LERADO GROUP

隆成集團

Lerado Group (Holding) Company Limited

Stock Code : 1225

Annual Report 2011

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

LIM Pat Wah Patrick
HUANG Zhi Wei
CHERN Shyh Feng

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

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

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

Financial Highlights

	2011 HK$'000	2010 HK$'000	2009 HK$'000
Revenue	**1,672,096**	1,677,598	1,291,848
Profit before interest expenses and tax	**40,337**	124,005	82,659
As a percentage of revenue	**2.4%**	7.4%	6.4%
EBITDA	**90,413**	165,572	120,162
As a percentage of revenue	**5.4%**	9.9%	9.3%
Profit attributable to owners of the company	**27,426**	104,922	70,248
As a percentage of revenue	**1.6%**	6.3%	5.4%
Total assets	**1,722,121**	1,535,283	1,204,554
Total capital employed*	**1,367,361**	1,131,474	934,946
Equity attributable to owners of the company	**1,081,228**	1,045,674	933,368
Earnings per share (HK cents)	**3.65**	13.99	9.65
Return on average capital employed	**2.6%**	10.6%	7.8%
Current ratio	**1.9**	2.2	3.1
Average inventory turnover (days)	**69**	62	73
Average trade debtor turnover (days)	**54**	48	60
Gearing ratio	**0.26**	0.08	–

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

Management Discussion and Analysis

FINANCIAL REVIEW

The Group recorded consolidated revenue of HK$1,672.1 million for the year ended 31 December 2011 (2010: HK$1,677.6 million), representing a slight decrease of 0.3% from last year. Gross profit dropped from HK$435.6 million of 2010 by 23.7% to HK$332.4 million. Comparing to last year, the gross profit margin dropped from 26.0% to 19.9%. The significant decrease in the gross profit was mainly attributable to increases in raw material costs such as plastic and metal pipe, shortage of labor in the PRC and continuing appreciation of the Renminbi.

The prices of plastic and metal pipe maintained upward momentum during the year, and the cost of certain major materials recorded a 10%-20% increase as compared to 2010 despite a slight slowdown during the fourth quarter. During the year, despite the Group's efforts to curb its costs through introduction of the Toyota Production System, improvement of plastic injection technologies and other measures, the effect of the raw materials costs on the gross profit failed to be fully offset. In respect of human resources, the upward adjustment of the minimum wage in the PRC has stressed the labor costs and the labor supply of the Group. The total staff salary and benefit expenses for the year amounted to HK$312.5 million, representing an increase in the weight in the Group's consolidated turnover from 17.1% of 2010 to 18.7%. The continuing appreciation of Renminbi to Hong Kong dollar and other major foreign currencies was another source of stress on the results of the Group, leading to an increase of approximately HK$47.9 million in the costs of the Group compared to 2010.

Profit attributable to equity holders for the year was HK$27.4 million (2010: HK$104.9 million), down by 73.9% from last year. Earnings per share was HK$3.65 cents.

BUSINESS REVIEW

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

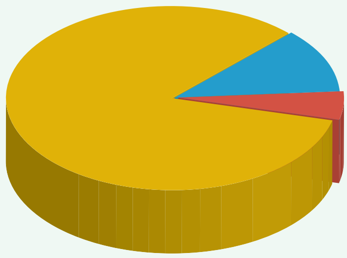
Manufacture and Distribution of Juvenile and Infant Products

The Group's manufacture and distribution of juvenile and infant products business recorded sales revenue of HK$1,397.4 million during the period under review, representing a decrease of 2.3% from the same period last year. Shadowed by the European and US economies and the European sovereign debt crisis, sales revenue from US and European customers remained at similar levels to last year, reporting sales revenues of HK$728.9 million and HK$521.2 million, respectively. In terms of products, sales revenue from strollers decreased slightly by 0.7% to HK$720.5 million, whereas sales revenue from car seats further increased to HK$202.6 million, representing an increase of 10.6%. The segment profit was HK$72.5 million.

Management Discussion and Analysis

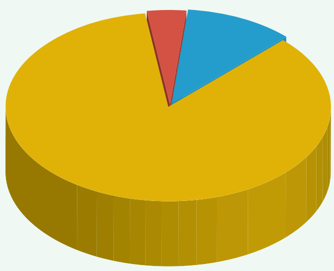
REVENUE BY BUSINESS

2011



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

2010



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

Retail Sales of Juvenile and Infant Products

The retail business implemented a restructuring and relocated the headquarters to Shanghai during the year in alignment with the strategy of centralized management and streamlined staff, which has effectively controlled the operating costs. Coupled with adjustments to the product portfolio, enhancement of the gross profit of the retail business was achieved. In 2011, revenue from the retail business increased by 20.0% to approximately HK$83.3 million, while the segment loss further narrowed to HK$21.8 million. During the year, the Group closed one further retail shop with dissatisfactory performance. As at 31 December 2011, the Group had a total of 37 retails shops for maternity and infant products in Southern China.

PROSPECTS

As a result of the two major uncertainties of European sovereign debt crisis and the geopolitics in the Middle East, the Group's orders from Europe and the United States and material costs will be stressed to a certain degree. As always, the Group will join efforts with its customers in formulating the product development and marketing plans, and tailor its product designs to cater for changes in the consumption patterns in the European and US markets. Looking into the future, the Group will strive to maintain flat operating revenue in 2012 under continued stringent cost control efforts, positioning the Group for business growth as the global political and economic situations stabilize in the future.

Management Discussion and Analysis

Although the PRC has lowered the 2012 gross domestic production growth target, the Group remains optimistic towards the future development of the juvenile and infant product market in the PRC, given in particular that China's policy of active pursuit for urbanization will nourish the development of the retail industry. To enrich the diversity of its products for domestic sale, the Group has obtained the trademark use rights/distribution rights of a number of renowned foreign brand names, including Snoopy and Bunnies by the Bay, in consistence with the Group's standing plan for comprehensive product development.

CAPITAL INVESTMENTS

In line with the restructuring of its retails business, the Group has established a wholly-owned subsidiary in Shanghai during the year, with the share capital amounting to approximately HK$77.9 million.

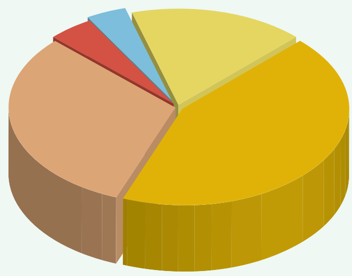
CASH FLOW AND FINANCIAL RESOURCES

During the year, the Group generated cash from operation of HK$20.4 million (2010: HK$128.3 million). This figure represented profit before taxation of HK$37.1 million, plus adjustments for non-cash items such as depreciation and amortization of HK$45.1 million and the net decrease in working capital of HK$61.8 million.

As at 31 December 2011, the Group's pledged bank deposit and bank balances and cash, mainly in US dollars and Renminbi, were HK$500.8 million. After deducting a borrowing of HK$286.1 million, the Group recorded net pledged bank deposits and bank balances and cash of HK$214.7 million as at 31 December 2011 as compared to HK$310.9 million as at 31 December 2010. The borrowings, bearing interest at prevailing market rate, were bank loans due within one year. At 31 December 2011, the Group's gearing ratio, expressing as total bank borrowings to equity attributable to owners of the Company was 0.26 (2010: 0.08).

