隆成集團

Lerado Group (Holding) Company Limited

Stock Code : 1225

Annual Report 2012

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

LIM Pat Wah Patrick
HUANG Zhi Wei
CHERN Shyh Feng

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

HUANG Ying Yuan (Chairman)
CHEN Chun Chieh
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, Huangshi and Shanghai in the People's Republic of China (the "PRC"), with research and development ("R&D") centres located in Taiwan and the PRC. Our strong R&D capability enables us to design and manufacture a majority of our products on an original design manufacturing ("ODM") basis, while owning the patents on such designs. We currently own more than 700 registered patents on over 400 product features.

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

The Group has also extended its business scope to the manufacturing and selling of infant and pre-school products under its own brand of "Angel". Developed specifically for the PRC market, the Angel brand products are sold in the 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 to children 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

	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*
Revenue	**1,698,775**	1,672,096	1,677,598
Profit before interest expenses and tax	**60,775**	40,337	124,005
As a percentage of revenue	**3.6%**	2.4%	7.4%
EBITDA	**112,770**	90,413	165,572
As a percentage of revenue	**6.6%**	5.4%	9.9%
Profit attributable to owners of the company	**40,868**	27,426	104,922
As a percentage of revenue	**2.4%**	1.6%	6.3%
Total assets	**1,791,616**	1,722,121	1,535,283
Total capital employed*	**1,424,736**	1,367,361	1,131,474
Equity attributable to owners of the company	**1,102,552**	1,081,228	1,045,674
Earnings per share (HK cents)	**5.44**	3.65	13.99
Return on average capital employed	**3.7%**	2.6%	10.6%
Current ratio	**1.9**	1.9	2.2
Average inventory turnover (days)	**75**	69	62
Average trade debtor turnover (days)	**58**	54	48
Gearing ratio	**0.29**	0.26	0.08

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

BUSINESS REVIEW

The Group was principally engaged in the manufacture of juvenile and infant products and retail sales of juvenile and infant products in 2012.

Manufacture of Juvenile and Infant Products

The Group's manufacture of juvenile and infant products business recorded sales revenue of HK$1,434.2 million (2011: HK$1,397.4 million) during the period under review, representing an increase of 2.6% over last year. The US is still the largest export market of the Group. Sales revenue from US juvenile and infant products customers amounted to HK$730.3 million. Impacted by the European sovereign debt crisis, the Group's sales revenue from export to Europe decreased to HK$429.9 million. Revenue from US and European orders represented 50.9% and 30.0% of the segment revenue respectively.

In respect of products, sales revenue from strollers decreased by 6.4% to HK$674.2 million from last year due to a decrease in European orders, while sales revenue from safety car seats increased by 24.8% to HK$252.9 million, mainly attributable to US customers. The Group's safety car seat crash test laboratory in Zhongshan was completed during the year to ensure the increasing safety car seats products meet the highest international standards. Sales revenue from beds and playards also increased by 14.9% to HK$114.3 million during the year, and the increase is mainly attributable to increase North American orders.

The segment profit of manufacture of juvenile and infant products business amounted to HK$100.5 million for the year under review, representing a year-on-year growth of 38.7%. The significant increase in segment profit is primarily due to fall in prices of raw materials such as plastic and metal pipes, and substantial enhancement in production efficiency as the Toyota Production System introduced since last year and improved injection molding technology are gradually producing results.

Retail Sales of Juvenile and Infant Products

The Group's retail sales of juvenile and infant products business represents one-stop chain stores of maternity and infant products such as milk powder, diapers, nursery products and strollers. The sales revenue of the retail sales business in 2012 amounted to HK$44.2 million (2011: HK$83.3 million), and the segment loss amounted to HK$35.1 million (2011: HK$21.6 million).

In view of the difficult operating environment and intense competition of the PRC maternity and infant products retail market, the Group has adjusted its business strategy and model and decided to exit from the retail sales of maternity and infant products from 2013. Over 30 maternity and infant products retail stores of the Group in regions including South China were closed down completely.

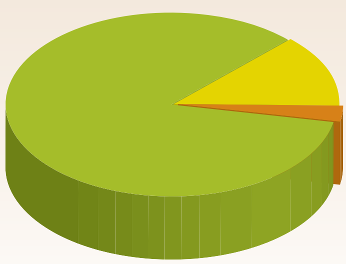
PROSPECTS

The manufacture of juvenile and infant products business will continue to generate stable cash flow for the Group. The Group will also actively explore other emerging markets while maintaining its long-term cooperation relationship with strong customers to expand its business scope and increase its sources of income. Leveraging on its outstanding R&D talents and flexible production capacity, the Group will also develop more juvenile and infant products such as safety car seats to increase its product offerings for long-term growth. The core strategy of the Group is continuous its stringent cost control. In the face of labour costs and supply problems in the PRC, the Group will continually move its production lines to its Hubei plant to maintain stable labour supply and lower labour costs.

The Group is still optimistic about the growth of the PRC juvenile and infant products market, in particular the urbanisation and future population policy of the PRC will be favourable to the demand of juvenile and infant products, despite its decision to exit from the retail sales of maternity and infant products. By exiting from the retail sales of maternity and infant products, the Group can increase its cash flow and focus its resources on potential projects to further optimize its continuing operations. The Group will focus on the sales of its own brand of products in the PRC market, and sells juvenile and infant products under the brand of "Angel" through various channels such as distributors, hypermarkets, chain stores of maternity and infant products, counters in department stores and online sales.

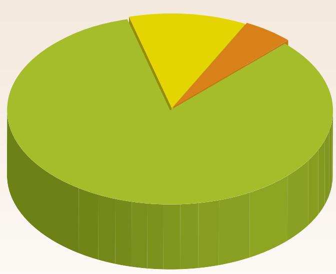
REVENUE BY BUSINESS

2012



Manufacture and distribution of juvenile and infant products	84.4%
Retail sale of juvenile and infant products	2.6%
All others	13.0%

2011



Manufacture and distribution of juvenile and infant products	83.6%
Retail sale of juvenile and infant products	5.0%
All others	11.4%

FINANCIAL REVIEW

Consolidated revenue from continuing operations for 2012 amounted to HK$1,654.6 million (2011: HK$1,588.8 million), representing an increase of 4.1% over last year. Revenue from discontinued operation of retail sales of juvenile and infant products amounted to HK$44.2 million.

Gross profit margin of continuing operations for the year was 21.7%, representing an increase of 1.6 percentage point as compared with last year's gross profit margin of 20.1%. The increase in gross profit margin is mainly due to fall in raw material prices. Meanwhile, total staff salary and benefit expenses of continuing operations for the year amounted to HK$314.7 million, and its weight in the relevant revenue increased from 18.6% of 2011 to 19.0%. In addition, costs of continuing operations of the Group for the year increased by approximately HK$18.7 million in total under the continuing appreciation of Renminbi and Hong Kong dollar and other major foreign currencies.

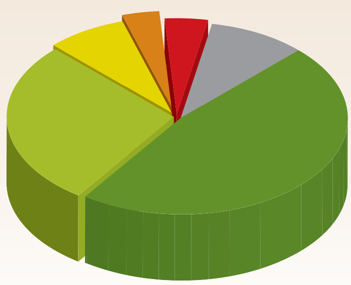
Loss from discontinued operation for the year amounted to HK$35.1 million, including impairment loss on assets and equipment of retail stores for maternity and infant products of HK$4.1 million and write-down of inventories to net realisable value of HK$0.8 million.

The Group has received an enquiry from the tax authorities in China in relation to the enterprise income tax of certain subsidiaries of the Group as a result of the reorganization of the Group in 2010, which may lead to the Group being liable to additional enterprise income tax. The Company is currently discussing with the PRC Tax Authorities and as at the date of this report, no written demand has been issued by the PRC Tax Authorities.

Profit attributable to the owners of the Company increased by 49.0% from HK$27.4 million in 2011 to HK$40.9 million in 2012. Profit attributable to owners of the Company from continuing operations increased by 55.0% from HK$49.0 million in 2011 to HK$76.0 million in 2012.

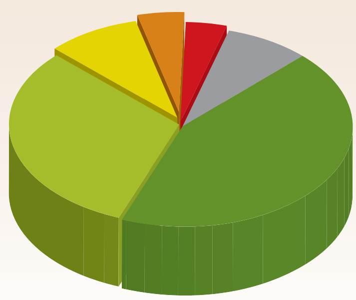
REVENUE BY REGION

2012



The United States of America	47.5%
Europe	27.7%
The PRC	7.7%
South America	3.7%
Australia	4.0%
Others	9.4%

2011



The United States of America	43.6%
Europe	31.2%
The PRC	8.9%
South America	4.5%
Australia	4.0%
Others	7.8%

CASH FLOW AND FINANCIAL RESOURCES

During the year, the Group generated HK$46.3 million (2011: HK$2.3 million) cash from the operating activities, used HK$95.7 million (2011: HK$184.0 million) in investing activities and raised HK$5.5 million (2011: HK$151.5 million) from financing activities.

As at 31 December 2012, the Group's pledged bank deposit and bank balances and cash, mainly in US dollars and Renminbi, was HK$527.6 million. After deducting a borrowing of HK$322.2 million, the Group recorded a net pledged bank deposits and bank balances and cash of HK$205.4 million as compared to HK$214.6 million as at 31 December 2011. The borrowings, bearing interest at the prevailing market rate, were bank loans due within one year. As at 31 December 2012, the Group's gearing ratio, expressing as total bank borrowings to equity attributable to owners of the Company was 0.29 (2011: 0.26).

As at 31 December 2012, the Group had net current assets of HK$567.5 million (2011: HK$528.8 million) and a current ratio of 1.9 (2011: 1.9). Trade receivable and inventory turnover were 58 days (2011: 54 days) and 75 days (2011: 69 days) respectively.

PLEDGE OF ASSETS

As at 31 December 2012, the Group pledged deposits to banks to secured bank borrowings. The deposits carry interest at fixed rates ranging from 2.04% to 4.96% per annum.

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. In the event that Renminbi further appreciates, the Group will still be affected directly. Although the Group currently does not maintain any hedging policy to hedge against foreign exchange exposure that may arise from the above transactions, the management team continuously assesses the foreign currency exposure, with an aim to minimize the impact of foreign exchange fluctuation on the Group's business operations.

As at 31 December 2012, we are involved in proceedings in relation to a wholly-owned subsidiary of the Company which entered into an agreement with a U.S. based supplier in August 2002, pursuant to which the supplier appointed us as its exclusive distributor for the territory of China for a term of five years. The agreement was not extended and terminated in August 2007. Under the terms of the agreement, we were required to pay to the supplier a commission on all items purchased from the supplier.

