile and infant products *HK$'000*	All others *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit or loss:				
Capital additions	42,137	9,011	3,972	55,120
Depreciation of property, plant and equipment	26,030	2,747	6,927	35,704
Amortisation of intellectual property rights and prepaid lease payments	4,093	–	240	4,333
Impairment loss on trade receivables	6,479	–	1,159	7,638
Impairment loss on intellectual property rights	222	–	–	222
Loss on disposal of property, plant and equipment	193	11	196	400
Employee share-based payments	567	28	70	665
Write-down of inventories to net realisable value	239	35	14	288
Recovery of doubtful debts	(2,350)	–	–	(2,350)

5. SEGMENT INFORMATION *(continued)*

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2010 *HK$'000*	2009 *HK$'000*
Strollers	**725,885**	479,577
Car seats and boosters	**183,139**	144,331
Beds and playards	**92,751**	103,673
Miscellaneous infant products	**380,607**	340,422
Others	**295,216**	223,845
	1,677,598	1,291,848

Geographical information

The Group's operations are principally located in the PRC, Taiwan and Hong Kong. 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. 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:

	2010 *HK$'000*	2009 *HK$'000*
The United States of America ("the USA")	**733,664**	545,227
France	**104,060**	100,851
The PRC	**129,046**	98,136
Australia	**65,648**	71,573
Germany	**95,960**	70,713
United Kingdom	**120,339**	51,549
Canada	**32,531**	31,433
Japan	**27,479**	18,179
Other European counties excluding France, Germany and United Kingdom*	**205,845**	152,429
Others*	**163,026**	151,758
	1,677,598	1,291,848

* No further analysis by countries in these two categories is presented because the revenue from each individual country is insignificant to the total revenue.

5. SEGMENT INFORMATION *(continued)*

The following is an analysis of the non-current assets (other than financial instruments and deferred tax assets), analysed by the geographical area in which the assets are located:

	2010	2009
	HK$'000	*HK$'000*
Non-current assets		
The PRC	**431,362**	317,421
Taiwan	**50,569**	53,075
Hong Kong	**46,292**	70,413
The USA	**2,327**	1,814
	530,550	442,723

Information about major customers

None of the customers of the Group contribute over 10% of the total sales of the Group for both years.

6. OTHER GAINS AND LOSSES

	2010	2009
	HK$'000	*HK$'000*
Gain on fair value changes of derivative financial instruments	**5,398**	1,637
Reversal of revaluation decrease on land and building	**2,410**	2,756
Loss on disposal of property, plant and equipment	**(3,177)**	(400)
Net foreign exchange loss	**(9,440)**	(3,333)
	(4,809)	660

7. FINANCE COST

	2010	2009
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**278**	—

8. INCOME TAX EXPENSE

	2010	2009
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**1,202**	876
PRC Enterprise Income Tax	**15,141**	6,137
Other jurisdictions	**1,401**	1,611
	17,744	8,624
Overprovision in prior years:		
Hong Kong Profits Tax	**(64)**	(884)
PRC Enterprise Income Tax	**(422)**	(400)
	(486)	(1,284)
Deferred taxation *(note 19)*:		
Current year	**1,492**	4,988
	18,750	12,328

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary of the Company 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 EIT Law, the relief shall continue and be accounted for based on the PRC Enterprise Income Tax rate of 25%. In addition, another PRC subsidiary of the Company was regarded as "High-tech Enterprise" since 2009. Accordingly, that PRC subsidiary was subject to a reduced PRC Enterprise Income Tax rate of 15% for the year ended 31 December 2010.

As stated on the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, the Group's Macau subsidiary is exempted from Macao Complementary Tax.