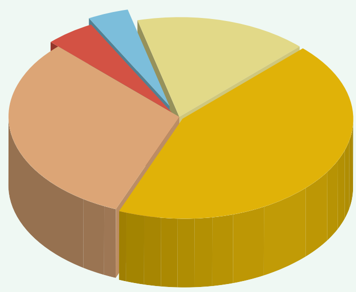
REVENUE BY REGION

2011



The United States of America	43.6%
Europe	31.2%
South America	4.5%
Australia	4.0%
Others	16.7%

2010



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

Management Discussion and Analysis

As at 31 December 2011, the Group had net current assets of HK$528.8 million (2010: HK$546.6 million) and a current ratio of 1.9 (2010: 2.2). Trade receivable and inventory turnover were 54 days (2010: 48 days) and 69 days (2010: 62 days) respectively.

PLEDGE OF ASSETS

As at 31 December 2011, the Group pledged deposits to banks to secured bank borrowings. The deposits carry interest at fixed rates ranging from 3.5% to 3.65% 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 2011, the Group had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Group employed a total workforce of around 5,500 staff members, of which about 5,400 worked in the PRC offices and production sites, about 130 in Taiwan mainly for marketing, sales support and research and development, 11 in the US office for marketing, sales support and research and development and 8 in Hong Kong for finance and administration.

Directors' Profile

EXECUTIVE DIRECTORS

Mr. HUANG Ying Yuan, aged 61, is a founding member, the Chairman and the Chief Executive Officer of the Company. Mr. Huang has 35 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 and cousin-in-law of Mr. Chen Chao-Jen, director of the Company.

Mrs. HUANG CHEN Li Chu, aged 62, was appointed an Executive Director of the Company in 1998. Mrs. Huang has worked in the infant products industry in Taiwan for over 33 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 and cousin of Mr. Chen Chao-Jen, director of the Company.

Mr. CHEN Chun Chieh, aged 36, was appointed an Executive Director of the Company on 3 April 2008. Mr. Chen has been working for the Group since 2002. He obtained a master's degree in business administration from Lawrence Technical University, U.S.A. Mr. Chen is responsible for the strategic planning and finance of the Group.

Mr. CHEN Chao-Jen, aged 57, joined the Group in 1992 and has worked as the general manager for the manufacturing business of the Group. Mr. Chen is the deputy chairman of the China Toy Association, the honorary chairman of the Gunagdong Toy Association and the deputy chairman of the Zhongshan Taiwan Business Investors Social Association. Mr. Chen obtained his undergraduate degree in management from the "National Chung Hsing University" in Taiwan. Mr. Chen is a cousin-in-law of Mr. Huang Ying Yuan, Chairman of the Company and a cousin of Mrs. Huang Chen Li Chu, Vice Chairman of the Company.

Directors' Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LIM Pat Wah Patrick, aged 52, 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 27 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 73, 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 44, 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 Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identify and formulate corporate governance practices appropriate to the Company's needs.

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

The Directors consider that the Company has complied with Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2011, save for deviation as stated hereof:

Under the code provision A.2.1 of the Code, the roles of the chairman and the chief executive officer ("CEO") should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and the 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 since 28 January 2011. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Group and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

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

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

THE BOARD

Responsibilities

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

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

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

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

Corporate Governance Report

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

Composition

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

During the year ended 31 December 2011, the Board of the Company comprises the following directors:

Executive directors:

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

Independent non-executive directors:

LIM Pat Wah Patrick
HUANG Zhi Wei
CHERN Shyh Feng

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

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

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

Appointment and Succession Planning of Directors

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

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

Corporate Governance Report

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

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

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

In accordance with the Company's bye-laws, Huang Ying Yuan, Huang Zhi Wei and Chern Shyh Feng shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

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

The Company's circular dated 23 April 2012 contains detailed information of the directors standing for re-election.

BOARD MEETINGS

Number of Meetings and Directors' Attendance

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

The individual attendance (either in person or through other electronic means of communication) of each director at the regular Board Meetings during the year ended 31 December 2011 is set out below:

	Attendance/ Number of Meetings
Executive Directors:	
HUANG Ying Yuan *(Chairman)*	4/4
HUANG CHEN Li Chu *(Vice Chairman)*	4/4
CHEN Chun Chieh	4/4
CHEN Chao Jen *(appointed on 28 January 2011)*	4/4
YANG Yu Fu *(Vice Chairman and Chief Executive Officer) (resigned on 28 January 2011)*	0/0
Independent Non-Executive Directors:	
LIM Pat Wah Patrick	4/4
HUANG Zhi Wei	4/4
CHERN Shyh Feng	3/4

Corporate Governance Report

Practices and Conduct of Meetings

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

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Huang Ying Yuan was appointed as the Chairman and Chief Executive Officer of the Company on 28 January 2011.

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

BOARD COMMITTEES

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

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

Corporate Governance Report

Audit Committee

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

The main duties of the Audit Committee include the following:

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

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

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

The Audit Committee held meetings during the year ended 31 December 2011 to review the interim and annual financial results and reports, financial reporting and compliance procedures, risk management and internal control system and the re-appointment of the external auditors.

The attendance records of individual members at Audit Committee meetings during the year ended 31 December 2011 are set out below:

	Attendance/ Number of Meetings
LIM Pat Wah Patrick *(Chairman)*	3/3
HUANG Zhi Wei	3/3
CHERN Shyh Feng	3/3

Corporate Governance Report

Nomination Committee

On 13 December 2011, a Nomination Committee of the Board comprising five members, namely Huang Ying Yuan (the Chairman of the Board) as chairman, Chan Chun Chieh (an executive director), Lim Pat Wah Patrick (an independent non-executive director), Huang Zhi Wei (an independent non-executive director) and Chern Shyh Feng (an independent non-executive director) was established by the Board.

Pursuant to its terms of reference, the Nomination Committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, to assess the independence of independent non-executive directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the Chief Executive Officer. The Nomination Committee should meet at least once a year and when the need arises.

Remuneration Committee

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

During the year ended 31 December 2011, the Remuneration Committee met to review the overall remuneration of the directors and the proposal on distribution of bonus to the executive directors for the year ended 31 December 2010.

The attendance records of individual members at the Remuneration Committee meeting during the year ended 31 December 2011 are set out below:

	Attendance/ Number of Meeting
CHERN Shyh Feng *(appointed as Chairman on 13 December 2011)*	1/1
HUANG Ying Yuan *(resigned as Chairman on 13 December 2011)*	1/1
LIM Pat Wah Patrick	1/1
HUANG Zhi Wei	1/1

On 13 December 2011, Chen Shyh Feng, an independent non-executive Director and a member of the Remuneration Committee, was appointed as the chairman of the Remuneration Committee and Huang Ying Yuan, the chairman of the Board and the Remuneration Committee, was re-designated from the chairman to a member of the Remuneration Committee.

INTERNAL CONTROLS

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

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

Deloitte Touche Tohmatsu, the Group's external auditors, reported matters concerning internal control of the Group for the year ended 31 December 2011 in according with Hong Kong Standards on Auditing to the Audit Committee during its regular meetings.

During the year ended 31 December 2011, the Board considered the internal control systems effective and adequate. No material internal control aspects of any significant problems were noted.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2011.

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

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

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 25.

Corporate Governance Report

AUDITORS' REMUNERATION

The Company's external auditors are Deloitte Touche Tohmatsu. The remuneration paid/payable to Deloitte Touche Tohmatsu in respect of audit services and non-audit services for the year ended 31 December 2011 amounted to approximately HK$1,570,000 and HK$226,000 respectively.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

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

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

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 27 of the annual report.