The supplier initiated proceedings against us in the U.S. alleging we owed them outstanding commission of approximately US$1.7 million which is still being reviewed. We deny the allegations of the supplier and dispute their claims. A trial date has been set for the case at the United States District Court, Western District of Louisiana for 12 May 2014. As the outcome of the proceedings is uncertain, no provision has been made for the related claims in our financial statements for the year ended 31 December 2012.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group employed a total workforce of around 5,400 staff members, of which about 5,200 worked in the PRC, about 150 in Taiwan and the remaining in Hong Kong and the U.S.A.

Apart from basic salaries, discretionary bonus and contribution to retirement benefits schemes, share options may also be granted to staff with reference to the individual's performance. Moreover, the Group also provides internal and external training to its staff to enable them to achieve self-improvement and to enhance their job related skills.

EXECUTIVE DIRECTORS

Mr. HUANG Ying Yuan, aged 62, is a founding member, the Chairman and the Chief Executive Officer of the Company. Mr. Huang has 36 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 63, was appointed an Executive Director of the Company in 1998. Mrs. Huang has worked in the infant products industry in Taiwan for over 34 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 37, was appointed an Executive Director of the Company on 3 April 2008. Mr. Chen has been working for the Group since 2002. He obtained a master's degree in business administration from Lawrence Technical University, U.S.A. Mr. Chen is responsible for the strategic planning and finance of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LIM Pat Wah Patrick, aged 53, 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 28 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 74, 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 is also an Independent Director of Keda Industrial Co., Ltd. (stock code: SHA600499), a company listed on The Shanghai Stock Exchange. Mr. Huang was appointed as an Independent Non-executive Director of the Company on 30 September 2004.

Mr. CHERN Shyh Feng, aged 45, 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 was appointed as an Independent Non-executive Director of the Company in 6 November 2009.

Corporate Governance Report

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2012.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules was amended and revised as the Corporate Governance Code (the "Revised Code") which became effective on 1 April 2012. For the year under review, the Company has complied with the applicable code provisions of the CG Code and the Revised Code as and when they were/are in force, except for the deviations set out below:

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer ("CEO") should be separate and should not be preformed by the same individual. The division of responsibilities between the chairman and CEO of the Company should be clearly established and set out in writing. The roles of the chairman and the CEO of the Company were not separated and were performed by the same individual, Mr. Huang Ying Yuan throughout the year 2012.

The Directors meet regularly to consider major matters affecting the operations of the Group. As such, the Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of Group and believes that this structure will enable the Group to make and implement decisions promptly and efficiently.

The Company continues to review its corporate governance practices regularly to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for overseeing the overall development of the Company's business with the objective of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance and developing and reviewing the Group's policies and practices on corporate governance. The Board has delegated to the chief executive officer, of which the directors also undertake, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

Board Composition

As at the date of this Annual Report, the Board comprises of 6 members in total, with 3 executive directors and 3 independent non-executive directors.

The composition of the Board during the year ended 31 December 2012 and up to the date of this Annual Report is set out below:

Executive Directors

HUANG Ying Yuan, *Chairman and Chief Executive Officer*
HUANG CHEN Li Chu, *Vice Chairman*
CHEN Chun Chieh
CHEN Chao Jen *(resigned on 31 January 2013)*

Independent Non-Executive Directors

LIM Pat Wah Patrick
HUANG Zhi Wei
CHERN Shyh Feng

The biographical details of the current Board members are set out under the section headed "Director's Profiles" on page 10 of this report.

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 independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive directors represented over one-third of the Board.

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 as set out in the Listing Rules.

All directors, including independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

During the year ended 31 December 2012, the Company has not separated the roles of chairman and chief executive officer of the Company and Mr. Huang Ying Yuan was the chairman and also the chief executive officer of the Company responsible for overseeing the operations of the Group during such period. Due to the nature and the extent of the Group's operations and Mr. Huang's in-depth knowledge and experience in the industry and his familiarity with the operations of the Group, the Directors consider that this structure will not impair the balance of power and authority between the Directors and management of the Group and believes that this structure will enable the Group to make and implement business decisions promptly and efficiently.

Appointment and Re-election of Directors

In accordance with the Company's bye-laws, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed by the Board 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 procedures and process of appointment, re-election and removal of directors are laid down in the Company's bye-laws. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

BOARD MEETINGS

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notice of regular Board meetings is served to all directors at least 14 days before the meeting. 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 keep directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management of the Company where necessary.

The senior management, including Chief Executive Officer, Chief Financial Officer and Company Secretary, attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for taking and keeping 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 final versions are open for directors' inspection.

The Company's bye-laws 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.

Directors' Attendance Records

During the year ended 31 December 2012, 4 regular Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at the Board meetings and the annual general meeting for the year 2012 (the "2012 AGM") during the year ended 31 December 2012 are set out below:

Name of Director	Attendance/ Number of Meetings	
	Board Meetings	2012 AGM
Huang Ying Yuan	4/4	1/1
Huang Chen Li Chu	3/4	1/1
Chen Chun Chieh	4/4	1/1
Chen Chao Jen	4/4	0/1
Lim Pat Wah Patrick	4/4	1/1
Huang Zhi Wei	4/4	1/1
Chern Shyh Feng	4/4	1/1

Directors' Training

Directors must keep abreast of their collective responsibilities and are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide to each newly appointed Director or alternative Director an induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Group's businesses and the statutory regulatory obligations of a director of a listed company as well as the Company's constitutional documents to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements.

During the year under review, the Company has provided information related to the changes in the Listing Rules to the Directors to update and refresh the Directors' knowledge on the latest developments to the Listing Rules. The Company will continuously update the Directors on the latest developments to the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance the Directors' awareness of good corporate governance practices.

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 (the "Appendix 10").

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 2012.

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that 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, with a view to ensuring that Board procedures and all applicable laws 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 senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers. The Board also has the full support of the Chief Executive Officer and the senior management for the discharge of its responsibilities.

BOARD COMMITTEES

As an integral part of sound corporate governance practices, the Board has established three committees, namely, the Nomination Committee, Remuneration Committee and 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 which are available to shareholders on the Company's website. Each of the Nomination Committee, Remuneration Committee and Audit Committee 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.

Nomination Committee

The Nomination Committee comprises 5 members, namely Mr. Huang Ying Yuan, Mr. Chen Chun Chieh, Mr. Lim Pat Wah Patrick, Mr. Huang Zhi Wei and Mr. Chern Shyh Feng, the majority of which are independent non-executive directors, with Mr. Huang Ying Yuan acting as the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of the independent non-executive directors.

During the year ended 31 December 2012, the Nomination Committee was primarily responsible:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on selection of individuals nominated for directorships;
- to assess the independence of Independent Non-Executive Directors, having regard to the requirements under the applicable laws, rules and regulations; and
- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors and, in particular, the chairman and the chief executive officer of the Company.

The Nomination Committee will meet at least once per year according to its terms of reference. A Nomination Committee meeting was held during the year under review, details of attendance are set out below:

Nomination Committee Members	**Attendance/ Number of Meeting**
Huang Ying Yuan	1/1
Chen Chun Chieh	1/1
Lim Pat Wah Patrick	1/1
Huang Zhi Wei	1/1
Chern Shyh Feng	1/1

Remuneration Committee

The Remuneration Committee comprises 4 members, namely Mr. Huang Ying Yuan, Mr. Lim Pat Wah Patrick, Mr. Huang Zhi Wei and Mr. Chern Shyh Feng, the majority of which are independent non-executive directors, with Mr. Chern Shyh Feng acting as the chairman of the Remuneration Committee.

The Remuneration Committee is responsible for making recommendations to the Directors' remuneration and other benefits. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that level of their remuneration and compensation are reasonable. Their written terms of reference are in line with the provisions of the CG Code. Pursuant to code provision B.1.4 of the CG Code, the Remuneration Committee would make available its terms of reference, explaining its role and the authority delegated to it by the Board.

During the year ended 31 December 2012, the Remuneration Committee was primarily responsible:

- to make recommendations to the Board on the Company's policy and structure for all remunerations of Directors and senior management and on the establishment of formal and transparent procedures for developing policies on all such remunerations;
- to have the delegated responsibilities to determine the specific remuneration packages of all Executive Directors and senior management members of the Company;
- to review and approve performance-based remunerations by reference to corporate goals and objectives resolved by the Board from time to time;
- to review and approve compensation payable to Executive Directors and senior management members of the Company in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is fair and not excessive for the Company;
- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is reasonable and appropriate; and
- to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee held 1 meetings during the year ended 31 December 2012 and the details of attendance are set out below:

Remuneration Committee Members	**Attendance/ Number of Meeting**
Huang Ying Yuan	1/1
Lim Pat Wah Patrick	1/1
Huang Zhi Wei	1/1
Chern Shyh Feng	1/1

Audit Committee

The Audit Committee comprises 3 members, namely Mr. Lim Pat Wah Patrick, Mr. Huang Zhi Wei, and Mr. Chern Shyh Feng, all of which are independent non-executive directors, with Mr. Lim Pat Wah Patrick acting as the chairman of the Audit Committee.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system and to provide advice and comments to the Board.

During the year ended 31 December 2012, the Audit Committee was primarily responsible:

- to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services;
- to monitor integrity of financial statements of the Company and the Company's annual report and accounts and half-year reports and to review significant financial reporting judgements contained in them;
- to review the Company's financial controls, internal control and risk management systems;
- to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- to review the Group's financial and accounting policies and practices; and
- to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response, and to ensure that the Board provides a timely response to the issues raised.

The Audit Committee held 2 meetings during the year ended 31 December 2012 and the details of attendance are set out below:

Audit Committee Members	**Attendance/ Number of Meeting**
Lim Pat Wah Patrick	2/2
Huang Zhi Wei	2/2
Chern Shyh Feng	2/2

Corporate Governance Functions

During the period under review, the Board is responsible for determining the policy for the corporate governance of the Company performing the corporate governance duties as below:

- to develop and review the Group's policies and practices on corporate governance and make recommendations;
- to review and monitor the training and continuous professional development of the directors and senior management;
- to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Group; and
- to review the Group's compliance with the CG Code and disclosure requirements in the Corporate Governance Report.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2012.

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 statutory and regulatory requirements.

The management of the Company has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

Internal Controls

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor and senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on page 28.