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 statement of comprehensive income as follows:

	2010	2009
	HK$'000	*HK$'000*
Profit before taxation	**123,727**	82,659
Tax at Hong Kong Profits Tax rate of 16.5%	**20,415**	13,638
Tax effect of share of result of an associate	**(20)**	96
Tax effect of expenses not deductible for tax purpose	**6,204**	1,975
Tax effect of income not taxable for tax purpose	**(18,465)**	(7,469)
Overprovision in prior years	**(486)**	(1,284)
Tax effect of tax losses not recognised	**11,128**	7,313
Effect of tax exemption/relief granted to a PRC subsidiary	**(1,203)**	(4,634)
Effect of tax concession granted to a PRC subsidiary	**(7,420)**	(4,438)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**5,662**	3,716
Deferred tax provided on dividends withholding tax of PRC subsidiaries	**2,935**	3,415
Income tax expense	**18,750**	12,328

Details of movements in deferred taxation are set out in note 19.

9. PROFIT FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Profit for the year has been arrived at after charging:		
Salaries, allowances and bonuses, including those of directors	**278,685**	206,114
Contributions to retirement benefit schemes, including those of directors	**7,721**	6,705
Employee share-based payments	**–**	665
Total employee benefits expense, including those of directors	**286,406**	213,484
Amortisation of prepaid lease payments	**2,095**	1,544
Amortisation of intellectual property rights (included in other expenses)	**2,768**	2,789
Auditor's remuneration	**2,212**	2,166
Cost of inventories recognised as an expense	**1,238,247**	944,357
Depreciation of property, plant and equipment	**39,114**	35,704
Impairment loss on trade receivables	**7,625**	7,638
Impairment loss on intellectual property rights (included in other expenses)	**–**	222
Write-down of inventories to net realisable value	**3,711**	288
and after crediting:		
Bank interest income	**4,374**	1,786
Property rental income net of negligible outgoing expenses	**453**	517
Recovery of doubtful debts	**2,430**	2,350

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2009: eight) directors are as follows:

2010

	Huang Ying Yuan HK$'000	Huang Chen Li Chu HK$'000	Yang Yu Fu (note i) HK$'000	Chen Chun Chieh HK$'000	Lim Pat Wah Patrick HK$'000	Huang Zhi Wei HK$'000	Chern Shyh Feng HK$'000	Total HK$'000
Fees	–	–	–	–	280	220	210	710
Salaries and allowances	2,069	1,504	1,067	1,148	–	–	–	5,788
Performance related incentive payments *(note ii)*	6,000	4,000	–	3,000	–	–	–	13,000
Total emoluments	8,069	5,504	1,067	4,148	280	220	210	19,498

2009

	Huang Ying Yuan HK$'000	Huang Chen Li Chu HK$'000	Yang Yu Fu HK$'000	Chen Chun Chieh HK$'000	Lim Pat Wah Patrick $'000	Huang Zhi Wei HK$'000	Tyrone Lin HK$'000	Chern Shyh Feng HK$'000	Total HK$'000
Fees	–	–	–	–	265	205	163	37	670
Salaries and allowances	2,045	1,490	2,368	515	–	–	–	–	6,418
Performance related incentive payments *(note ii)*	4,000	2,000	–	2,000	–	–	–	–	8,000
Employee share-based payment	–	–	332	33	–	–	–	–	365
Total emoluments	6,045	3,490	2,700	2,548	265	205	163	37	15,453

Notes:

(i) Mr. Yang Yu Fu resigned as an executive director on 28 January 2011.
(ii) Performance related incentive payments are decided by the Remuneration Committee.

No directors had waived any emoluments during any of the two years.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2009: four) were directors of the Company whose emoluments are included in the disclosure in note 10 above. The emolument of the remaining two individuals (2009: one) is as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries and other benefits	**2,364**	1,136
Performances related incentive payments	**333**	—
	2,697	1,136

Their emoluments were within the following bands:

	2010	2009
	No. of Individuals	*No. of individuals*
HK$ 1,000,001 to HK$ 1,500,000	**2**	1

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

12. DIVIDENDS

	2010	2009
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2009 final dividend of HK4.5 cents (2009: 2008 final dividend of HK3.5 cents) per share	**33,781**	25,438
2010 interim dividend of HK2.5 cents (2009: 2009 interim dividend of HK2.0 cents) per share	**18,752**	14,541
	52,533	39,979

A final dividend of HK6.5 cents per share in respect of the year ended 31 December 2010 (2009: final dividend of HK4.5 cents per share in respect of the year ended 31 December 2009), 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 owners of the Company is based on the following data:

	2010	2009
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company	**104,922**	70,248
	Number of shares	*Number of shares*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**750,240,483**	728,161,957
Effect of dilutive potential ordinary shares in respect of share options	**1,038,873**	7,944,995
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**751,279,356**	736,106,952

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 2009	220,522	5,925	199,002	93,315	12,763	–	531,527
Exchange realignment	1,498	10	301	196	22	–	2,027
Additions	3,872	2,542	16,142	7,836	1,358	260	32,010
Disposals	(1,438)	–	(2,012)	(3,034)	(2,345)	–	(8,829)
Adjustment on valuation	8,625	–	–	–	–	–	8,625
At 31 December 2009 and 1 January 2010	233,079	8,477	213,433	98,313	11,798	260	565,360
Exchange realignment	12,505	225	8,777	3,159	476	375	25,517
Additions	–	339	36,815	9,001	2,868	13,969	62,992
Disposals	–	(1,849)	(6,141)	(7,792)	(591)	–	(16,373)
Transfer	–	–	394	–	–	(394)	–
Adjustment on valuation	18,788	–	–	–	–	–	18,788
At 31 December 2010	264,372	7,192	253,278	102,681	14,551	14,210	656,284
Comprising:							
At cost	–	7,192	253,278	102,681	14,551	14,210	391,912
At valuation – 2010	264,372	–	–	–	–	–	264,372
	264,372	7,192	253,278	102,681	14,551	14,210	656,284
DEPRECIATION							
At 1 January 2009	–	1,703	127,686	69,453	7,541	–	206,383
Exchange realignment	249	5	195	150	15	–	614
Provided for the year	16,211	914	12,436	5,335	808	–	35,704
Eliminated on disposals	(288)	–	(1,714)	(2,216)	(1,578)	–	(5,796)
Adjustment on valuation	(16,172)	–	–	–	–	–	(16,172)
At 31 December 2009 and 1 January 2010	–	2,622	138,603	72,722	6,786	–	220,733
Exchange realignment	3,695	63	5,365	2,174	277	–	11,574
Provided for the year	17,762	876	12,325	7,283	868	–	39,114
Eliminated on disposals	–	(302)	(4,841)	(4,490)	(479)	–	(10,112)
Adjustment on valuation	(21,457)	–	–	–	–	–	(21,457)
At 31 December 2010	–	3,259	151,452	77,689	7,452	–	239,852
CARRYING VALUES							
At 31 December 2010	264,372	3,933	101,826	24,992	7,099	14,210	416,432
At 31 December 2009	233,079	5,855	74,830	25,591	5,012	260	344,627

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.

Certain buildings of the Group erected on the lands in the PRC were not granted formal title of their ownership. At 31 December 2010, the carrying value of buildings in the PRC for which the Group had not been granted formal title amounted to HK$103,250,000 (2009: HK$87,220,000). 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.

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

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% or the remaining period of the leases, if shorter
Plant and machinery	10 — 20%
Furniture, fixtures and equipment	20 — 33⅓%
Motor vehicles	20 — 50%

The carrying values of land and buildings held by the Group at the end of reporting period comprises:

	2010	2009
	HK$'000	*HK$'000*
Held in Hong Kong under long-term leases	**39,920**	31,140
Held in the PRC under medium term land use rights	**180,319**	162,881
Held in Taiwan, freehold	**44,133**	39,058
	264,372	233,079

The Group revalued its land and buildings at the year end date. The revaluation resulted in a gain over carrying values amounting to HK$40,245,000 (2009: HK$24,797,000), of which HK$37,835,000 (2009: HK$22,041,000) has been credited directly to the property revaluation reserve and a surplus of HK$2,410,000 (2009: HK$2,756,000) has been recognised in the profit or loss for the year to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

At 31 December 2010, certain leasehold land and buildings in the PRC of the Group with carrying values of HK$335,000 (2009: HK$386,000) as at 31 December 2010 were valued by the directors, who estimated that their fair value was not materially different from the carrying amount.