No interim dividend 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 1 June 2012 in aggregate, amounting to HK$15,011,000.

PROPERTY, PLANT AND EQUIPMENT

The Group's leasehold land and buildings were revalued at 31 December 2011. The revaluation resulted in a gain amounting to HK$33,985,000, of which HK$34,881,000 has been credited directly to the property revaluation reserve and a loss of HK$896,000 has been charged to consolidated statement of comprehensive income.

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

SHARE CAPITAL

No movements during the year in the share capital of the Company.

Directors' Report

DISTRIBUTABLE RESERVES OF THE COMPANY

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

	2011	2010
	HK$'000	*HK$'000*
Contributed surplus	**244,461**	244,461
Accumulated profits	**2,433**	5,766
	246,894	250,227

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

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

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

DIRECTORS

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

Executive directors:

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

Independent non-executive directors:

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

In accordance with clause 87 of the Company's bye-laws, Mr. Huang Ying Yuan, Mr. Huang Zhi Wei and Mr. Chern Shyh Feng 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' Report

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2011, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in shares and underlying shares of the Company

	Number of shares held as					
Name of director	**Beneficial owner**	**Spouse interest**	**Corporate interest**	**Total interests**	**Approximate percentage of the issued share capital of the Company**	**Number of share options**
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.

Directors' Report

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 2011.

SHARE OPTIONS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than share option 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 2011, 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 2011.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange 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 26 to the consolidated financial statements, there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Other than disclosed in note 26, no contracts of significance, to which the Company or its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$1,525,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers represented approximately 41% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 12% of total sales. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 18% 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 Remuneration Committee, 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 28 to the consolidated financial statements.

Directors' Report

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2011.

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
29 March 2012

Independent Auditor's Report

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 27 to 85, which comprise the consolidated statement of financial position as at 31 December 2011, 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.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, 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
29 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	5	**1,672,096**	1,677,598
Cost of sales		**(1,339,743)**	(1,241,958)
Gross profit		**332,353**	435,640
Other income		**28,258**	12,968
Other gains and losses	6	**(4,792)**	(4,809)
Marketing and distribution costs		**(123,870)**	(131,676)
Research and development expenses		**(59,379)**	(54,374)
Administrative expenses		**(132,281)**	(131,095)
Other expenses		**(1,200)**	(2,768)
Share of result of an associate		**1,248**	119
Finance cost	7	**(3,285)**	(278)
Profit before taxation		**37,052**	123,727
Income tax expense	8	**(9,626)**	(18,750)
Profit for the year	9	**27,426**	104,977
Other comprehensive income (expense)			
Exchange differences arising from translation		**29,828**	29,441
Share of exchange difference of an associate		**(39)**	(181)
Gain on revaluation of land and buildings		**34,881**	37,835
Deferred tax liability arising on revaluation of land and buildings		**(7,755)**	(9,824)
Other comprehensive income for the year		**56,915**	57,271
Total comprehensive income for the year		**84,341**	162,248
Profit for the year attributable to:			
Owners of the Company		**27,426**	104,922
Non-controlling interests		**–**	55
		27,426	104,977
Total comprehensive income attributable to:			
Owners of the Company		**84,341**	162,193
Non-controlling interests		**–**	55
		84,341	162,248
Earnings per share	13		
Basic		**HK3.65 cents**	HK13.99 cents
Diluted		**HK3.65 cents**	HK13.97 cents

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	14	**478,283**	416,432
Prepaid lease payments	15	**102,505**	100,690
Intellectual property rights	16	**1,820**	3,107
Investment in an associate	17	**7,322**	6,113
Available-for-sale investments	18	**5,130**	4,879
Deferred tax assets	19	**639**	473
Deposits paid for lease premium of land		**4,394**	4,208
		600,093	535,902
Current assets			
Inventories	20	**259,044**	244,965
Trade and other receivables and prepayments	21	**359,187**	348,306
Prepaid lease payments	15	**2,101**	2,095
Derivative financial instruments	22	**—**	6,435
Taxation recoverable		**926**	887
Pledged bank deposits	23	**128,777**	—
Bank balances and cash	23	**371,993**	396,693
		1,122,028	999,381
Current liabilities			
Trade and other payables and accruals	24	**291,522**	342,969
Taxation payable		**14,125**	21,138
Bank borrowings	25	**286,133**	85,800
Derivative financial instruments	22	**1,495**	2,857
		593,275	452,764
Net current assets		**528,753**	546,617
		1,128,846	1,082,519

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	27	**75,057**	75,057
Reserves		**1,006,171**	970,617
Total equity		**1,081,228**	1,045,674
Non-current liability			
Deferred tax liabilities	19	**47,618**	36,845
		1,128,846	1,082,519

The consolidated financial statements on pages 27 to 85 were approved and authorised for issue by the Board of Directors on 29 March 2012 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 2011

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Property revaluation reserve HK$'000	Statutory surplus reserve fund HK$'000	Enterprise expansion fund HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2010	74,730	106,399	38,510	78,831	32,927	3,091	81,132	628	1,208	515,912	933,368	1,578	934,946
Profit for the year	–	–	–	–	–	–	–	–	–	104,922	104,922	55	104,977
Exchange differences arising from translation	–	–	–	–	–	–	29,441	–	–	–	29,441	–	29,441
Share of exchange difference of an associate	–	–	–	–	–	–	(181)	–	–	–	(181)	–	(181)
Gain on revaluation of land and buildings	–	–	–	37,835	–	–	–	–	–	–	37,835	–	37,835
Deferred tax liability arising on revaluation of land and buildings	–	–	–	(9,824)	–	–	–	–	–	–	(9,824)	–	(9,824)
Total comprehensive income for the year	–	–	–	28,011	–	–	29,260	–	–	104,922	162,193	55	162,248
Shares repurchased and cancelled	(62)	(580)	–	–	–	–	–	–	62	(62)	(642)	–	(642)
Exercise of share options	389	2,524	–	–	–	–	–	(427)	–	–	2,486	–	2,486
Share options lapsed during the year	–	–	–	–	–	–	–	(24)	–	24	–	–	–
Acquisition of additional interests in a subsidiary	–	–	802	–	–	–	–	–	–	–	802	(1,633)	(831)
Transfer to statutory reserves	–	–	–	–	6,825	–	–	–	–	(6,825)	–	–	–
Dividends recognised as distributions *(note 12)*	–	–	–	–	–	–	–	–	–	(52,533)	(52,533)	–	(52,533)
At 31 December 2010	75,057	108,343	39,312	106,842	39,752	3,091	110,392	177	1,270	561,438	1,045,674	–	1,045,674
Profit for the year	–	–	–	–	–	–	–	–	–	27,426	27,426	–	27,426
Exchange differences arising from translation	–	–	–	–	–	–	29,828	–	–	–	29,828	–	29,828
Share of exchange difference of an associate	–	–	–	–	–	–	(39)	–	–	–	(39)	–	(39)
Gain on revaluation of land and buildings	–	–	–	34,881	–	–	–	–	–	–	34,881	–	34,881
Deferred tax liability arising on revaluation of land and buildings	–	–	–	(7,755)	–	–	–	–	–	–	(7,755)	–	(7,755)
Total comprehensive income for the year	–	–	–	27,126	–	–	29,789	–	–	27,426	84,341	–	84,341
Share options lapsed during the year	–	–	–	–	–	–	–	(50)	–	50	–	–	–
Transfer to statutory reserves	–	–	–	–	4,245	–	–	–	–	(4,245)	–	–	–
Dividends recognised as distributions *(note 12)*	–	–	–	–	–	–	–	–	–	(48,787)	(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	–	1,081,228