During the year ended 31 December 2012, the remuneration paid/payable to the Company's external auditors, Messrs Deloitte Touche Tohmatsu, is set out below:

Type of Services	**Fees Paid/ Payable** *(HK$)*
Audit Services	
— Audit of annual financial statements	1,572,000
Non-Audit Services	
— Review of internal financial statement	180,000
— Others	110,000
Total	1,862,000

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders face-to-face dialogue with the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

The annual general meeting regarding the financial results for the year ended 31 December 2012 ("AGM") will be held on 28 May 2013. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

SHAREHOLDER RIGHTS

Convening a special general meeting by shareholders

Procedures for shareholders to convene a special general meeting (including making proposals/moving a resolution at the special general meeting)

- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "Company Secretary"), to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at a special general meeting.

- Eligible Shareholders who wish to convene a special general meeting for the purpose of making proposals or moving a resolution at a special general meeting must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong.

- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene a special general meeting, the agenda proposed to be included the details of the business(es) proposed to be transacted in the special general meeting, signed by the Eligible Shareholder(s) concerned.

- The Company will check the Requisition and the identity and the shareholding of the Eligible Shareholder will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene a special general meeting within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder at the special general meeting after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for a special general meeting and/or include the proposal or the resolution proposed by the Eligible Shareholder at the special general meeting.

- If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholders of any outcome to the contrary and fails to proceed to convene a special general meeting, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the bye-laws, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Making enquiry to the Board

Shareholders of the Company may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong by post to Unit 1-3, 30/F., Universal Trade Centre, 3-5A, Arbuthnot Road, Central, Hong Kong or email to public@lerado.com.hk.

Investors Relationship

Bye-laws

There has not been any significant changes to the Company's bye-laws during the year ended 31 December 2012.

Investors Communication Policy

The Company regards the communication with institutional investors as important means to enhance the transparency of the Company and collect views and feedbacks from institutional investors. To promote effective communication, the Company maintains a website at www.irasia.com/listco/hk/lerado/index.htm, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted are available for public access.

Shareholders, investors and the media can make enquiries to the Company through the following means:

Telephone number:	(852) 2868 9918
By post:	Unit 1-3, 30/F, Universal Trade Centre 3-5A Arbuthnot Road, Central Hong Kong
Attention:	Investor Relations Department
By email:	public@lerado.com.hk

Disclaimer

The contents of this section headed "Shareholders' Rights" are for reference and disclosure compliance purposes only. The information does not represent and should not be regarded as legal or other professional advice from the Company to the shareholders. Shareholders should seek their own independent legal or other professional advice as to their rights as shareholders of the Company. The Company disclaims all liabilities and losses incurred by its shareholders in reliance on any contents of this section headed "Shareholders' Rights".

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 30 of the annual report.

An interim dividend of HK2.0 cents per share amounting to HK$15,014,000 in aggregate was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK2.0 cents per share to the shareholders on the register of members on 4 June 2013, amounting to approximately HK$15,014,000 in aggregate, 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 2012. The revaluation resulted in a net loss amounting to HK$2,219,000, of which HK$5,979,000 has been debited directly to the property revaluation reserve and a gain of HK$3,760,000 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 15 to the consolidated financial statements.

SHARE CAPITAL

During the year, 136,000 ordinary shares of HK$0.1 each were issued in relation to the share options exercised by employees under the share option scheme of the Company at exercise prices of HK$0.64 per share. Details of movements during the year in the share capital of the Company are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at the end of the reporting period were as follows:

	2012	2011
	HK$'000	*HK$'000*
Contributed surplus	**244,461**	244,461
Accumulated profits	**2,083**	2,433
	246,544	246,894

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 *(resigned on 31 January 2013)*

Independent non-executive directors:

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

In accordance with clause 87 of the Company's bye-laws, Mrs. Huang Chen Li Chu and Mr. Lim Pat Wah Patrick will 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 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 2012, 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

Name of director	Number of shares held as				Approximate percentage of the issued share capital of the Company	Number of share options
	Beneficial owner	Spouse interest	Corporate interest	Total interests		
Mr. Huang Ying Yuan	2,966,000	1,234,000 *(note 1)*	148,353,540 *(note 2)*	152,553,540	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 pursuant to the Model Code, as at 31 December 2012.

SHARE OPTIONS

Particulars of the share option scheme and the movements in the share options of the Company are set out in note 29 to the consolidated financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than share option scheme mentioned 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 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant 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	Beneficial owner *(Note)*	60,230,000	8.0%

Note: Mr. David Michael Webb beneficially owns 12,072,000 shares, and in addition he holds 48,158,000 shares through Preferable Situation Assets Limited, which is 100% directly owned by him.

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 2012.

INDEPENDENCE 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 of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

CONNECTED TRANSACTIONS

Other than those disclosed in note 27 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 27, 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$605,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers represented approximately 45% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 13% of total sales. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 17% 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, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

The Company has adopted share option schemes as an incentive to directors and eligible employees, details of these schemes are set out in note 29 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2012.

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
28 March 2013

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 30 to 91, which comprise the consolidated statement of financial position as at 31 December 2012, 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 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.

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 2012, 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
28 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Continuing operations			
Revenue	5	**1,654,608**	1,588,758
Cost of sales		**(1,295,971)**	(1,268,848)
Gross profit		**358,637**	319,910
Other income		**30,393**	22,309
Other gains and losses	6	**(1,212)**	(4,200)
Marketing and distribution costs		**(98,711)**	(95,580)
Research and development expenses		**(71,186)**	(59,379)
Administrative expenses		**(120,719)**	(121,183)
Other expenses		**(935)**	(1,200)
Share of result of an associate		**(400)**	1,248
Finance cost	7	**(6,583)**	(3,285)
Profit before taxation		**89,284**	58,640
Income tax expense	8	**(13,326)**	(9,626)
Profit for the year from continuing operations		**75,958**	49,014
Discontinued operation			
Loss for the year from discontinued operation	9	**(35,090)**	(21,588)
Profit for the year attributable to owners of the Company	10	**40,868**	27,426
Other comprehensive income (expense)			
Exchange differences arising from translation		**12,883**	29,828
Share of exchange difference of an associate		**113**	(39)
(Loss) gain on revaluation of land and buildings		**(5,979)**	34,881
Reversal of (recognition of) deferred tax liability arising on revaluation of land and buildings		**2,250**	(7,755)
Other comprehensive income for the year		**9,267**	56,915
Total comprehensive income for the year		**50,135**	84,341
Profit (loss) attributable to owners of the Company:			
— from continuing operations		**75,958**	49,014
— from discontinued operation		**(35,090)**	(21,588)
Profit for the year attributable to owners of the Company		**40,868**	27,426

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Total comprehensive income (expense) attributable to owners of the Company:			
— from continuing operations		**85,225**	105,929
— from discontinued operation		**(35,090)**	(21,588)
Total comprehensive income for the year attributable to owners of the Company		**50,135**	84,341
Earnings per share	14		
From continuing and discontinued operation			
— Basic		**HK5.44 cents**	HK3.65 cents
— Diluted		**HK5.44 cents**	HK3.65 cents
From continuing operations			
— Basic		**HK10.12 cents**	HK6.53 cents
— Diluted		**HK10.12 cents**	HK6.53 cents

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	15	**471,032**	478,283
Prepaid lease payments	16	**100,847**	102,505
Intellectual property rights	17	**945**	1,820
Investment in an associate	18	**7,035**	7,322
Available-for-sale investments	19	**641**	5,130
Deferred tax assets	20	**80**	639
Deposits paid for lease premium of land		**4,441**	4,394
		585,021	600,093
Current assets			
Inventories	21	**287,010**	259,044
Trade and other receivables and prepayments	22	**387,200**	359,187
Prepaid lease payments	16	**2,103**	2,101
Derivative financial instruments	23	**1,732**	—
Taxation recoverable		**935**	926
Pledged bank deposits	24	**194,833**	128,777
Bank balances and cash	24	**332,782**	371,993
		1,206,595	1,122,028
Current liabilities			
Trade and other payables and accruals	25	**306,375**	291,522
Taxation payable		**9,124**	14,125
Bank borrowings	26	**322,184**	286,133
Derivative financial instruments	23	**1,397**	1,495
		639,080	593,275
Net current assets		**567,515**	528,753
		1,152,536	1,128,846

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Capital and reserves			
Share capital	28	**75,071**	75,057
Reserves		**1,027,481**	1,006,171
Total equity		**1,102,552**	1,081,228
Non-current liability			
Deferred tax liabilities	20	**49,984**	47,618
		1,152,536	1,128,846

The consolidated financial statements on pages 30 to 91 were approved and authorised for issue by the Board of Directors on 28 March 2013 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 2012

	Attributable to owners of the Company										
	Share capital	Share premium	Special reserve	Property revaluation reserve	Statutory surplus reserve fund	Enterprise expansion fund	Translation reserve	Share option reserve	Capital redemption reserve	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	75,057	108,343	39,312	106,842	39,752	3,091	110,392	177	1,270	561,438	1,045,674
Profit for the year	–	–	–	–	–	–	–	–	–	27,426	27,426
Exchange differences arising from translation	–	–	–	–	–	–	29,828	–	–	–	29,828
Share of exchange difference of an associate	–	–	–	–	–	–	(39)	–	–	–	(39)
Gain on revaluation of land and buildings	–	–	–	34,881	–	–	–	–	–	–	34,881
Deferred tax liability arising on revaluation of land and buildings	–	–	–	(7,755)	–	–	–	–	–	–	(7,755)
Total comprehensive income for the year	–	–	–	27,126	–	–	29,789	–	–	27,426	84,341
Share options lapsed during the year	–	–	–	–	–	–	–	(50)	–	50	–
Transfer to statutory reserves	–	–	–	–	4,245	–	–	–	–	(4,245)	–
Dividends recognised as distributions *(note 13)*	–	–	–	–	–	–	–	–	–	(48,787)	(48,787)
At 31 December 2011	75,057	108,343	39,312	133,968	43,997	3,091	140,181	127	1,270	535,882	1,081,228
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**40,868**	**40,868**
Exchange differences arising from translation	**–**	**–**	**–**	**–**	**–**	**–**	**12,883**	**–**	**–**	**–**	**12,883**
Share of exchange difference of an associate	**–**	**–**	**–**	**–**	**–**	**–**	**113**	**–**	**–**	**–**	**113**
Loss on revaluation of land and buildings	**–**	**–**	**–**	**(5,979)**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,979)**
Reversal of deferred tax liability arising on revaluation of land and buildings	**–**	**–**	**–**	**2,250**	**–**	**–**	**–**	**–**	**–**	**–**	**2,250**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**(3,729)**	**–**	**–**	**12,996**	**–**	**–**	**40,868**	**50,135**
Exercise of share options	**14**	**88**	**–**	**–**	**–**	**–**	**–**	**(15)**	**–**	**–**	**87**
Recognition of equity settled share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,127**	**–**	**–**	**1,127**
Share options lapsed/cancelled during the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(112)**	**–**	**112**	**–**
Transfer to statutory reserves	**–**	**–**	**–**	**–**	**3,179**	**–**	**–**	**–**	**–**	**(3,179)**	**–**
Dividends recognised as distributions *(note 13)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(30,025)**	**(30,025)**
At 31 December 2012	**75,071**	**108,431**	**39,312**	**130,239**	**47,176**	**3,091**	**153,177**	**1,127**	**1,270**	**543,658**	**1,102,552**