Other than the above, the land and buildings of the Group were revalued at 31 December 2010 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 certain land and buildings in the PRC of an aggregate carrying value of HK$48,529,000 (2009: HK$39,169,000) were valued on an open market value basis. The remaining land and buildings in the PRC amounting to HK$171,375,000 (2009: HK$154,466,000) and the land and buildings in Taiwan amounting to HK$44,133,000 (2009: HK$39,058,000) were valued on depreciated replacement cost basis.

If the land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation at HK$121,838,000 (2009: HK$129,497,000).

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments of HK$102,785,000 (2009: HK$85,105,000) represent leasehold land in the PRC held under medium-term lease. An amount of HK$2,095,000 (2009: HK$1,810,000) is classified under current assets for reporting purpose.

16. INTELLECTUAL PROPERTY RIGHTS

	HK$'000
COST	
At 1 January 2009	85,971
Exchange realignment	2,141
At 31 December 2009 and 1 January 2010	88,112
Exchange realignment	8,855
At 31 December 2010	96,967
AMORTISATION AND IMPAIRMENT	
At 1 January 2009	77,540
Exchange realignment	2,019
Provided for the year	2,789
Impairment loss recognised in the year	222
At 31 December 2009 and 1 January 2010	82,570
Exchange realignment	8,522
Provided for the year	2,768
At 31 December 2010	93,860
CARRYING VALUES	
At 31 December 2010	3,107
At 31 December 2009	5,542

The amount represents the carrying value 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.

17. INVESTMENT IN AN ASSOCIATE

	2010 HK$'000	2009 HK$'000
Cost of unlisted investment	**11,700**	11,700
Less: impairment loss recognised	**(3,600)**	(3,600)
	8,100	8,100
Share of post-acquisition losses and other comprehensive income	**(1,987)**	(1,925)
	6,113	6,175

Details of the Group's associates at 31 December 2010 and 2009 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
珠海保稅區隆宇光電科技有限公司*	Established	The PRC	US$1,548,000	30%	Manufacture and distribution of optical fibre peripheral products

* wholly-owned subsidiaries of Weblink

17. INVESTMENT IN AN ASSOCIATE *(continued)*

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

	2010	2009
	HK$'000	*HK$'000*
Total assets	**28,971**	25,207
Total liabilities	**(8,594)**	(4,624)
Net assets	**20,377**	20,583
Group's share of net assets	**6,113**	6,175
Revenue	**28,963**	17,494
Profit (loss) for the year	**397**	(1,948)
Other comprehensive income	**(603)**	60
Group's share of profits and other comprehensive income for the year	**(62)**	(566)

18. AVAILABLE-FOR-SALE INVESTMENTS

The Group's available-for-sale investments at 31 December 2010 represent a 8% and 0.7% equity interests in unlisted equity securities issued by private entities established in the PRC and Taiwan, respectively. 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 end of reporting period.

19. 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	Revaluation of properties	Withholding income tax	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	(1,540)	17,129	1,540	(1,836)	15,293
Exchange realignment	—	—	2	1	3
Charge to profit or loss	296	689	3,415	588	4,988
Charge to other comprehensive income	—	4,464	—	—	4,464
At 31 December 2009 and 1 January 2010	**(1,244)**	**22,282**	**4,957**	**(1,247)**	**24,748**
Exchange realignment	**—**	**—**	**267**	**41**	**308**
(Credit) charge to profit or loss	**(913)**	**602**	**2,935**	**(1,132)**	**1,492**
Charge to other comprehensive income	**—**	**9,824**	**—**	**—**	**9,824**
At 31 December 2010	**(2,157)**	**32,708**	**8,159**	**(2,338)**	**36,372**

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

	2010	2009
	HK$'000	*HK$'000*
Deferred tax assets	**(473)**	(1,319)
Deferred tax liabilities	**36,845**	26,067
	36,372	24,748

According to the EIT 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 financial 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 HK$8,159,000 (2009: HK$4,957,000).

At 31 December 2010, the Group had unused tax losses of HK$161,732,000 (2009: HK$114,168,000) 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 of HK$109,081,000 (2009: HK$70,489,000) will expire in 2014. Other losses may be carried forward indefinitely.