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 2011

	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	37,052	123,727
Adjustments for:		
Amortisation of intellectual property rights	1,200	2,768
Amortisation of prepaid lease payments	2,676	2,095
Depreciation of property, plant and equipment	45,304	39,114
Finance cost	3,285	278
Impairment loss on property, plant and equipment	2,526	—
Impairment loss on trade receivables	147	7,625
Interest income	(7,818)	(4,374)
Loss (gain) on fair value changes of derivative financial instruments	136	(5,398)
Loss (gain) on revaluation of land and buildings	896	(2,410)
Loss on disposal of property, plant and equipment	600	3,177
Recovery of doubtful debts	(10,051)	(2,430)
Share of result of an associate	(1,248)	(119)
Write-down of inventories	7,455	3,711
Operating cash flows before movements in working capital	82,160	167,764
Increase in inventories	(12,317)	(73,097)
Decrease (increase) in trade and other receivables and prepayments	4,008	(81,698)
Decrease in derivative financial instruments	4,937	4,777
(Decrease) increase in trade and other payables and accruals	(58,434)	110,579
Cash from operations	20,354	128,325
Hong Kong Profits Tax paid	(1,340)	(35)
Taxation paid in other jurisdictions	(13,468)	(6,184)
Interest paid	(3,285)	(278)
NET CASH FROM OPERATING ACTIVITIES	2,261	121,828
INVESTING ACTIVITIES		
Placement of pledged bank deposits	(126,015)	—
Purchase of property, plant and equipment	(68,287)	(62,992)
Interest received	7,818	4,374
Proceeds from disposal of property, plant and equipment	2,442	3,084
Payment for leasehold land	—	(16,165)
Deposits paid for lease premium of land	—	(1,007)
NET CASH USED IN INVESTING ACTIVITIES	(184,042)	(72,706)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
FINANCING ACTIVITIES		
New bank loans raised	**660,533**	85,800
Repayment of bank loans	**(460,200)**	—
Dividends paid	**(48,787)**	(52,533)
Proceeds from issue of shares upon exercise of share options	**—**	2,486
Acquisition of additional interests in a subsidiary	**—**	(831)
Repurchase of shares	**—**	(642)
NET CASH FROM FINANCING ACTIVITIES	**151,546**	34,280
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(30,235)**	83,402
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**396,693**	304,077
Effect of foreign exchange rate changes	**5,535**	9,214
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**371,993**	396,693

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL

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

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

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

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

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Right Issues
Amendments to HK(IFRIC) — Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised standards and interpretations 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.

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

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

Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

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

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

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

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the 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 attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 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 and derivative financial instruments. Regarding the Group's available-for-sale investments and derivative financial instruments, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

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

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

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

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

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

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 (effect from 1 January 2010 onwards).

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 the policy.

The results and assets and liabilities of the associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in the associate is 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 associates. When the Group's share of losses of associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. 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.

Where 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 on a straight-line basis over the term of the relevant lease.

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, excluding land and buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress are stated 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Depreciation is recognised so to write off the cost of items of property, plant and equipment other than 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.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

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

Taxation

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

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

Deferred tax is recognised on 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 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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 is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

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 charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses, if any, on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is 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) 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.

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.

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

***Financial assets** (continued)*

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 (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

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

The Group's available-for-sale equity investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured and 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 (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

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.

Financial liabilities

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

Derivative financial instruments

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

Derecognition

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.

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

Impairment losses

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

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 2011, the carrying amount of trade receivables is HK$254,180,000 (2010: HK$240,928,000), net of allowance for doubtful debts of HK$5,718,000 (2010: HK$22,338,000).

Allowance for inventories

The management of the Group reviews its inventories at the end of the reporting period and make allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in production. Management estimates the net realisable value for such items based on the market conditions at the end of reporting period by reference to the latest invoice prices. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. As at 31 December 2011, the carrying amount of inventories is HK$259,044,000 (2010: HK$244,965,000).

5. SEGMENT INFORMATION

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5. SEGMENT INFORMATION *(continued)*

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

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

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

Information regarding the above segments is reported below.

Segment revenue and results

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

For the year ended 31 December 2011

	Manufacture and distribution of juvenile and infant products HK$'000	Retail sale of juvenile and infant products HK$'000	All others HK$'000	Consolidated HK$'000
REVENUE				
External sales	1,397,422	83,338	191,336	1,672,096
Segment profit (loss)	72,507	(21,811)	(16,668)	34,028
Interest income				7,818
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				37,052

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5. SEGMENT INFORMATION *(continued)*

Segment revenue and results *(continued)*

For the year ended 31 December 2010

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5. SEGMENT INFORMATION *(continued)*

Other segment information

For the year ended 31 December 2011

	Manufacture and distribution of juvenile and infant products HK$'000	Retail sale of juvenile and infant products HK$'000	All others HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	35,804	2,869	6,631	45,304
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	479	(357)	600
Write-down of inventories to net realisable value	–	6,773	682	7,455
Recovery of doubtful debts	(9,619)	(432)	–	(10,051)

For the year ended 31 December 2010

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

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For the year ended 31 December 2011

5. SEGMENT INFORMATION *(continued)*

Revenue from major products

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

	2011	2010
	HK$'000	*HK$'000*
Strollers	**720,537**	725,885
Car seats and boosters	**202,590**	183,139
Beds and playards	**99,473**	92,751
Miscellaneous infant products	**332,106**	380,607
Others	**317,390**	295,216
	1,672,096	1,677,598

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 sales by geographical market based on locations of customers, irrespective of the origin of the goods:

	2011	2010
	HK$'000	*HK$'000*
The United States of America ("the USA")	**728,898**	733,664
France	**102,530**	104,060
The PRC	**149,578**	129,046
Australia	**66,942**	65,648
Germany	**75,312**	95,960
United Kingdom	**138,800**	120,339
Canada	**31,268**	32,531
Japan	**14,491**	27,479
Other European countries excluding France, Germany and United Kingdom*	**204,602**	205,845
Others*	**159,675**	163,026
	1,672,096	1,677,598

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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:

	2011	2010
	HK$'000	*HK$'000*
Non-current assets		
The PRC	**487,802**	431,362
Taiwan	**51,959**	50,569
Hong Kong	**54,265**	46,292
The USA	**298**	2,327
	594,324	530,550

Information about major customers

Revenue from the largest customer in respect of trading of juvenile and infant products amounted to approximately HK$198,600,000, which individually contributed more than 10% of total sales of the Group.

For the year ended 31 December 2010, none of the customers of the group contribute more than 10% of total sales of the Group.