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 a subsidiary and the carrying amount of the non-controlling interests 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 2012

	2012	2011
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before taxation	**54,194**	37,052
Adjustments for:		
Amortisation of intellectual property rights	**935**	1,200
Amortisation of prepaid lease payments	**2,733**	2,676
Depreciation of property, plant and equipment	**52,085**	45,304
Finance cost	**6,583**	3,285
Impairment loss on property, plant and equipment	**4,062**	2,526
Impairment loss on available-for-sale investments	**4,489**	—
Impairment loss on trade receivables	**1,221**	147
Interest income	**(11,306)**	(7,818)
(Gain) loss on fair value changes of derivative financial instruments	**(137)**	136
(Gain) loss on revaluation of land and buildings	**(3,760)**	896
(Gain) loss on disposal of property, plant and equipment	**(2,800)**	600
Share-based payment expense	**1,127**	—
Recovery of doubtful debts	**(44)**	(10,051)
Share of result of an associate	**400**	(1,248)
Write-down of inventories	**774**	7,455
Operating cash flows before movements in working capital	**110,556**	82,160
Increase in inventories	**(25,983)**	(12,317)
(Increase) decrease in trade and other receivables and prepayments	**(29,066)**	4,008
(Increase) decrease in derivative financial instruments	**(1,693)**	4,937
Increase (decrease) in trade and other payables and accruals	**12,462**	(58,434)
Cash from operations	**66,276**	20,354
Hong Kong Profits Tax paid	**(1,688)**	(1,340)
Taxation paid in other jurisdictions	**(11,706)**	(13,468)
Interest paid	**(6,583)**	(3,285)
NET CASH FROM OPERATING ACTIVITIES	**46,299**	2,261
INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(384,234)**	(223,163)
Purchase of property, plant and equipment	**(49,454)**	(68,287)
Withdrawal of pledged bank deposits	**320,257**	97,148
Interest received	**11,306**	7,818
Proceeds from disposal of property, plant and equipment	**6,471**	2,442
NET CASH USED IN INVESTING ACTIVITIES	**(95,654)**	(184,042)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Repayment of bank loans	**(531,690)**	(460,200)
Dividends paid	**(30,025)**	(48,787)
New bank loans raised	**567,093**	660,533
Proceeds from issue of shares upon exercise of share options	**87**	—
NET CASH FROM FINANCING ACTIVITIES	**5,465**	151,546
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(43,890)**	(30,235)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**371,993**	396,693
Effect of foreign exchange rate changes	**4,679**	5,535
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**332,782**	371,993

1. GENERAL

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

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

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

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets; and
Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets

The application of the amendments to HKFRSs in the current year has had no material impact on the amounts reported in these consolidated financial statements or disclosures set out in these consolidated financial statements.

New and revised HKFRS issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 — 2011 Cycle[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

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

New and revised HKFRS issued but not yet effective *(continued)*

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

HKFRS 9 *Financial Instruments* (as issued in November 2010) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2011) includes requirements for the classification and measurement of financial liabilities and for derecognition.

- 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 recognition 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as 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 2015, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2015. It is anticipated that the adoption of HKFRS 9 may not have significant impact on other financial assets and liabilities except for amounts reported in respect of the Group's available-for-sale investments. Regarding the Group's available-for-sale investments, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK(SIC)-Int 12 Consolidation — Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that the application of HKFRS 10, HKFRS 11 and HKFRS 12 will have no effect on the Group as there are no jointly controlled entities in the Group and the Company have control over all group companies under the existing standards.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income" introduce new terminology for the statement of comprehensive income. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income *(continued)*

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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 of Hong Kong Limited 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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and 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.

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.

Investment in 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 those policies.

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 initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an 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. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 in profit or loss on a straight-line basis over the terms of the relevant leases.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income 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.

Property, plant and equipment

Property, plant and equipment, including land and buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress are stated in the consolidated statement of financial position 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.

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.

Depreciation is recognised so to write off the cost of items of property, plant and equipment other than properties construction in progress less their 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on 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.

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

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, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. 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.

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 directly 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) using exchange rate prevailing at the end of each reporting period. Income and expenses items 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 under the heading of translation reserve.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit costs

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

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 before taxation 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 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 temporary 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. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those 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 associated with investments in subsidiaries and an associate, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse 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.

Current and deferred tax are 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 current and deferred tax are 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 activities (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 recognised in 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 of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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 or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

The Group's financial assets at FVTPL are derivatives that are not designated and effective as a hedging instrument.

Financial assets at FVTPL 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, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

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 derivative that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period.

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 considered to be 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

- significant financial difficulty of the issuer or counterparty; or
- 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.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are classified to profit or loss in the period in which the impairment takes place.

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.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

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. Equity instruments issued by the Group are recognised 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.

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.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL, of which interest expense is included in net gains or losses.

Financial liabilities

Financial liabilities including trade and other payables and bank borrowings are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when 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

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to share option reserve.

When 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

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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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 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.

Estimated impairment loss on trade receivables

In determining whether 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 2012, the carrying amount of trade receivables is HK$281,873,000 (2011: HK$254,180,000), net of allowance for doubtful debts of HK$6,183,000 (2011: HK$5,718,000).

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 and 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 2012, the carrying amount of inventories is HK$287,010,000 (net of allowance for inventories of HK$29,788,000) (2011: HK$259,044,000, net of allowance for inventories of HK$29,014,000).

5. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two operating divisions — manufacture 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, the Group's Executive Directors, in order to allocate resources to segments and to assess their performance. The operation of retail sales of juvenile and infant products representing retail sales of milk powder, diapers, nursery products, food, apparel, strollers etc. (the "Retail Operations") was discontinued following the close down of all the retail shops in the PRC on 31 December 2012.

5. SEGMENT INFORMATION *(continued)*

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

- manufacture of juvenile and infant products — manufacture of strollers, car seats, boosters, beds and playards etc; and
- all others — manufacture of medical care products, distribution of juvenile and infant products etc.

The segment information reported below and on the next pages do not include any amounts for the Retail Operations which are described in more details in note 9, and accordingly, the prior period information are re-presented.

The Group's Executive Directors make decisions according to the operating results of each segment and internal reports on the ageing analysis of inventories and trade receivables which are disclosed in note 22. No other information of segment assets and liabilities is regularly reviewed by Group's Executive Directors 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 of continuing operations by reportable segments.

For the year ended 31 December 2012

	Manufacture of juvenile and infant products *HK$'000*	All others *HK$'000*	Total *HK$'000*
REVENUE			
External sales	**1,434,204**	**220,404**	**1,654,608**
Segment profit (loss)	**100,539**	**(5,274)**	**95,265**
Interest income			**11,103**
Gain on fair value change on derivative financial instruments			**137**
Central administrative costs			**(5,749)**
Finance costs			**(6,583)**
Impairment loss on available-for-sale investment			**(4,489)**
Share of result of an associate			**(400)**
Profit before taxation			**89,284**

5. SEGMENT INFORMATION *(continued)*

Segment revenue and results *(continued)*

For the year ended 31 December 2011

	Manufacture of juvenile and infant products *HK$'000*	All others *HK$'000*	Total *HK$'000*
REVENUE			
External sales	1,397,422	191,336	1,588,758
Segment profit (loss)	72,507	(16,668)	55,839
Interest income			7,595
Loss on fair value change on derivative financial instruments			(136)
Central administrative costs			(2,621)
Finance costs			(3,285)
Share of result of an associate			1,248
Profit before taxation			58,640

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) before taxation earned (incurred) by each segment without allocation of interest income, gain (loss) on fair value change on derivative financial instruments, central administrative costs, share of result of an associate, finance costs and impairment loss on available-for-sale investment. 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 2012

Continuing operations

	Manufacture of juvenile and infant products *HK$'000*	**All others** *HK$'000*	**Total** *HK$'000*
Amounts included in the measure of segment profit or loss:			
Depreciation of property, plant and equipment	**40,068**	**9,592**	**49,660**
Amortisation of intellectual property rights and prepaid lease payments	**3,258**	**410**	**3,668**
Impairment loss on trade receivables	**1,107**	**114**	**1,221**
Loss (gain) on disposal of property, plant and equipment	**1,093**	**(3,916)**	**(2,823)**
Write-down of inventories to net realisable value	**—**	**—**	**—**
Recovery of doubtful debts	**(40)**	**(4)**	**(44)**

For the year ended 31 December 2011

Continuing operations

	Manufacture of juvenile and infant products *HK$'000*	All others *HK$'000*	Total *HK$'000* (Restated)
Amounts included in the measure of segment profit or loss:			
Depreciation of property, plant and equipment	35,804	6,631	42,435
Amortisation of intellectual property rights and prepaid lease payments	3,544	332	3,876
Impairment loss on trade receivables	115	32	147
Impairment loss of property, plant and equipment	—	2,526	2,526
Loss (gain) on disposal of property, plant and equipment	478	(357)	121
Write-down of inventories to net realisable value	—	682	682
Recovery of doubtful debts	(9,619)	—	(9,619)

5. SEGMENT INFORMATION *(continued)*

Revenue from major products

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

	2012	2011
	HK$'000	*HK$'000*
Strollers	**674,187**	720,537
Car seats and boosters	**252,883**	202,590
Beds and playards	**114,294**	99,473
Miscellaneous infant products	**366,553**	332,106
Others	**246,691**	234,052
	1,654,608	1,588,758

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 functions, 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 revenue from continuing operations by geographical market based on locations of customers, irrespective of the origin of the goods:

	2012	2011
	HK$'000	*HK$'000*
The United States of America ("the USA")	**806,365**	728,898
Europe*	**471,103**	521,244
The PRC	**86,143**	66,241
Australia	**68,273**	66,942
South America	**63,648**	75,971
Others*	**159,076**	129,462
	1,654,608	1,588,758

* 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)*

Geographical 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:

	2012	2011
	HK$'000	*HK$'000*
Non-current assets		
The PRC	**474,396**	487,801
Taiwan	**50,959**	51,959
Hong Kong	**58,770**	54,266
The USA	**175**	298
	584,300	594,324

Information about major customers

Revenue from the two largest customers (2011: the largest customer) in respect of manufacture of juvenile and infant products amounted to approximately HK$225,600,000 and HK$181,800,000, respectively (2011: HK$198,600,000), which individually contributed more than 10% of the total sales of the Group. They are attributable to the operating segment of manufacture of juvenile and infant products.