20. INVENTORIES

	2010 HK$'000	2009 HK$'000
Raw materials	75,209	56,929
Work in progress	37,224	33,121
Finished goods	132,532	84,546
	244,965	174,596

During the year, an allowance of HK$3,711,000 (2009: HK$288,000) was made on obsolete and slow-moving inventory items identified.

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2010 HK$'000	2009 HK$'000
Trade receivables	263,266	217,155
Less: allowance for doubtful debts	(22,338)	(17,143)
	240,928	200,012
Purchase deposits, other receivables and deposits	59,500	34,388
Advance to a supplier	26,884	18,828
Prepayments	20,994	17,592
Trade and other receivables and prepayments	348,306	270,820

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 presented based on the invoice date at the end of reporting period:

	2010 HK$'000	2009 HK$'000
Within 30 days	136,135	101,572
31 to 90 days	95,179	81,971
Over 90 days	9,614	16,469
	240,928	200,012

21. 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.

At the end of the reporting period, 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$45,217,000 (2009: HK$32,750,000) which are past due at the end of reporting period for which the Group has not provided for impairment loss after consideration on the credit quality of those individual customers, the ongoing relationship with the 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

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**34,099**	19,259
31 to 90 days	**9,373**	6,304
Over 90 days	**1,745**	7,187
Total	**45,217**	32,750

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

	2010	2009
	HK$'000	*HK$'000*
Balance at beginning of the year	**17,143**	11,855
Impairment loss on receivables	**7,625**	7,638
Amount recovered during the year	**(2,430)**	(2,350)
Balance at end of the year	**22,338**	17,143

22. DERIVATIVE FINANCIAL INSTRUMENTS

At the end of the reporting period, major terms of the outstanding foreign currency forward contracts are as follows:

At 31 December 2010:

Principal/notional amount	Forward contract rates	Maturity
23 contracts to sell in total of US$43,000,000 (gross settled)	US$1 to RMB6.5366 — 6.7696	Range from 7 January 2011 to 20 October 2011
23 contracts to buy in total of US$43,000,000 (net settled)	US$1 to RMB6.4550 — 6.6700	Range from 7 January 2011 to 20 October 2011

At 31 December 2009:

Principal/notional amount	Forward contract rates	Maturity
22 contracts to sell in total of US$49,500,000 (gross settled)	US$1 to RMB6.7250 — 6.8552	Range from 29 January 2010 to 12 November 2010
22 contracts to but in total of US$49,500,000 (net settled)	US$1 to RMB6.6170 — 6.7940	Range from 29 January 2010 to 12 November 2010

The above financial instruments are measured at fair values based on a valuation conducted by Grant Sherman as at 31 December 2010 determined based on the difference between the market forward rates at the end of the reporting period 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.

23. 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 0.1% to 3.5% (2009: 0.1% to 0.8%) per annum.

24. TRADE AND OTHER PAYABLES AND ACCRUALS

	2010 HK$'000	2009 HK$'000
Trade payables	**212,257**	143,788
Accrued expenses	**66,554**	47,261
Other payables	**64,158**	42,325
	342,969	233,374

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

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
Within 30 days	**86,310**	66,218
31 to 90 days	**90,939**	63,981
Over 90 days	**35,008**	13,589
	212,257	143,788

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.

25. UNSECURED BANK BORROWING

The Group has the following bank loan at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
Short-term unsecured bank loan of US$11,000,000 and carry 1.1% interest per annum	**85,800**	—

26. RELATED PARTY DISCLOSURES

During the year, the Group had transactions with the directors or related parties. The transactions during the year and balances with them at the end of the reporting period, are as follows:

(a) Transactions with related parties:

Name of parties	Interested directors	Nature of transactions	2010 HK$'000	2009 HK$'000
Yojin Industrial Corporation	Mr. Huang Ying Yuan Mrs. Huang Chen Li Chu *(note i)*	Rental expenses paid by the Group *(note ii)*	**602**	574
Mr. Chen Hung Jung	Mrs. Huang Chen Li Chu *(note iii)*	Rental expenses paid by the Group *(note ii)*	**98**	97

(b) Transaction with a director:

Name of director	Nature of transactions	2010 HK$'000	2009 HK$'000
Mr. Huang Ying Yuan	Rental expenses paid by the Group *(note ii)*	**247**	243

(c) Compensation of key management personnel

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

	2010 HK$'000	2009 HK$'000
Short-term employee benefits	**18,788**	14,783

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 Hung Jung is brother of Mrs. Huang Chen Li Chu.