6. OTHER GAINS AND LOSSES

	2011	2010
	HK$'000	*HK$'000*
Impairment loss recognised in respect of property, plant and equipment	**(2,526)**	—
(Loss) gain on revaluation on land and building	**(896)**	2,410
Net foreign exchange loss	**(634)**	(9,440)
Loss on disposal of property, plant and equipment	**(600)**	(3,177)
(Loss) gain on fair value changes of derivative financial instruments	**(136)**	5,398
	(4,792)	(4,809)

7. FINANCE COST

	2011	2010
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**3,285**	278

8. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**1,489**	1,202
PRC Enterprise Income Tax	**8,209**	15,141
Other jurisdictions	**1,008**	1,401
	10,706	17,744
Overprovision in prior years:		
Hong Kong Profits Tax	**(53)**	(64)
PRC Enterprise Income Tax	**(2,350)**	(422)
Other jurisdictions	**(1,089)**	—
	(3,492)	(486)
Deferred taxation *(note 19)*:		
Current year	**2,412**	1,492
	9,626	18,750

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

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

Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary of the Company is entitled to an exemption from PRC Enterprise Income Tax for two years starting from its first profit making year, followed by a 50% relief in PRC Enterprise Income Tax rate for the next three years. 2007 is the first year of tax exemption granted to that subsidiary. Under the EIT Law, the relief shall continue and be accounted for based on the PRC Enterprise Income Tax rate of 25%. In addition, another PRC subsidiary of the Company was regarded as "High-tech Enterprise" since 2009. Accordingly, that PRC subsidiary was subject to a reduced PRC Enterprise Income Tax rate of 15% for the year ended 31 December 2011.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8. INCOME TAX EXPENSE *(continued)*

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

	2011	2010
	HK$'000	*HK$'000*
Profit before taxation	**37,052**	123,727
Tax at Hong Kong Profits Tax rate of 16.5%	**6,114**	20,415
Tax effect of share of result of an associate	**(206)**	(20)
Tax effect of expenses not deductible for tax purpose	**8,404**	6,204
Tax effect of income not taxable for tax purpose	**(11,467)**	(18,465)
Overprovision in prior years	**(3,492)**	(486)
Tax effect of tax losses not recognised	**9,657**	11,128
Effect of tax exemption/relief granted to a PRC subsidiary	**(1,276)**	(1,203)
Effect of tax concession granted to a PRC subsidiary	**(4,631)**	(7,420)
Effect of different tax rates of subsidiaries operate in other jurisdictions	**4,557**	5,662
Deferred tax provided on dividends withholding tax of PRC subsidiaries	**1,966**	2,935
Income tax expense	**9,626**	18,750

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

9. PROFIT FOR THE YEAR

	2011	2010
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Salaries, allowances and bonuses, including those of directors	**302,565**	278,685
Contributions to retirement benefit schemes, including those of directors	**9,929**	7,721
Total employee benefits expense, including those of directors	**312,494**	286,406
Amortisation of prepaid lease payments	**2,676**	2,095
Amortisation of intellectual property rights (included in other expenses)	**1,200**	2,768
Auditor's remuneration	**1,852**	2,212
Cost of inventories recognised as an expense	**1,332,288**	1,238,247
Depreciation of property, plant and equipment	**45,304**	39,114
Impairment loss on trade receivables	**147**	7,625
Write-down of inventories to net realisable value	**7,455**	3,711
and after crediting:		
Bank interest income	**7,818**	4,374
Property rental income net of negligible outgoing expenses	**1,145**	453
Recovery of doubtful debts	**10,051**	2,430

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2010: seven) directors are as follows:

2011

	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	1,425	1,372	–	–	–	–	6,582
Total emoluments	2,199	1,586	1,425	1,372	–	288	228	218	7,316

2010

	Huang Ying Yuan HK$'000	Huang Chen Li Chu HK$'000	Chen Chun Chieh 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	–	–	–	–	280	220	210	710
Salaries and allowances	2,069	1,504	1,148	1,067	–	–	–	5,788
Performance related incentive payments *(note iii)*	6,000	4,000	3,000	–	–	–	–	13,000
Total emoluments	8,069	5,504	4,148	1,067	280	220	210	19,498

Notes:

(i) Mr. Chen Chao Jen was appointed as an executive director on 28 January 2011.

(ii) Mr. Yang Yu Fu resigned as executive director on 28 January 2011.

(iii) Performance related incentive payments are recommended by the Remuneration Committee and decided by the Board of Directors.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2010: three) were directors of the Company whose emoluments are included in the disclosure in note 10 above. The emolument of the remaining (2010: two) individual is as follows:

	2011 HK$'000	2010 HK$'000
Salaries and other benefits	**1,379**	2,364
Performances related incentive payments	**—**	333
	1,379	2,697

Their emoluments were within the following bands:

	2011 No. of Individual	2010 No. of individuals
HK$1,000,001 to HK$1,500,000	**1**	2

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

12. DIVIDENDS

	2011 HK$'000	2010 HK$'000
Dividends recognised as distribution during the year:		
2010 final dividend of HK6.5 cents (2010: 2009 final dividend of HK4.5 cents) per share	**48,787**	33,781
2010 interim dividend of HK2.5 cents per share	**—**	18,752
	48,787	52,533

A final dividend of HK2.0 cents per share in respect of the year ended 31 December 2011 (2010: final dividend of HK6.5 cents per share in respect of the year ended 31 December 2010), amounting to HK$15,011,000, has been proposed by the Board of Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

13. EARNINGS PER SHARE

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

	2011 *HK$'000*	2010 *HK$'000*
Profit for the year attributable to owners of the Company, for the purpose of basic and diluted earnings per share	**27,426**	104,922
	Number of shares	*Number of shares*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**750,570,724**	750,240,483
Effect of dilutive potential ordinary shares in respect of share options	**427,006**	1,038,873
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**750,997,730**	751,279,356

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST OR VALUATION							
At 1 January 2010	233,079	8,477	213,433	98,313	11,798	260	565,360
Exchange realignment	12,505	225	8,777	3,159	476	375	25,517
Additions	–	339	36,815	9,001	2,868	13,969	62,992
Disposals	–	(1,849)	(6,141)	(7,792)	(591)	–	(16,373)
Transfer	–	–	394	–	–	(394)	–
Adjustment on valuation	18,788	–	–	–	–	–	18,788
At 31 December 2010	264,372	7,192	253,278	102,681	14,551	14,210	656,284
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
Comprising:							
At cost	–	9,663	291,061	100,552	14,767	40,769	456,812
At valuation-2011	283,019	–	–	–	–	–	283,019
	283,019	9,663	291,061	100,552	14,767	40,769	739,831
DEPRECIATION AND IMPAIRMENT							
At 1 January 2010	–	2,622	138,603	72,722	6,786	–	220,733
Exchange realignment	3,695	63	5,365	2,174	277	–	11,574
Provided for the year	17,762	876	12,325	7,283	868	–	39,114
Eliminated on disposals	–	(302)	(4,841)	(4,490)	(479)	–	(10,112)
Adjustment on valuation	(21,457)	–	–	–	–	–	(21,457)
At 31 December 2010	–	3,259	151,452	77,689	7,452	–	239,852
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
CARRYING VALUES							
At 31 December 2011	283,019	5,461	120,046	21,756	7,232	40,769	478,283
At 31 December 2010	264,372	3,933	101,826	24,992	7,099	14,210	416,432

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

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

Certain buildings of the Group erected on the lands in the PRC were not granted formal title of their ownership. At 31 December 2011, the carrying value of buildings in the PRC for which the Group had not been granted formal title amounted to HK$115,023,000 (2010: HK$103,250,000). In the opinion of the directors, the absence of formal title does not impair the value of the relevant building. The directors also believe that formal title to these buildings will be granted to the Group in due course.