6. OTHER GAINS AND LOSSES

	Continuing operations		**Discontinued operation**		**Consolidated**	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Impairment loss recognised in respect of:						
— property, plant and equipment	**—**	(2,526)	**(4,062)**	—	**(4,062)**	(2,526)
— available-for-sale investment	**(4,489)**	—	**—**	—	**(4,489)**	—
Gain (loss) on revaluation on land and building	**3,760**	(896)	**—**	—	**3,760**	(896)
Net foreign exchange loss	**(3,443)**	(521)	**(195)**	(113)	**(3,638)**	(634)
Gain (loss) on disposal of property, plant and equipment	**2,823**	(121)	**(23)**	(479)	**2,800**	(600)
Gain (loss) on fair value changes of derivative financial instruments	**137**	(136)	**—**	—	**137**	(136)
	(1,212)	(4,200)	**(4,280)**	(592)	**(5,492)**	(4,792)

7. FINANCE COST

	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest on bank borrowings wholly repayable within one year	**6,583**	3,285	**–**	–	**6,583**	3,285

8. INCOME TAX EXPENSE

	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current tax:						
Hong Kong Profits Tax	**979**	1,489	**–**	–	**979**	1,489
PRC Enterprise Income Tax	**6,593**	8,209	**–**	–	**6,593**	8,209
Other jurisdictions	**935**	1,008	**–**	–	**935**	1,008
	8,507	10,706	**–**	–	**8,507**	10,706
(Over) underprovision in prior years:						
Hong Kong Profits Tax	**(69)**	(53)	**–**	–	**(69)**	(53)
PRC Enterprise Income Tax	**(143)**	(2,350)	**–**	–	**(143)**	(2,350)
Other jurisdictions	**19**	(1,089)	**–**	–	**19**	(1,089)
	(193)	(3,492)	**–**	–	**(193)**	(3,492)
Deferred taxation *(Note 20)*:						
Current year	**5,012**	2,412	**–**	–	**5,012**	2,412
	13,326	9,626	**–**	–	**13,326**	9,626

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 and the tax relief ended in 2011 accordingly. This PRC subsidiary is therefore, being accounted for based on the PRC Enterprise Income Tax rate of 25% since 2012. In addition, another PRC subsidiary of the Company was regarded as "High and New Tech Enterprise" since late 2009. Accordingly, that PRC subsidiary was subject to a reduced PRC Enterprise Income Tax rate of 15% for the year ended 31 December 2012 (2011: 15%).

8. INCOME TAX EXPENSE *(continued)*

During the year ended 31 December 2012, the Group has received an enquiry from the tax authorities in the PRC in relation to the EIT of certain subsidiaries of the Company arising from the Group restructuring in 2010, which may lead to the Group being liable to additional EIT. The Company is currently discussing with the relevant PRC tax authorities and as at the date of authorisation for issue of the financial statements for the year ended 31 December 2012, no written demand has been issued. In view of the tax enquiry is still in progress and the ultimate outcome of the tax inquiry cannot be reliably determined, no provision has been made in the consolidated statement of comprehensive income in the current year.

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.

Corporate Income Tax in Taiwan is charged at 17% for both years.

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

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

	2012 ***HK$'000***	2011 *HK$'000*
Profit before taxation from continuing operations	**89,284**	58,640
Tax at Hong Kong Profits Tax rate of 16.5%	**14,732**	9,676
Tax effect of share of result of an associate	**66**	(206)
Tax effect of expenses not deductible for tax purpose	**9,375**	8,280
Tax effect of income not taxable for tax purpose	**(1,449)**	(2,535)
Overprovision in prior years	**(193)**	(3,492)
Tax effect of tax losses not recognised	**2,007**	6,219
Utilisation of tax losses previously not recognised	**(1,108)**	—
Effect of tax exemption/relief granted to PRC/Macau subsidiaries	**(10,248)**	(10,208)
Effect of tax concession granted to a PRC subsidiary	**(4,009)**	(4,631)
Effect of different tax rates of subsidiaries operate in other jurisdictions	**2,871**	4,557
Deferred tax provided on dividends withholding tax of PRC subsidiaries	**1,282**	1,966
Income tax expense	**13,326**	9,626

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

9. DISCONTINUED OPERATION

In the current year, the Group has closed all of its retail shops in the PRC in relations to the Retail Operations on 31 December 2012 (see note 5). Therefore, the Retail Operations are treated as discontinued operation for both 2012 and 2011. The comparative of the consolidated statement of comprehensive income has been re-presented to reflect the changes.

The results of the Retail Operations for the year were as follows:

	2012	2011
	HK$'000	*HK$'000*
Revenue	**44,167**	83,338
Cost of sales	**(39,857)**	(70,895)
Other income	**561**	5,949
Other gains and losses	**(4,280)**	(592)
Marketing and distribution costs	**(25,095)**	(28,290)
Administrative expenses	**(10,586)**	(11,098)
Income tax expense	**—**	—
Loss for the year	**(35,090)**	(21,588)

Loss for the year from discontinued operation include the following:

	2012	2011
	HK$'000	*HK$'000*
Auditor's remuneration	**139**	103
Bank interest income	**(203)**	(223)
Depreciation of property, plant and equipment	**2,425**	2,869
Impairment loss of property, plant and equipment	**4,062**	—
Loss on disposal of property, plant and equipment	**23**	479
Write-down of inventories to net realisable value	**774**	6,773
Recovery of doubtful debts	**—**	(432)
Staff compensation for termination	**1,240**	—
Compensation in respect of termination of rental agreement of retail shops	**615**	—

During the year, the Retail Operations used HK$31.6 million (2011: HK$12.9 million) from the Group's net operating cash flows, received HK$744,000 (2011: HK$91,000) in respect of investing activities and received HK$27.7 million (2011: HK$2.4 million) in respect of financing activities. The amount shown above is respect of the financing activities include financing arrangements with other group companies.

10. PROFIT FOR THE YEAR

	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit for the year has been arrived at after charging (crediting):						
Salaries, allowances and bonuses, including those of directors	**304,633**	285,911	**10,473**	16,654	**315,106**	302,565
Equity settled share-based payment	**1,127**	–	**–**	–	**1,127**	–
Contributions to retirement benefit schemes, including those of directors	**8,912**	9,395	**467**	534	**9,379**	9,929
Total employee benefits expense, including those of directors	**314,672**	295,306	**10,940**	17,188	**325,612**	312,494
Amortisation of prepaid lease payments	**2,733**	2,676	**–**	–	**2,733**	2,676
Amortisation of intellectual property rights (included in other expenses)	**935**	1,200	**–**	–	**935**	1,200
Auditor's remuneration	**1,756**	1,749	**139**	103	**1,895**	1,852
Cost of inventories recognised as an expense	**1,295,971**	1,261,393	**39,083**	70,895	**1,335,054**	1,332,288
Depreciation of property, plant and equipment	**49,660**	42,435	**2,425**	2,869	**52,085**	45,304
(Gain) loss on disposal of property, plant and equipment	**(2,823)**	121	**23**	479	**(2,800)**	600
Impairment loss on trade receivables	**1,221**	147	**–**	–	**1,221**	147
Impairment loss on property, plant and equipment	**–**	2,526	**4,062**	–	**4,062**	2,526
Write-down of inventories to net realisable value	**–**	682	**774**	6,773	**774**	7,455
Bank interest income	**(11,103)**	(7,595)	**(203)**	(223)	**(11,306)**	(7,818)
Property rental income net of negligible outgoing expenses	**(918)**	(1,145)	**–**	–	**(918)**	(1,145)
Recovery of doubtful debts	**(44)**	(9,619)	**–**	(432)	**(44)**	(10,051)

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the six (2011: seven) directors and the chief executive are as follows:

2012

	Chief Executive and director	Directors						
	Huang Ying Yuan HK$'000	Huang Chen Li Chu HK$'000	Chen Chun Chieh HK$'000	Chen Chao Jen *(note i)* HK$'000	Lim Pat Wah Patrick HK$'000	Huang Zhi Wei HK$'000	Chern Shyh Feng HK$'000	Total HK$'000
Fees	–	–	–	–	289	229	229	747
Salaries and allowances	85	1,597	1,363	1,459	–	–	–	4,504
Contribution to retirement benefits	–	–	32	–	–	–	–	32
Total emoluments	85	1,597	1,395	1,459	289	229	229	5,283

2011

	Chief Executive and director	Directors							
	Huang Ying Yuan HK$'000	Huang Chen Li Chu HK$'000	Chen Chun Chieh HK$'000	Chen Chao Jen *(note i)* HK$'000	Yang Yu Fu *(note ii)* HK$'000	Lim Pat Wah Patrick HK$'000	Huang Zhi Wei HK$'000	Chern Shyh Feng HK$'000	Total HK$'000
Fees	–	–	–	–	–	288	228	218	734
Salaries and allowances	2,199	1,586	1,386	1,372	–	–	–	–	6,543
Contribution to retirement benefit	–	–	39	–	–	–	–	–	39
Total emoluments	2,199	1,586	1,425	1,372	–	288	228	218	7,316

Notes:

(i) Mr. Chen Chao Jen resigned as executive director on 31 January 2013.
(ii) Mr. Yang Yu Fu resigned as executive director on 28 January 2011.

For the year ended 31 December 2012, Mr. Huang Ying Yuan waived emoluments of HK$2,135,000 (2011: nil).

Mr. Huang Ying Yuan is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as Chief Executive.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2011: four) were directors of the Company whose emoluments are included in the disclosure in note 11 above. The emoluments of the remaining two (2011: one) individuals are as follows:

	2012	2011
	HK$'000	*HK$'000*
Salaries and other benefits	**2,750**	1,379
Contribution to retirement benefit	**66**	—

Their emoluments were within the following bands:

	2012	2011
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.

13. DIVIDENDS

	2012	2011
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2011 final dividend of HK2.0 cents (2011: 2010 final dividend of HK6.5 cents) per share	**15,011**	48,787
2012 interim dividend of HK2.0 cents (2011: nil) per share	**15,014**	—
	30,025	48,787

A final dividend of HK2.0 cents per share in respect of the year ended 31 December 2012 (2011: final dividend of HK2.0 cents per share in respect of the year ended 31 December 2011), amounting to approximately HK$15,014,000, has been proposed by the Board of Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

(a) For continuing and discontinued operations

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

	2012	2011
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company, for the purpose of basic and diluted earnings per share	**40,868**	27,426

	Number of shares	*Number of shares*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**750,617,299**	750,570,724
Effect of dilutive potential ordinary shares in respect of share options	**90,405**	427,006
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**750,707,704**	750,997,730

(b) From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

	2012	2011
	HK$'000	*HK$'000*
Profit for the year from continuing operations	**75,958**	49,014

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

(c) From discontinued operation

Basis loss per share for the discontinued operation is HK4.67 cents per share (2011: HK2.88 cents per share) which is calculated based on the loss for the year from discontinued operation of HK$35,090,000 (2011: HK$21,588,000) and the denominators detailed above.