The above related party transactions constituted exempt connected transactions or continuing connected transactions as defined under Chapter 14A of the Listing Rules.

27. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2009	726,814,724	72,681
Exercise of share options	20,488,000	2,049
At 31 December 2009 and 1 January 2010	**747,302,724**	**74,730**
Exercise of share options	**3,886,000**	**389**
Share repurchased and cancelled	**(618,000)**	**(62)**
At 31 December 2010	**750,570,724**	**75,057**

The shares issued during the year rank pari passu with the then existing shares in all respects.

During the year ended 31 December 2010, 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*
June 2010	390,000	1.06	1.03	406
July 2010	228,000	1.04	1.02	236
	618,000			

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.

No share options was remained outstanding under the 1998 Scheme as at 31 December 2009 and 2010.

As a result of the amendments of Chapter 17 of the Listing Rules on 1 September 2001, certain terms of the 1998 Scheme were 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.

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.

28. SHARE OPTIONS *(continued)*

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 2010 and 2009:

		Number of shares subject to share options						
	Date of grant	Outstanding at 1 January 2009	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2009	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2010
Category 1: Directors								
Mr. Huang Ying Yuan	18 August 1999	4,000,000	–	(4,000,000)	–	–	–	–
Mrs. Huang Chen Li Chu	18 August 1999	3,000,000	–	(3,000,000)	–	–	–	–
Mr. Yang Yu Fu	26 November 2007	7,000,000	(4,000,000)	–	3,000,000	(3,000,000)	–	–
Mr. Chen Chun Chieh	26 November 2007	700,000	(700,000)	–	–	–	–	–
Total for directors		14,700,000	(4,700,000)	(7,000,000)	3,000,000	(3,000,000)	–	–
Category 2: Employees								
	14 February 2006	1,436,000	(1,206,000)	(54,000)	176,000	(120,000)	–	56,000
	26 November 2007	17,478,000	(14,582,000)	(832,000)	2,064,000	(766,000)	(222,000)	1,076,000
Total for employees		18,914,000	(15,788,000)	(886,000)	2,240,000	(886,000)	(222,000)	1,132,000
Total for all categories		33,614,000	(20,488,000)	(7,886,000)	5,240,000	(3,886,000)	(222,000)	1,132,000
Exercisable at the end of the year					5,240,000			1,132,000

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 were 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 were 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 was HK$1.24 (2009: HK$0.98).

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.

In accordance with the above model, no expenses was recognised by the Group upon the expiration of vesting period. For the year ended 31 December 2009, the Group recognised the total expense of HK$665,000 in relation to share options granted by the Company.

29. CAPITAL RISK MANAGEMENT

The Company 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 Group's overall strategy remain unchanged from prior year.

The capital structure of the Group consists of net debt which includes bank borrowings disclosed in note 25 net of cash and cash equivalent, and equity attributable to owners 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 debts.

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010	2009
	HK$'000	*HK$'000*
Financial assets		
At fair value through profit or loss, held for trading	**6,435**	2,957
Loans and receivables (including cash and cash equivalents)	**704,019**	539,127
Available-for-sale financial assets	**4,879**	4,672
Financial liabilities		
At fair value through profit or loss, held for trading	**2,857**	—
Amortised cost	**362,215**	186,113

(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.

30. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk

The Group's principal financial assets include trade and other receivables, 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 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. 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 the end of each reporting period 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 50% of the total trade receivables as at 31 December 2010 (2009: 50%) was due from the Group's five largest customers. Those five largest customers are reputable infant products traders with long history of trading with 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 9% (2009: 10%) of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sale, and approximately 29% (2009: 30%) 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$, HK$ and Euro dollars ("Euro"). Hence, exposures to exchange rate fluctuations arises. The Group currently does not formulate any hedging policies against its exposure to currency risk. The Group will manage 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 end of the reporting period, 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:

	2010	2009
	HK$'000	*HK$'000*
Monetary Assets		
US$	**7,518**	34,161
HK$	**11,920**	19,878
EURO	**17,410**	52,719
New Taiwan dollars ("NTD")	**546**	1,450
Monetary Liabilities		
US$	**31,820**	4,643
HK$	**6,096**	38,335
EURO	**206**	3,790
NTD	**6,178**	23,482

30. FINANCIAL INSTRUMENTS *(continued)*

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

***Market risk** (continued)*

(i) Currency risk (continued)

Foreign currency risk management *(continued)*

At the end of the reporting period, the Group had foreign currency forward contracts with an aggregated notional amount of US$86,000,000 (2009: US$99,000,000). Details are shown in note 22.

Sensitivity analysis

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

Since HK$ is pegged to US$, relevant foreign currency risk is minimal. Accordingly, their fluctuation is excluded from the sensitivity analysis. The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in US$ 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 foreign currency forward contracts, and adjusts their translation at the year end for a 5% change in foreign currency rates and forward exchange rates, respectively. 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	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'00*	***HK$'000***	*HK$'00*
Monetary assets and liabilities	**291**	923	**282**	1,102	**(860)**	(2,446)	**–**	–	**1,215**	(1,475)
Derivative financial instruments	**–**	–	**–**	–	**–**	–	**179**	(148)	**–**	–

30. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate bank borrowings (see note 25 for details). The Group's bank balances also have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider those bank borrowing and deposits are within short maturity period and the effect on fluctuation in interest rate is insignificant.

The Group currently does not have any interest rate hedging policy. The directors monitor the Group's exposure on an ongoing basis and will consider hedging significant interest rate should the need arise.

(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 end of the reporting periods.

Liquidity risk

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

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. 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 financial instruments settled on a net basis, undiscounted net cash flows are presented. Derivative financial assets in respect of foreign currency forward contracts are excluded from the following liquidity risk analysis. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

30. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

	Weighted average interest rate	0-30 days	31-90 days	91-365 days	Total undiscounted cash flows	Carrying amount at 31 December 2010
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2010						
Non-derivative financial liabilities						
Trade and other payables	–	141,362	112,048	23,005	276,415	276,415
Unsecured bank borrowings	1.1%	–	86,744	–	86,744	85,800
Financial guarantee contracts	–	218,400	–	–	218,400	218,400
		359,762	198,792	23,005	581,559	580,615
Derivative financial liabilities						
Foreign currency forward contracts — net settled — outflow	–	226	792	1,839	2,857	2,857

	Weighted average interest rate	0-30 days	31-90 days	91-365 days	Total undiscounted cash flows	Carrying amount at 31 December 2009
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009						
Non-derivative financial liabilities						
Trade and other payables	–	93,651	77,995	14,467	186,113	186,113

30. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value

The fair value of financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with discounted cash flow analysis.

Foreign currency forward contracts are measured by using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

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.

Fair value measurement of financial assets and financial liabilities

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 2 based on the degree to which the fair value is observable.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

	As at 31 December 2010 Level 2 *HK$'000*	As at 31 December 2009 Level 2 *HK$'000*
Derivative financial assets	**6,435**	2,957
Derivative financial liabilities	**2,857**	—

31. OPERATING LEASE COMMITMENTS AND ARRANGEMENTS

The Group as lessee

	2010 *HK$'000*	2009 *HK$'000*
Minimum lease payments paid under operating leases during the year	**15,758**	15,887

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

The Group as lessee *(continued)*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which are fall due as follows:

	2010 HK$'000	2009 HK$'000
Within one year	**19,223**	12,194
In the second to fifth year inclusive	**27,357**	33,855
Over five years	**676**	668
	47,256	46,717

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$453,000 (2009: HK$517,000).