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

Freehold land	Nil
Leasehold land and buildings	2% or the remaining period of the leases, if shorter
Leasehold improvements	10 — 20% 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:

	2011	2010
	HK$'000	*HK$'000*
Held in Hong Kong under long-term leases	**48,749**	39,920
Held in the PRC under medium term land use rights	**193,670**	180,319
Held in Taiwan, freehold	**40,600**	44,133
	283,019	264,372

The Group revalued its land and buildings at the year end date. The revaluation resulted in a gain over carrying values amounting to HK$33,985,000 (2010: HK$40,245,000), of which HK$34,881,000 (2010: HK$37,835,000) has been credited directly to the property revaluation reserve and a loss of HK$896,000 (2010: a gain of HK$2,410,000) has been recognised in the profit or loss for the year, which was resulted from the decline in market prices for similar properties in similar conditions in Taiwan.

At 31 December 2011, certain leasehold land and buildings in the PRC of the Group with carrying values of HK$280,000 (2010: HK$335,000) as at 31 December 2011 were valued by the directors, who estimated that their fair value was not materially different from the carrying amount.

Other than the above, the land and buildings of the Group were revalued at 31 December 2011 by Grant Sherman Appraisal Limited ("Grant Sherman"), a firm of independent property valuers not connected with the Group. The land and buildings in Hong Kong and certain land and buildings in the PRC of an aggregate carrying value of HK$58,762,000 (2010: HK$48,529,000) were valued on an open market value basis. The remaining land and buildings in the PRC amounting to HK$183,377,000 (2010: HK$171,375,000) and the land and buildings in Taiwan amounting to HK$40,600,000 (2010: HK$44,133,000) were valued on depreciated replacement cost basis.

Notes to the Consolidated Financial Statements

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

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$122,665,000 (2010: HK$121,838,000).

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments of HK$104,606,000 (2010: HK$102,785,000) represent leasehold land in the PRC held under medium-term lease. An amount of HK$2,101,000 (2010: HK$2,095,000) is classified under current assets for reporting purpose.

16. INTELLECTUAL PROPERTY RIGHTS

	HK$'000
COST	
At 1 January 2010	88,112
Exchange realignment	8,855
At 31 December 2010	96,967
Exchange realignment	(3,782)
At 31 December 2011	93,185
AMORTISATION AND IMPAIRMENT	
At 1 January 2010	82,570
Exchange realignment	8,522
Provided for the year	2,768
At 31 December 2010	93,860
Exchange realignment	(3,695)
Provided for the year	1,200
At 31 December 2011	91,365
CARRYING VALUES	
At 31 December 2011	1,820
At 31 December 2010	3,107

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.

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17. INVESTMENT IN AN ASSOCIATE

	2011	2010
	HK$'000	*HK$'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	**(778)**	(1,987)
	7,322	6,113

Details of the Group's associates at 31 December 2011 and 2010 are as follows:

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

* wholly-owned subsidiaries of Weblink

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17. INVESTMENT IN AN ASSOCIATE *(continued)*

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

	2011	2010
	HK$'000	*HK$'000*
Total assets	**41,430**	28,971
Total liabilities	**(17,022)**	(8,594)
Net assets	**24,408**	20,377
Group's share of net assets of an associate	**7,322**	6,113
Revenue	**40,139**	28,963
Profit for the year	**4,161**	397
Other comprehensive expense	**(131)**	(603)
Group's share of profits and other comprehensive expense of an associate for the year	**1,209**	(62)

18. AVAILABLE-FOR-SALE INVESTMENTS

The Group's non-current available-for-sale investments at 31 December 2011 represent a 8% (2010: 8%) and 0.7% (2010: 0.7%) equity interests in unlisted equity securities issued by private entities established in the PRC and Taiwan, respectively. They do not have a quoted market price in an active market. As the range of reasonable fair value estimates is so significant, the corresponding fair values cannot be measured reliably. Accordingly, the investments are measured at cost less impairment at the end of reporting period.

19. DEFERRED TAXATION

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

	Difference between accounting and tax depreciation	Revaluation of properties	Withholding income tax	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	(1,244)	22,282	4,957	(1,247)	24,748
Exchange realignment	—	—	267	41	308
(Credit) charge to profit or loss	(913)	602	2,935	(1,132)	1,492
Charge to other comprehensive income	—	9,824	—	—	9,824
At 31 December 2010	**(2,157)**	**32,708**	**8,159**	**(2,338)**	**36,372**
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**

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:

	2011	2010
	HK$'000	*HK$'000*
Deferred tax assets	**(639)**	(473)
Deferred tax liabilities	**47,618**	36,845
	46,979	36,372

According to the EIT Law as mentioned in note 8, starting from 1 January 2010, withholding income tax will be imposed on dividends relating to profits generated by the companies established in the PRC for the financial year 2008 onwards to their foreign shareholders. Deferred taxation has been provided for in respect of the undistributed profits from these PRC subsidiaries amounting to HK$10,572,000 (2010: HK$8,159,000).

At 31 December 2011, the Group had unused tax losses of HK$220,258,000 (2010: HK$161,732,000) 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$163,419,000 (2010: HK$109,081,000) will expire in 2013 to 2015. Other losses may be carried forward indefinitely.

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20. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	**79,262**	75,209
Work in progress	**47,994**	37,224
Finished goods	**131,788**	132,532
	259,044	244,965

During the year, an allowance of HK$7,455,000 (2010: HK$3,711,000) was made on obsolete and slow-moving inventory items identified.

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2011 HK$'000	2010 HK$'000
Trade receivables	**259,898**	263,266
Less: allowance for doubtful debts	**(5,718)**	(22,338)
	254,180	240,928
Purchase deposits, other receivables and deposits	**80,547**	59,500
Advance to a supplier	**3,422**	26,884
Prepayments	**21,038**	20,994
Trade and other receivables and prepayments	**359,187**	348,306

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

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

	2011 HK$'000	2010 HK$'000
Within 30 days	**147,913**	136,135
31 to 90 days	**93,980**	95,179
Over 90 days	**12,287**	9,614
	254,180	240,928

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

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

At the end of the reporting period, the directors considered the debts not impaired nor past due are of good credit quality.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$40,556,000 (2010: HK$45,217,000) which are past due at the end of reporting period for which the Group has not provided for impairment loss after consideration on the credit quality of those individual customers, the ongoing relationship with the Group and the ageing of these receivables. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**25,272**	34,099
31 to 90 days	**9,137**	9,373
Over 90 days	**6,147**	1,745
Total	**40,556**	45,217

Movement in the allowance for doubtful debts

	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of the year	**22,338**	17,143
Impairment loss on receivables	**147**	7,625
Amount recovered during the year	**(10,051)**	(2,430)
Amount written off as uncollectible	**(6,716)**	—
Balance at end of the year	**5,718**	22,338

Included in trade receivables are amounts net of individually impaired receivables amounting to HK$5,718,000 (2010: HK$22,338,000). The directors of the Company take into consideration about the current financial position of the counterparties and their repayment history and consider that the chances of collection of the outstanding amounts are remote.

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22. DERIVATIVE FINANCIAL INSTRUMENTS

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

At 31 December 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

At 31 December 2010:

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

The above financial instruments are measured at fair values based on a valuation conducted by Grant Sherman as at 31 December 2011 determined based on the difference between the market forward rates at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates and discounted using an appropriate discount rate to take account of the time value of money.