No diluted loss per share for the discontinued operation was presented for both years since their assumed exercise of the share options would result in a decrease in diluted loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000 (note)	Leasehold improvements HK$'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 2011	264,372	7,192	253,278	102,681	14,551	14,210	656,284
Exchange realignment	7,031	117	11,627	3,289	584	1,186	23,834
Additions	2,182	2,354	32,060	4,243	2,075	25,373	68,287
Disposals	–	–	(5,904)	(9,661)	(2,443)	–	(18,008)
Adjustment on valuation	9,434	–	–	–	–	–	9,434
At 31 December 2011	**283,019**	**9,663**	**291,061**	**100,552**	**14,767**	**40,769**	**739,831**
Exchange realignment	**5,082**	**92**	**2,903**	**947**	**160**	**134**	**9,318**
Additions	**–**	**872**	**21,189**	**1,951**	**560**	**24,882**	**49,454**
Disposals	**(1,231)**	**–**	**(32,666)**	**(3,103)**	**(121)**	**–**	**(37,121)**
Transfer	**51,448**	**–**	**–**	**–**	**–**	**(51,448)**	**–**
Adjustment on valuation	**(27,704)**	**–**	**–**	**–**	**–**	**–**	**(27,704)**
At 31 December 2012	**310,614**	**10,627**	**282,487**	**100,347**	**15,366**	**14,337**	**733,778**
Comprising:							
At cost	**–**	**10,627**	**282,487**	**100,347**	**15,366**	**14,337**	**423,164**
At valuation – 2012	**310,614**	**–**	**–**	**–**	**–**	**–**	**310,614**
	310,614	**10,627**	**282,487**	**100,347**	**15,366**	**14,337**	**733,778**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2011	–	3,259	151,452	77,689	7,452	–	239,852
Exchange realignment	3,732	53	6,892	2,393	313	–	13,383
Provided for the year	20,819	890	14,979	7,286	1,330	–	45,304
Impairment loss recognised in profit or loss	–	–	2,526	–	–	–	2,526
Eliminated on disposals	–	–	(4,834)	(8,572)	(1,560)	–	(14,966)
Adjustment on valuation	(24,551)	–	–	–	–	–	(24,551)
At 31 December 2011	**–**	**4,202**	**171,015**	**78,796**	**7,535**	**–**	**261,548**
Exchange realignment	**1,489**	**35**	**1,634**	**736**	**92**	**–**	**3,986**
Provided for the year	**24,951**	**2,384**	**16,732**	**6,785**	**1,233**	**–**	**52,085**
Impairment loss recognised in profit or loss	**–**	**1,143**	**–**	**2,858**	**61**	**–**	**4,062**
Eliminated on disposals	**(955)**	**–**	**(29,763)**	**(2,634)**	**(98)**	**–**	**(33,450)**
Adjustment on valuation	**(25,485)**	**–**	**–**	**–**	**–**	**–**	**(25,485)**
At 31 December 2012	**–**	**7,764**	**159,618**	**86,541**	**8,823**	**–**	**262,746**
CARRYING VALUES							
At 31 December 2012	**310,614**	**2,863**	**122,869**	**13,806**	**6,543**	**14,337**	**471,032**
At 31 December 2011	283,019	5,461	120,046	21,756	7,232	40,769	478,283

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.

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

During the year ended 31 December 2012, property, plant and equipment of HK$4,062,000 (2011: nil) mainly for the Group's Retail Operations were impaired due to the close of retail shops.

Certain buildings of the Group erected on the lands in the PRC were not granted formal title of their ownership. At 31 December 2012, the carrying value of buildings in the PRC for which the Group had not been granted formal title amounted to HK$122,698,000 (2011: HK$115,023,000). In the opinion of the directors, the absence of formal title does not impair the value of the relevant building. The directors also believe that formal title to these buildings will be granted to the Group in due course.

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

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 — $33^1/_3$%
Motor vehicles	20 — 50%

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

	2012	2011
	HK$'000	*HK$'000*
Held in Hong Kong under long-term leases	**53,600**	48,749
Held in the PRC under medium term land use rights	**210,639**	193,670
Held in Taiwan, freehold	**46,375**	40,600
	310,614	283,019

The Group revalued its land and buildings at the year end date. The revaluation resulted in a loss of carrying values amounting to HK$2,219,000 (2011: a gain of HK$33,985,000), of which HK$5,979,000 (2011: HK$34,881,000) has been debited directly to the property revaluation reserve and a gain of HK$3,760,000 (2011: a loss of HK$896,000) has been recognised in the profit or loss for the year, which was resulted from the raise in market prices for similar properties in similar conditions in Taiwan. The gain of HK$3,760,000 is credited to the profit or loss to the extent of the decrease previously charged to profit or loss.

At 31 December 2011, certain leasehold land and buildings in the PRC of the Group with carrying values of HK$280,000 were valued by the directors, who estimated that their fair value was not materially different from the carrying amount. Such leasehold land and buildings was disposed of in 2012.

The land and buildings of the Group were revalued at 31 December 2012 by RHL Appraisal Limited ("RHL"), 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$65,920,000 (2011: HK$58,762,000) were valued on an open market value basis. The remaining land and buildings in the PRC amounting to HK$198,319,000 (2011: HK$183,377,000) and the land and buildings in Taiwan amounting to HK$46,375,000 (2011: HK$40,600,000) 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$153,445,000 (2011: HK$122,665,000).

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments of HK$102,950,000 (2011: HK$104,606,000) represent leasehold land in the PRC held under medium-term lease. An amount of HK$2,103,000 (2011: HK$2,101,000) is classified under current assets for reporting purpose.

17. INTELLECTUAL PROPERTY RIGHTS

	HK$'000
COST	
At 1 January 2011	96,967
Exchange realignment	(3,782)
At 31 December 2011	93,185
Exchange realignment	3,949
At 31 December 2012	97,134
AMORTISATION AND IMPAIRMENT	
At 1 January 2011	93,860
Exchange realignment	(3,695)
Provided for the year	1,200
At 31 December 2011	91,365
Exchange realignment	3,889
Provided for the year	935
At 31 December 2012	96,189
CARRYING VALUES	
At 31 December 2012	945
At 31 December 2011	1,820

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 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.

18. INVESTMENT IN AN ASSOCIATE

	2012 ***HK$'000***	2011 *HK$'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 expense	**(1,065)**	(778)
	7,035	7,322

18. INVESTMENT IN AN ASSOCIATE *(continued)*

Details of the Group's associates at 31 December 2012 and 2011 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

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

	2012	2011
	HK$'000	*HK$'000*
Total assets	**43,801**	41,430
Total liabilities	**(20,350)**	(17,022)
Net assets	**23,451**	24,408
Group's share of net assets of an associate	**7,035**	7,322
Revenue	**34,902**	40,139
(Loss) profit for the year	**(1,333)**	4,161
Other comprehensive income (expense)	**376**	(131)
Group's share of (loss) profit and other comprehensive (expense) income of the associate for the year	**(287)**	1,209

19. AVAILABLE-FOR-SALE INVESTMENTS

The Group's non-current available-for-sale investments at 31 December 2012 represent a 8% (2011: 8%) and 0.7% (2011: 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.

During the year ended 31 December 2012, the business operation of the 8% equity investment was suspended and no revenue was generated. There are no concrete timetable for the resumption of its trading activities. The Group carried out a review of the recoverable amount of its business. The recoverable amount in the review is significantly lower than its carrying amount, which is attributable to lower than expected future cash flow to be generated in coming years. Therefore, a full impairment of HK$4,489,000 (2011: nil) was charged to the profit or loss in relation to the 8% equity investment in the current year.

20. DEFERRED TAXATION

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

	Difference between accounting and tax depreciation	Revaluation of properties	Withholding income tax	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	(2,157)	32,708	8,159	(2,338)	36,372
Exchange realignment	—	—	447	(7)	440
(Credit) charge to profit or loss	(924)	(223)	1,966	1,593	2,412
Charge to other comprehensive income	—	7,755	—	—	7,755
At 31 December 2011	**(3,081)**	**40,240**	**10,572**	**(752)**	**46,979**
Exchange realignment	**—**	**—**	**156**	**7**	**163**
(Credit) charge to profit or loss	**(516)**	**939**	**1,282**	**3,307**	**5,012**
Credit to other comprehensive income	**—**	**(2,250)**	**—**	**—**	**(2,250)**
At 31 December 2012	**(3,597)**	**38,929**	**12,010**	**2,562**	**49,904**

20. DEFERRED TAXATION *(continued)*

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:

	2012	2011
	HK$'000	*HK$'000*
Deferred tax assets	**(80)**	(639)
Deferred tax liabilities	**49,984**	47,618
	49,904	46,979

According to the EIT Law, starting from 1 January 2008, 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 all the undistributed profits from these PRC subsidiaries amounting to HK$12,010,000 (2011: HK$10,572,000).

At 31 December 2012, the Group had unused tax losses of HK$237,765,000 (2011: HK$220,258,000) 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$208,031,000 will expire in 2013 to 2017 (2011: HK$163,419,000 will expire in 2013 to 2015). Other losses may be carried forward indefinitely.

21. INVENTORIES

	2012	2011
	HK$'000	*HK$'000*
Raw materials	**91,548**	79,262
Work in progress	**57,884**	47,994
Finished goods	**137,578**	131,788
	287,010	259,044

During the year, an allowance of HK$774,000 (2011: HK$7,455,000) was made on obsolete and slow-moving inventory items identified.

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**288,056**	259,898
Less: allowance for doubtful debts	**(6,183)**	(5,718)
	281,873	254,180
Purchase deposits, other receivables and deposits	**91,658**	80,547
Advance to a supplier	**2,991**	3,422
Prepayments	**10,678**	21,038
Trade and other receivables and prepayments	**387,200**	359,187

The Group allows an average credit period of 60 days to its customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of reporting period, which approximated the respective revenue recognition dates.

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**128,240**	147,913
31 to 90 days	**122,054**	93,980
Over 90 days	**31,579**	12,287
	281,873	254,180

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$41,904,000 (2011: HK$40,556,000) which are past due at the end of reporting period for which the Group has not provided for impairment loss after consideration of the credit quality of those individual customers, the ongoing relationship with the Group, the aging of these receivables and their subsequently settlement pattern. The Group does not hold any collateral over these balances.