At the end of both reporting periods, the Group had contracted with a tenant for the following future minimum lease payments:

	2010 HK$'000	2009 HK$'000
Within one year	**228**	303
In the second to fifth year inclusive	**590**	583
	818	886

32. CAPITAL COMMITMENTS

	2010 HK$'000	2009 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of		
— lease premium of land	**7,505**	6,261
— property, plant and equipment	**26,090**	—
	33,595	6,261

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 Company'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. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company at 31 December 2010 is as follows:

	Notes	**2010** ***HK$'000***	2009 *HK$'000*
Total assets			
Investment in subsidiaries		**253,971**	253,971
Other receivables		**88**	108
Amount due from a subsidiary	*(a)*	**235,095**	160,576
Bank balances		**254**	25,183
		489,408	439,838
Total liabilities			
Other payables		**121**	334
Amounts due to subsidiaries	*(a)*	**54,213**	1,692
		54,334	2,026
		435,074	437,812
Capital and reserves			
Share capital		**75,057**	74,730
Reserves	*(b)*	**360,017**	363,082
		435,074	437,812

34. STATEMENT OF FINANCIAL POSITION 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 2009	93,085	244,461	2,375	1,208	10,554	351,683
Profit for the year and total recognised income for the year	–	–	–	–	39,712	39,712
Exercise of share options	13,314	–	(2,313)	–	–	11,001
Share options lapsed during the year	–	–	(99)	–	99	–
Employee share-based payments	–	–	665	–	–	665
Dividends recognised as distributions *(note 12)*	–	–	–	–	(39,979)	(39,979)
At 31 December 2009	**106,399**	**244,461**	**628**	**1,208**	**10,386**	**363,082**
Profit for the year and total recognised income for the year	**–**	**–**	**–**	**–**	**47,951**	**47,951**
Share repurchased and cancelled	**(580)**	**–**	**–**	**62**	**(62)**	**(580)**
Exercise of share options	**2,524**	**–**	**(427)**	**–**	**–**	**2,097**
Share options lapsed during the year	**–**	**–**	**(24)**	**–**	**24**	**–**
Dividends recognised as distributions *(note 12)*	**–**	**–**	**–**	**–**	**(52,533)**	**(52,533)**
At 31 December 2010	**108,343**	**244,461**	**177**	**1,270**	**5,766**	**360,017**

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2010 and 2009 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 2010 %	Directly 2009 %	Indirectly 2010 %	Indirectly 2009 %	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 Global (Macao Commercial Offshore) Limited	Macau	MOP100,000	–	–	100	100	Trading of infant products
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$46,940,000 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$3,150,000 registered capital	–	–	100	96.6	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

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company				Principal activities *(note i)*
			Directly		Indirectly		
			2010 %	2009 %	**2010 %**	2009 %	
黃石市隆成日用制品有限公司	the PRC *(note ii)*	US$10,000,000 Registered capital	**–**	–	**100**	–	Manufacturing and trading of infant products
陽江市隆成日用制品有限公司	the PRC *(note ii)*	US$1,000,000 Registered capital	**–**	–	**100**	–	Manufacturing and trading of infant 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

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.

RESULTS

			Year ended 31 December		
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
REVENUE	1,125,465	1,208,715	1,490,884	1,291,848	**1,677,598**
PROFIT BEFORE TAXATION	97,758	55,044	73,484	82,659	**123,727**
INCOME TAX EXPENSE	(9,410)	(7,467)	(16,052)	(12,328)	**(18,750)**
PROFIT FOR THE YEAR	88,348	47,577	57,432	70,331	**104,977**
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	86,219	48,022	56,943	70,248	**104,922**
NON-CONTROLLING INTERESTS	2,129	(445)	489	83	**55**
	88,348	47,577	57,432	70,331	**104,977**

ASSETS AND LIABILITIES

			At 31 December		
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
TOTAL ASSETS	979,420	1,070,287	1,137,676	1,204,554	**1,535,283**
TOTAL LIABILITIES	(198,982)	(256,512)	(266,502)	(269,608)	**(489,609)**
	780,438	813,775	871,174	934,946	**1,045,674**
EQUITY ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	772,227	806,647	869,679	933,368	**1,045,674**
NON-CONROLLING INTERESTS	8,211	7,128	1,495	1,578	**–**
	780,438	813,775	871,174	934,946	**1,045,674**