23. 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 3.5% to 3.65% per annum. The bank balances carry interest at prevailing market rates ranging from 0.01% to 3.5% (2010: 0.1% to 3.5%) per annum.

24. TRADE AND OTHER PAYABLES AND ACCRUALS

	2011 HK$'000	2010 HK$'000
Trade payables	**204,979**	212,257
Accrued expenses	**46,410**	66,554
Other payables	**40,133**	64,158
	291,522	342,969

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

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

	2011 HK$'000	2010 HK$'000
Within 30 days	**89,390**	86,310
31 to 90 days	**100,006**	90,939
Over 90 days	**15,583**	35,008
	204,979	212,257

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

25. BANK BORROWINGS

	2011 HK$'000	2010 HK$'000
Bank loans	**286,133**	85,800
Analysed as:		
Secured	**130,133**	—
Unsecured	**156,000**	85,800
	286,133	85,800
The exposure of the Group's borrowings are as follows:		
Fixed-rate borrowings	**130,133**	85,800
Variable-rate borrowings	**156,000**	—
	286,133	85,800

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25. 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:

	2011	2010
Fixed-rate borrowings	**1.44% to 1.75% per annum**	1.10% per annum
Variable-rate borrowings	**London Interbank Offered Rate ("LIBOR") + 1% or Singapore Interbank Offered Rate ("SIBOR") + 1% per annum**	N/A

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$130,133,000 (2010: nil) is secured by pledged bank deposits as detailed in note 23.

26. 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 parties	**Interested directors**	**Nature of transactions**	**2011** ***HK$'000***	2010 *HK$'000*
Yojin Industrial Corporation	Mr. Huang Ying Yuan Mrs. Huang Chen Li Chu *(note i)*	Rental expenses paid by the Group *(note ii)*	**625**	602

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26. RELATED PARTY DISCLOSURES *(continued)*

(b) Transaction with a director:

Name of director	Nature of transactions	**2011** ***HK$'000***	2010 *HK$'000*
Mr. Huang Ying Yuan	Rental expenses paid by the Group to a director *(note ii)*	**264**	247

(c) Compensation of key management personnel

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

	2011 ***HK$'000***	2010 *HK$'000*
Short-term employee benefits	**7,316**	19,498

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.

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27. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2010, 31 December 2010 and 31 December 2011	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2010	747,302,724	74,730
Exercise of share options	3,886,000	389
Shares repurchased and cancelled	(618,000)	(62)
At 31 December 2010 and 31 December 2011	750,570,724	75,057

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

28. SHARE OPTIONS

After termination of the 1998 Scheme, the Company adopted a new share option scheme (the "2002 Scheme"), which was approved at the Company's annual general meeting held on 30 May 2002, for the primary purpose of providing incentives to directors and eligible participants.

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

Any offer to grant share options should be accepted within 30 days from the date of offer. The total number of shares in respect of which options may be granted under the 2002 Scheme and any other share option scheme of the Company at any time shall not exceed 10% of the shares of the Company in issue at any point in time. The number of shares in respect of which 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.

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28. SHARE OPTIONS *(continued)*

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

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

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

The directors and 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.

The following table discloses movements in the Company's share options during the years ended 31 December 2011 and 2010:

		Number of shares subject to share options						
	Date of grant	Outstanding at 1 January 2010	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2010	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2011
Category 1: Directors								
Mr. Yang Yu Fu	26 November 2007	3,000,000	(3,000,000)	–	–	–	–	–
Category 2: Employees								
	14 February 2006	176,000	(120,000)	–	56,000	–	(56,000)	–
	26 November 2007	2,064,000	(766,000)	(222,000)	1,076,000	–	(376,000)	700,000
Total for employees		2,240,000	(886,000)	(222,000)	1,132,000	–	(432,000)	700,000
Total for all categories		5,240,000	(3,886,000)	(222,000)	1,132,000	–	(432,000)	700,000
Exercisable at the end of the year					1,132,000			700,000

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28. SHARE OPTIONS *(continued)*

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 2011	0.54
14 February 2006 (Batch II)	23 months	17 January 2008 — 16 January 2011	0.54
26 November 2007 (Batch I)	12 months	8 November 2008 — 7 November 2012	0.64
26 November 2007 (Batch II)	24 months	8 November 2009 — 7 November 2012	0.64

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

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

No share options were exercised during the year. In respect of the share options exercised for the year ended 31 December 2010, the weighted average share price at the dates of exercise was HK$1.24.

On 18 January 2012, the Company granted share options to certain eligible employees to subscribe for a total of 15,000,000 shares in the Company (equally divided into batches, namely Batch I and Batch II) at an exercise price of HK$0.77 per share under the 2002 Scheme.

The eligible employees have rights to exercise their respective share options at any time during the period from the date the share options become 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). The directors of the Company are in the process of assessing the impact from the grant of share options on the results and financial position of the Group.

29. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that its subsidiaries will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remain unchanged from prior year.

The capital structure of the Group consists of net debt which includes bank borrowings disclosed in note 25, net of cash and cash equivalent, and equity attributable to owners of the Company, comprising share capital, share premium, special reserve, property revaluation reserve, statutory surplus reserve fund, enterprise expansion fund, translation reserve, share option reserve, capital redemption reserve and accumulated profits, 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.

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011	2010
	HK$'000	*HK$'000*
Financial assets		
At fair value through profit or loss	**–**	6,435
Loans and receivables (including cash and cash equivalents)	**801,219**	677,276
Available-for-sale financial assets	**5,130**	4,879
Financial liabilities		
At fair value through profit or loss	**1,495**	2,857
Amortised cost	**531,245**	362,215

(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.

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30. FINANCIAL INSTRUMENTS *(continued)*

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

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 2011 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 38% of the total trade receivables as at 31 December 2011 (2010: 50%) was due from the Group's five largest customers. Those five largest customers are reputable infant products traders with long history of trading with the Group. Management perform periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant. The historical experience in the collection of trade receivables from the five largest customers falls within the expectation of the directors.

Credit risk on 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 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% (2010: 9%) of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sale, and approximately 28% (2010: 29%) of costs are denominated in currencies other than the group entities' functional currency.

30. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(i) Currency risk (continued)

Foreign currency risk management *(continued)*

The functional currencies of the Group's principal subsidiaries are US$ and Renminbi ("RMB"). While most of the Group's operations are transacted in the functional currency of the respective group entities, the Group undertakes certain sales and purchase transactions denominated in US$, HK$ and Euro dollars ("Euro"). Hence, exposures to exchange rate fluctuations arises. The Group currently does not formulate any hedging policies against its exposure to currency risk. The Group will manage its foreign currency risk by closely monitoring the movement of the foreign currency rate and buying foreign currency forward contracts if it considers the risk to be significant.

At the end of the reporting period, the carrying amounts of the Group's significant monetary assets and monetary liabilities denominated in currencies other than the functional currency of relevant group entity are as follows:

	2011 *HK$'000*	2010 *HK$'000*
Monetary Assets		
US$	**20,852**	7,518
HK$	**15,229**	11,920
EURO	**6,457**	17,410
New Taiwan dollars ("NTD")	**4,625**	546
Monetary Liabilities		
US$	**11,332**	31,820
HK$	**3,367**	6,096
EURO	**–**	206
NTD	**1,011**	6,178

At the end of the reporting period, the Group had foreign currency forward contracts with an aggregated notional amount of US$20,180,000 (2010: US$86,000,000). Details are shown in note 22.