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

Ageing of trade receivables which are past due but not impaired

	2012 *HK$'000*	2011 *HK$'000*
Within 30 days	**29,956**	25,272
31 to 90 days	**4,887**	9,137
Over 90 days	**7,061**	6,147
Total	**41,904**	40,556

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

	2012 *HK$'000*	2011 *HK$'000*
Balance at beginning of the year	**5,718**	22,338
Impairment loss on receivables	**1,221**	147
Amount recovered during the year	**(44)**	(10,051)
Amount written off as uncollectible	**(712)**	(6,716)
Balance at end of the year	**6,183**	5,718

Included in trade receivables are amounts net of individually impaired receivables amounting to HK$6,183,000 (2011: HK$5,718,000). The directors of the Company take into consideration the current financial position of the counterparties and their repayment history and consider that the chances of collection of the outstanding amounts are remote.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2012 *HK$'000*	2011 *HK$'000*
Foreign currency forward contracts		
— Assets	**1,732**	—
— Liabilities	**(1,397)**	(1,495)
	335	(1,495)

23. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Major terms of the outstanding foreign currency forward contracts are as follows:

At 31 December 2012:

Principal/notional amount	Forward contract rates	Maturity
4 contracts to buy in total of US$17,112,000 (net settled)	US$1 to RMB6.3820 — 6.4130	Range from 10 January 2013 to 15 October 2013
4 contracts to sell in total of US$17,000,000 (gross settled)	US$1 to RMB6.3890 — 6.4230	Range from 11 January 2013 to 10 October 2013
1 contract to sell in total of Great British Pound ("GBP") 3,087,000 (gross settled)	GBP1 to RMB10.0982	8 May 2013
1 contract to sell in total of Euro Dollars ("EURO") 2,496,000 (gross settled)	EURO1 to RMB 7.9285	12 June 2013

At 31 December 2011:

Principal/notional amount	Forward contract rates	Maturity
7 contracts to buy in total of US$20,180,000 (net settled)	US$1 to RMB6.3800 — 6.4560	Range from 6 January 2012 to 25 July 2012

The above financial instruments are measured at fair values based on a valuation conducted by Grant Sherman as at 31 December 2012 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.

24. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits represent deposits pledged to banks to secure general banking facilities granted to the Group with maturity within one year from the end of the reporting period and are therefore classified as current assets.

The pledged bank deposits are with maturity date of less than one year and carry interest at fixed rates ranging from 2.04% to 4.96% (2011: 3.5% to 3.65%) per annum. The bank balances carry interest at prevailing market rates ranging from 0.01% to 3.5% (2011: 0.01% to 3.5%) per annum.

25. TRADE AND OTHER PAYABLES AND ACCRUALS

	2012 *HK$'000*	2011 *HK$'000*
Trade payables	**200,554**	204,979
Accrued expenses	**56,268**	46,410
Other payables	**49,553**	40,133
	306,375	291,522

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

	2012 *HK$'000*	2011 *HK$'000*
Within 30 days	**76,385**	89,390
31 to 90 days	**106,222**	100,006
Over 90 days	**17,947**	15,583
	200,554	204,979

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

26. BANK BORROWINGS

	2012 *HK$'000*	2011 *HK$'000*
Bank loans	**322,184**	286,133
Analysed as:		
Secured	**61,937**	130,133
Unsecured	**260,247**	156,000
	322,184	286,133
The exposure of the Group's borrowings are as follows:		
Fixed-rate borrowings	**61,937**	130,133
Variable-rate borrowings	**260,247**	156,000
	322,184	286,133

26. BANK BORROWINGS *(continued)*

The range of effective interest rates (which are also equal to contracted interest rates) of the Group's borrowings are as follows:

	2012	2011
Fixed-rate borrowings	**4.57% to 4.61% per annum**	1.44% to 1.75% per annum
Variable-rate borrowings	**London Interbank Offered Rate ("LIBOR") + 1% or Singapore Interbank Offered Rate ("SIBOR") + 1% per annum**	LIBOR + 1% or SIBOR + 1% per annum

The amounts are denominated in the functional currency of the relevant Group entity.

All borrowings are repayable within one year of the end of the reporting period.

The bank borrowings of HK$61,937,000 (2011: HK$130,133,000) is secured by pledged bank deposits as detailed in note 24.

27. RELATED PARTY DISCLOSURES

During the year, the Group had transactions with the directors or related parties. The transactions during the year, are as follows:

(a) Transactions with related parties:

Name of party	Interested directors	Nature of transactions	**2012** *HK$'000*	2011 *HK$'000*
Yojin Industrial Corporation	Mr. Huang Ying Yuan Mrs. Huang Chen Li Chu *(note i)*	Rental expenses paid by the Group *(note ii)*	**640**	625

(b) Transaction with a director and shareholder having significant influence on the Company:

Name of director	Nature of transactions	**2012** *HK$'000*	2011 *HK$'000*
Mr. Huang Ying Yuan	Rental expenses paid by the Group to a director *(note ii)*	**159**	264

27. RELATED PARTY DISCLOSURES *(continued)*

(c) Compensation of key management personnel

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

	2012	2011
	HK$'000	*HK$'000*
Short-term employee benefits	**5,283**	7,316

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 are the controlling shareholders of Yojin Industrial Corporation and have beneficial interests with significant influence in the Company.

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

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

28. SHARE CAPITAL

	Number of ordinary shares	**Amount**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2011, 31 December 2011 and 31 December 2012	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2011 and 31 December 2011	750,570,724	75,057
Exercise of share options	136,000	14
At 31 December 2012	750,706,724	75,071

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

29. SHARE OPTIONS

2002 scheme

The Company adopted a share option scheme, which was approved at the Company's annual general meeting held on 30 May 2002 (the "2002 Scheme"), for the primary purpose of providing incentives to directors and eligible participants. 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 contribution 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.

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 directors and 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 directors and 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.

On 18 January 2012, the Company granted share options to certain eligible employees (excluding directors) to subscribe for a total of 15,000,000 shares in the Company (equally divided into two batches, namely Batch I and Batch II) at an exercise price of HK$0.77 per share under the 2002 Scheme. These 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 (i.e. 18 January 2013 for Batch I and 18 January 2014 for Batch II) to the expiry date (i.e. 17 January 2017 for both batches).

29. SHARE OPTIONS *(continued)*

2012 Scheme

The 2002 Scheme was expired on 31 May 2012. The Company adopted a new share option scheme (the "2012 Scheme"), which was approved in the Company's annual general meeting on 28 May 2012 with the view to motivate the eligible participants.

Except that no further options may be granted under the 2002 Scheme subsequent to its expiration, all the other provisions of the 2002 Scheme will remain in force so as to give effect to the exercise of all outstanding options granted under the 2002 Scheme and all such options will remain valid and exercisable in accordance with the provisions of the 2002 Scheme.

According to the 2012 Scheme, the board of directors of the Company may offer to grant an option to any full-time employees, executives or officers, directors of the Company or any of its subsidiaries and suppliers, consultants, agents and advisers who have contributed to the Group. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

In general, the maximum number of shares in respect of which options may be granted under the 2012 Scheme and under any other share option scheme of the Company must not exceed 10% of the total number of shares in issue, excluding for this purpose shares which would have been issuable pursuant to option which have lapsed in accordance with the terms of the 2012 Scheme.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the 2012 Scheme and any other share option schemes of the Company to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as of the date of grant without prior approval of the shareholders. Share options granted to connected persons in excess of 0.1% of the share in issue or having a value in excess of HK$5 million must be approved in advance by the Company's shareholders in general meeting.

The directors may in its absolute discretion determine the period during which an option may be exercised, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the 2012 Scheme. Subject to earlier termination by the Company in general meeting or by the board of directors, the 2012 Scheme shall be valid and effective for a period of 10 years after the date of adoption of the 2012 Scheme. The exercise price shall be determined by the board of directors and must not be less than the highest of (i) the official closing price of the Company's shares on the date of grant, (ii) the average of the official closing price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of a share.

No option was granted during the year under the 2012 Scheme.

29. SHARE OPTIONS *(continued)*

The following table discloses movements in the Company's share options during the year ended 31 December 2012 and 2011:

	Date of grant	Number of shares subject to share options							
		Outstanding at 1 January 2011	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2011	Option granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 31 December 2012
Employees									
	14 February 2006	56,000	–	(56,000)	–	–	–	–	–
	26 November 2007	1,076,000	–	(376,000)	700,000	–	(136,000)	(564,000)	–
	18 January 2012	–	–	–	–	15,000,000	–	(1,308,000)	13,692,000
Total for employees		1,132,000	–	(432,000)	700,000	15,000,000	(136,000)	(1,872,000)	13,692,000
Exercisable at the end of the year		1,132,000			700,000				–
Weighted average exercise price		0.64			0.64				0.77

Details of specific categories of share options are as follows:

Date of grant	Vesting period	Exercisable period	Exercise price *HK$*
14 February 2006 (Batch I)	11 months	17 January 2007 — 16 January 2012	0.54
14 February 2006 (Batch II)	23 months	17 January 2008 — 16 January 2012	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 2010 — 7 November 2012	0.64
18 January 2012 (Batch I)	12 months	18 January 2013 — 17 January 2017	0.77
18 January 2012 (Batch II)	24 months	18 January 2014 — 17 January 2017	0.77

The estimate fair values of the options granted on the following dates were:

	HK$
14 February 2006 Batch I	0.15
14 February 2006 Batch II	0.17
26 November 2007 Batch I	0.11
26 November 2007 Batch II	0.10
18 January 2012 Batch I	0.12
18 January 2012 Batch II	0.11

29. SHARE OPTIONS *(continued)*

In respect of the share options exercised for the year ended 31 December 2012, the weighted average share price at the dates of exercise was HK$0.76. No share options were exercised in 2011.

In respect of the share options granted on 18 January 2012, the fair values were calculated using the Black-Scholes option pricing model (the "Black-Scholes Model"). The inputs into the model were as follows:

	2012	
	(Batch I)	**(Batch II)**
Number of options granted	**7,500,000**	**7,500,000**
Weighted average share price	**HK$0.81**	**HK$0.81**
Exercise price	**HK$0.77**	**HK$0.77**
Expected volatility	**48.26%**	**47.60%**
Expected life	**3 years**	**3.5 years**
Risk-free rate	**0.38%**	**0.48%**
Expected dividend yield	**11.69%**	**11.69%**

Expected volatility was determined by using the historical volatility of the Company's share price over past 3 years up to valuation date.

The Black-Scholes Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised HK$1,127,000 for the year ended 31 December 2012 (2011: nil) share-based payment expenses (included in administrative expenses) in relation to share options granted by the Company.

30. 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 26, net of cash and cash equivalents, 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, 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 and repayment of existing debts.

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
At fair value through profit or loss	**1,732**	—
Loans and receivables (including cash and cash equivalents)	**882,155**	801,219
Available-for-sale financial assets	**641**	5,130
Financial liabilities		
At fair value through profit or loss	**1,397**	1,495
Amortised cost	**540,896**	531,245

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, derivative financial instruments, pledged bank deposits, bank balances, trade and other payables and bank borrowings. 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 and interest rate risk) and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's principal financial assets include trade and other receivables, pledged bank deposits 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 2012 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 35% of the total trade receivables as at 31 December 2012 (2011: 38%) 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.

31. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk *(continued)*

The credit risk on liquid funds 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 any other significant concentration of credit risk.

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 4% (2011: 4%) of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sale, and approximately 20% (2011: 28%) of purchase 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. 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 manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and buying foreign currency forward contracts if it considers the risk to be significant.

At the 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:

	2012	2011
	HK$'000	*HK$'000*
Monetary Assets		
US$	**159,626**	20,852
HK$	**2,937**	15,229
EURO	**32,268**	6,457
GBP	**38,706**	—
New Taiwan dollars ("NTD")	**949**	4,625
Monetary Liabilities		
US$	**121,362**	11,332
HK$	**36,037**	3,367
NTD	**48,872**	1,011

31. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(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$34,112,000, GBP3,087,000 and EUR2,496,000 (2011: US$20,180,000). Details are shown in note 23.

Sensitivity analysis

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

Since HK$ is pegged to US$, relevant foreign currency risk is minimal. Accordingly, their fluctuation is excluded from the sensitivity analysis. The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in US$ 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 rate, respectively. A 5% strengthening of US$ against NTD, EURO and GBP will have the following pre-tax profit (loss) on the results for the year, and vice versa.

	NTD impact		EURO impact		GBP impact	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Monetary assets and liabilities	**2,396**	(180)	**(1,613)**	(322)	**(1,935)**	–

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to bank deposits and variable-rate bank borrowings (see notes 24 and 26 for details, respectively).

The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 26 for details).

31. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(ii) Interest rate risk (continued)

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly attributable to fluctuation of LIBOR and SIBOR.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank deposits and variable-rate bank borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis points (2011: 10 basis points) increase or decrease for bank deposits and a 50 basis points (2011: 50 basis points) increase or decrease for variable-rate bank borrowings are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

A 10 basis points (2011: 10 basis points) change in interest rate for bank deposits with all other variables held constant would not have a significant effect on the Group's profit for both years.

A 50 basis points (2011: 50 basis points) change in interest rate for variable-rate bank borrowings with all other variables held constant, the Group's pre-tax profit for the year ended 31 December 2012 would decrease/increase by HK$1,301,000 (2011: HK$780,000).

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 management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

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.

31. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

	Weighted average interest rate	On demand or less than 1 month	31-90 days	91-365 days	Total undiscounted cash flows	Carrying amount at 31 December 2012
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2012						
Non-derivative financial liabilities						
Trade and other payables	–	94,543	106,222	17,947	218,712	218,712
Fixed-rate bank borrowings	4.60%	–	–	64,786	64,786	61,937
Variable-rate bank borrowings	1.8%	56,654	39,702	168,575	264,931	260,247
		151,197	145,924	251,308	548,429	540,896
Derivative financial liabilities						
Foreign currency forward contracts – outflow		731	489	177	1,397	1,397

	Weighted average interest rate	On demand or less than 1 month	31-90 days	91-365 days	Total undiscounted cash flows	Carrying amount at 31 December 2011
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2011						
Non-derivative financial liabilities						
Trade and other payables	–	112,237	117,967	14,908	245,112	245,112
Fixed-rate bank borrowings	1.60%	130,133	–	–	130,133	130,133
Variable-rate bank borrowings	1.42%	15,821	–	142,394	158,215	156,000
		258,191	117,967	157,302	533,460	531,245
Derivative financial liabilities						
Foreign currency forward contracts – outflow		833	–	662	1,495	1,495

31. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2011, the aggregate undiscounted principal amounts of these bank loans amounted to HK$130,133,000. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within one year after the end of the reporting period in accordance with the scheduled repayment date set out in the loan agreement. At that time, the aggregate principal and interest cash outflows will amount to HK$131,054,000. The amount has been fully repaid in 2012.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

As at 31 December 2012, there are no bank loans with a repayment on demand clause.

(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 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).

31. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value *(continued)*

Fair value measurement of financial assets and financial liabilities *(continued)*

	As at 31 December 2012 Level 2 *HK$'000*	As at 31 December 2011 Level 2 *HK$'000*
Derivative financial assets	**1,732**	—
Derivative financial liabilities	**1,397**	1,495

32. OPERATING LEASE COMMITMENTS AND ARRANGEMENTS

The Group as lessee

	2012 *HK$'000*	2011 *HK$'000*
Minimum lease payments paid under operating leases during the year	**18,699**	16,745

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:

	2012 *HK$'000*	2011 *HK$'000*
Within one year	**6,504**	18,005
In the second to fifth year inclusive	**1,482**	13,739
Over five years	**—**	327
	7,986	32,071

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.

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

The Group as lessor

Property rental income earned during the year was HK$918,000 (2011: HK$1,145,000). Leases are negotiated for an average term of two years and fixed for an average of two years.

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

	2012	2011
	HK$'000	*HK$'000*
Within one year	**186**	351
In the second to fifth year inclusive	**44**	140
	230	491

33. CAPITAL COMMITMENTS

	2012	2011
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of		
— lease premium of land	**7,921**	7,838
— property, plant and equipment	**8,337**	13,298
	16,258	21,136

34. 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 and defined contribution plan 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 and defined contribution plan to fund the benefits, respectively. The only obligation of the Group with respect to the retirement benefit schemes and defined contribution plan is to make the specified contributions.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company at 31 December 2012 and 2011 are as follows:

	Notes	2012 HK$'000	2011 HK$'000
Total assets			
Investment in subsidiaries		**253,971**	253,971
Other receivables		**138**	283
Amount due from subsidiaries	(a)	**361,377**	373,265
Bank balances		**1,638**	4,488
		617,124	632,007
Total liabilities			
Other payables		**1,613**	989
Amounts due to subsidiaries	(a)	**183,068**	199,327
		184,681	200,316
		432,443	431,691
Capital and reserves			
Share capital		**75,071**	75,057
Reserves	(b)	**357,372**	356,634
		432,443	431,691

Notes:

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

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

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Notes: (continued)

(b) Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2011	108,343	244,461	177	1,270	5,766	360,017
Profit for the year and total recognised income for the year	–	–	–	–	45,404	45,404
Share options lapsed during the year	–	–	(50)	–	50	–
Dividends recognised as distributions *(note 13)*	–	–	–	–	(48,787)	(48,787)
At 31 December 2011	108,343	244,461	127	1,270	2,433	356,634
Profit for the year and total recognised income for the year	–	–	–	–	29,563	29,563
Exercise of share options	88	–	(15)	–	–	73
Recognition of equity settled share-based payments	–	–	1,127	–	–	1,127
Share options lapsed/ cancelled during the year	–	–	(112)	–	112	–
Dividends recognised as distributions *(note 13)*	–	–	–	–	(30,025)	(30,025)
At 31 December 2012	108,431	244,461	1,127	1,270	2,083	357,372

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company				Principal activities *(note i)*
			Directly		Indirectly		
			2012 %	2011 %	**2012** %	2011 %	
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
中山市隆成日用製品有限公司	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**	100	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
黃石市隆成日用製品有限公司	the PRC *(note ii)*	US$10,000,000 registered capital	**–**	–	**100**	100	Manufacturing and trading of infant products

36. 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 Directly		Indirectly		Principal activities *(note i)*
			2012 %	2011 %	**2012 %**	2011 %	
陽江市隆成日用製品有限公司	the PRC *(note ii)*	US$1,000,000 registered capital	**–**	–	**100**	100	Manufacturing and trading of infant products
上海隆成嬰童用品有限公司	the PRC *(note ii)*	US$10,000,000 registered capital	**–**	–	**100**	100	Retail sale and wholesale 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 or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

37. CONTINGENT LIABILITY

During the year, a wholly-owned subsidiary of the Company has been named as a defendant in a United States District action in respect of an alleged breach of contractual undertakings for an amount of US$1,722,000 (equivalents to HK$13,432,000). The trial date has been set for the case at the United States District Court, Western District of Louisiana on 12 May 2014. The directors of the Company, after considering that this litigation is in its early stage and the outcome of the proceedings is uncertain, are of the opinion that no provision for any potential liability should be made in these consolidated financial statements.

Financial Summary

RESULTS

	Year ended 31 December				
	2008 *HK$'000*	2009 *HK$'000*	2010 *HK$'000*	2011 *HK$'000*	**2012** ***HK$'000***
REVENUE	1,474,330	1,236,752	1,608,145	1,588,758	**1,654,608**
PROFIT BEFORE TAXATION	88,788	111,365	150,041	58,640	**89,284**
INCOME TAX EXPENSE	(16,052)	(12,328)	(18,750)	(9,626)	**(13,326)**
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	72,736	99,037	131,291	49,014	**75,958**
LOSS FOR THE YEAR FROM DISCONTINUED OPERATION	(15,304)	(28,706)	(26,314)	(21,588)	**(35,090)**
PROFIT FOR THE YEAR	57,432	70,331	104,977	27,426	**40,868**
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	56,943	70,248	104,922	27,426	**40,868**
NON-CONTROLLING INTERESTS	489	83	55	—	**—**
	57,432	70,331	104,977	27,426	**40,868**

ASSETS AND LIABILITIES

	At 31 December				
	2008 *HK$'000*	2009 *HK$'000*	2010 *HK$'000*	2011 *HK$'000*	**2012** ***HK$'000***
TOTAL ASSETS	1,137,676	1,204,554	1,535,283	1,722,121	**1,791,616**
TOTAL LIABILITIES	(266,502)	(269,608)	(489,609)	(640,893)	**(689,064)**
	871,174	934,946	1,045,674	1,081,228	**1,102,552**
EQUITY ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	869,679	933,368	1,045,674	1,081,228	**1,102,552**
NON-CONTROLLING INTERESTS	1,495	1,578	—	—	**—**
	871,174	934,946	1,045,674	1,081,228	**1,102,552**

Note: The financial information for each of the four years ended 31 December 2011 has been restated for the operation discontinued in 2012.