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30. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(i) Currency risk (continued)

Foreign currency risk management *(continued)*

Sensitivity analysis

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

Since HK$ is pegged to US$, relevant foreign currency risk is minimal. Accordingly, their fluctuation is excluded from the sensitivity analysis. The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in US$ 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 RMB or 5% strengthening of RMB against HK$, NTD, EURO and USD will have the following pre-tax profit (loss) on the results for the year, and vice versa.

	HK$ impact		NTD impact		EURO impact		RMB impact		USD impact	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'00*	***HK$'000***	*HK$'000*
Monetary assets and liabilities	**(593)**	(291)	**(180)**	282	**(322)**	(860)	**–**	–	**(476)**	1,215
Derivative financial instruments	**–**	–	**–**	–	**–**	–	**(75)**	179	**–**	–

(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 23 and 25 for details, respectively).

The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 25 for details).

30. 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 (2010: 10 basis points) increase or decrease for bank deposits and a 50 basis points (2010: 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 (2010: 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 (2010: 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 2011 would decrease/increase by HK$780,000 (2010: nil).

Liquidity risk

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

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

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

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30. 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 *HK$'000*	31-90 days *HK$'000*	91-365 days *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount at 31 December 2011 *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

	Weighted average interest rate	On demand or less than 1 month *HK$'000*	31-90 days *HK$'000*	91-365 days *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount at 31 December 2010 *HK$'000*
2010						
Non-derivative financial liabilities						
Trade and other payables	–	141,362	112,048	23,005	276,415	276,415
Variable-rate bank borrowings	1.1%	–	86,744	–	86,744	85,800
		141,362	198,792	23,005	363,159	362,215
Derivative financial liabilities						
Foreign currency forward contracts — outflow		226	792	1,839	2,857	2,857

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

(c) Fair value

The fair values 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).

30. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value *(continued)*

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

	As at 31 December 2011 Level 2 *HK$'000*	As at 31 December 2010 Level 2 *HK$'000*
Derivative financial assets	**–**	6,435
Derivative financial liabilities	**1,495**	2,857

31. OPERATING LEASE COMMITMENTS AND ARRANGEMENTS

The Group as lessee

	2011 *HK$'000*	2010 *HK$'000*
Minimum lease payments paid under operating leases during the year	**16,745**	15,578

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:

	2011 *HK$'000*	2010 *HK$'000*
Within one year	**18,005**	19,223
In the second to fifth year inclusive	**13,739**	27,357
Over five years	**327**	676
	32,071	47,256

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.

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

The Group as lessor

Property rental income earned during the year was HK$1,145,000 (2010: HK$453,000). 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:

	2011 ***HK$'000***	2010 *HK$'000*
Within one year	**351**	228
In the second to fifth year inclusive	**140**	590
	491	818

32. CAPITAL COMMITMENTS

	2011 ***HK$'000***	2010 *HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of		
— lease premium of land	**7,838**	7,505
— property, plant and equipment	**13,298**	26,090
	21,136	33,595

33. RETIREMENT BENEFIT SCHEME

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

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

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34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company at 31 December 2011 is as follows:

	Notes	2011 HK$'000	2010 HK$'000
Total assets			
Investment in subsidiaries		**253,971**	253,971
Other receivables		**283**	88
Amounts due from subsidiaries	(a)	**373,265**	235,095
Bank balances		**4,488**	254
		632,007	489,408
Total liabilities			
Other payables		**989**	121
Amounts due to subsidiaries	(a)	**199,327**	54,213
		200,316	54,334
		431,691	435,074
Capital and reserves			
Share capital		**75,057**	75,057
Reserves	(b)	**356,634**	360,017
		431,691	435,074

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

Notes:

(a) Amounts due from (to) subsidiaries

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

(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 2010	106,399	244,461	628	1,208	10,386	363,082
Profit for the year and total recognised income for the year	–	–	–	–	47,951	47,951
Shares repurchased and cancelled	(580)	–	–	62	(62)	(580)
Exercise of share options	2,524	–	(427)	–	–	2,097
Share options lapsed during the year	–	–	(24)	–	24	–
Dividends recognised as distributions *(note 12)*	–	–	–	–	(52,533)	(52,533)
At 31 December 2010	108,343	244,461	177	1,270	5,766	360,017
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 12)*	–	–	–	–	(48,787)	(48,787)
At 31 December 2011	108,343	244,461	127	1,270	2,433	356,634

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For the year ended 31 December 2011

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2011 and 2010 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company Directly 2011 %	Directly 2010 %	Indirectly 2011 %	Indirectly 2010 %	Principal activities *(note i)*
Lerado China Limited	BVI	HK$5,000 ordinary shares	**–**	–	**100**	100	Investment holding and trading of infant products in Taiwan
Lerado Group Limited	BVI	HK$10,702 ordinary shares	**100**	100	**–**	–	Investment holding
Lerado Global (Macao Commercial Offshore) Limited	Macau	MOP100,000	**–**	–	**100**	100	Trading of infant products
Lerado H.K. Limited	Hong Kong	HK$5,000 ordinary shares	**–**	–	**100**	100	Trading of infant products
Link Treasure Limited	BVI	US$5,000 ordinary shares	**–**	–	**100**	100	Provision of research and development services in Taiwan
中山市隆成日用制品有限公司	the PRC *(note ii)*	US$46,940,000 registered capital	**–**	–	**100**	100	Manufacture and trading of infant products
中山市國宏塑膠製品有限公司	the PRC *(note ii)*	US$3,150,000 registered capital	**–**	–	**100**	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

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For the year ended 31 December 2011

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company				Principal activities (note i)
			Directly		Indirectly		
			2011 %	2010 %	**2011 %**	2010 %	
黃石市隆成日用制品有限公司	the PRC (note ii)	US$10,000,000 Registered capital	**–**	–	**100**	100	Manufacturing and trading of infant products
陽江市隆成日用制品有限公司	the PRC (note ii)	US$1,000,000 Registered capital	**–**	–	**100**	100	Manufacturing and trading of infant products
上海隆成嬰童用品有公司	the PRC (note ii)	US$10,000,000 Registered capital	**–**	–	**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.

Financial Summary

RESULTS

	Year ended 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
REVENUE	1,208,715	1,490,884	1,291,848	1,677,598	**1,672,096**
PROFIT BEFORE TAXATION	55,044	73,484	82,659	123,727	**37,052**
INCOME TAX EXPENSE	(7,467)	(16,052)	(12,328)	(18,750)	**(9,626)**
PROFIT FOR THE YEAR	47,577	57,432	70,331	104,977	**27,426**
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	48,022	56,943	70,248	104,922	**27,426**
NON-CONTROLLING INTERESTS	(445)	489	83	55	**–**
	47,577	57,432	70,331	104,977	**27,426**

ASSETS AND LIABILITIES

	At 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
TOTAL ASSETS	1,070,287	1,137,676	1,204,554	1,535,283	**1,722,121**
TOTAL LIABILITIES	(256,512)	(266,502)	(269,608)	(489,609)	**(640,893)**
	813,775	871,174	934,946	1,045,674	**1,081,228**
EQUITY ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	806,647	869,679	933,368	1,045,674	**1,081,228**
NON-CONTROLLING INTERESTS	7,128	1,495	1,578	–	**–**
	813,775	871,174	934,946	1,045,674	**1,081,228**