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LERADO GROUP (HOLDING) COMPANY LIMITED

(隆成集團(控股)有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1225)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

The Board of Directors (the “Board”) of Lerado Group (Holding) Company Limited (the “Company”) presents the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2014, together with the comparative figures, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000 (Restated)
Continuing operations			
Revenue	2	154,676	147,576
Cost of sales		<u>(130,686)</u>	<u>(123,896)</u>
Gross profit		23,990	23,680
Other income		6,102	2,163
Other gains and losses		(1,513)	(418)
Marketing and distribution costs		(7,674)	(8,511)
Research and development expenses		(4,250)	(4,740)
Administrative expenses		(33,312)	(35,983)
Share of result of an associate		<u>(650)</u>	<u>(1,797)</u>
Loss before taxation		<u>(17,307)</u>	<u>(25,606)</u>
Income tax expense	3	<u>(373)</u>	<u>(593)</u>
Loss for the year from continuing operations		<u>(17,680)</u>	<u>(26,199)</u>
Discontinued operation			
(Loss) profit for the year from discontinued operation	4	<u>(128,316)</u>	<u>6,370</u>
Loss for the year attributable to owners of the Company	5	<u>(145,996)</u>	<u>(19,829)</u>

* For identification purposes only

	<i>Notes</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i> (Restated)
Other comprehensive income (expense)			
Items that will not be reclassified to profit or loss			
Gain on revaluation of land and buildings		37,722	75,711
Recognition of deferred tax liability arising on revaluation of land and buildings		<u>(8,840)</u>	<u>(18,049)</u>
		<u>28,882</u>	<u>57,662</u>
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising from translation		(10,895)	22,384
Share of exchange difference of an associate		84	(72)
Reclassification of translation reserve upon disposal of			
— Subsidiaries		(155,911)	—
— An associate		<u>489</u>	<u>—</u>
		<u>(166,233)</u>	<u>22,312</u>
Other comprehensive (expense) income for the year		<u>(137,351)</u>	<u>79,974</u>
Total comprehensive (expense) income for the year		<u><u>(283,347)</u></u>	<u><u>60,145</u></u>
(Loss) profit attributable to owners of the Company:			
— from continuing operations		(17,680)	(26,199)
— from discontinued operation		<u>(128,316)</u>	<u>6,370</u>
Loss for the year attributable to owners of the Company		<u><u>(145,996)</u></u>	<u><u>(19,829)</u></u>
Total comprehensive (expense) income attributable to owners of the Company:			
— from continuing operations		(9,693)	(13,674)
— from discontinued operation		<u>(273,654)</u>	<u>73,819</u>
Total comprehensive (expense) income for the year attributable to owners of the Company		<u><u>(283,347)</u></u>	<u><u>60,145</u></u>
Loss per share			
From continuing and discontinued operations	7		
— Basic		<u><u>(HK19.26 cents)</u></u>	<u><u>(HK2.64 cents)</u></u>
— Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>
From continuing operations			
— Basic		<u><u>(HK2.33 cents)</u></u>	<u><u>(HK3.48 cents)</u></u>
— Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
Non-current assets			
Property, plant and equipment		98,340	595,622
Prepaid lease payments		16,151	111,687
Intellectual property rights		—	492
Investment in an associate		—	5,166
Available-for-sale investments		—	641
Deposits paid for lease premium of land		—	2,007
		<u>114,491</u>	<u>715,615</u>
Current assets			
Inventories	8	26,598	268,696
Trade and other receivables and prepayments	9	128,234	356,219
Prepaid lease payments		203	2,799
Held-for-trading investments		5,321	—
Derivative financial instruments		—	5,246
Taxation recoverable		—	725
Pledged bank deposits		—	162,489
Structured bank deposits		—	8,970
Bank balances and cash		796,969	219,190
		<u>957,325</u>	<u>1,024,334</u>
Current liabilities			
Trade and other payables and accruals	10	90,619	312,715
Taxation payable		26,651	9,196
Bank borrowings		—	204,879
Derivative financial instruments		—	2,684
Deferred consideration	4	307,426	—
		<u>424,696</u>	<u>529,474</u>
Net current assets		<u>532,629</u>	<u>494,860</u>
		<u>647,120</u>	<u>1,210,475</u>
Capital and reserves			
Share capital		76,068	75,348
Reserves		556,798	1,063,511
Total equity		<u>632,866</u>	<u>1,138,859</u>
Non-current liability			
Deferred tax liabilities		14,254	71,616
		<u>14,254</u>	<u>71,616</u>
		<u>647,120</u>	<u>1,210,475</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. 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 HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amounts Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) — Int 21	Levies

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

New and revised HKFRS issued but not yet effective

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

HKFRS 9	Financial Instruments ¹
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ³
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁵
Amendments to HKAS 1	Disclosure Initiative ⁵
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁵
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ⁵
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions ⁴
Amendments to HKAS 27	Equity Method in Separate Financial Statements ⁵
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ⁵
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle ⁶
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ⁵

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 July 2014

⁵ Effective for annual periods beginning on or after 1 January 2016

⁶ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of “vesting condition” and “market condition”; and (ii) add definitions for “performance condition” and “service condition” which were previously included within the definition of “vesting condition”. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”; and (ii) clarify that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2010-2012 Cycle will have a material effect on the Group’s consolidated financial statements.

The directors of the Company anticipate that other amendments will have no material effect on the Group’s consolidated financial statements.

2. SEGMENT INFORMATION

As detailed in note 4, the Group discontinued its manufacture and distribution of juvenile and infant products business (the “Juvenile and Infant Product Business”) following the disposal of subsidiaries in October 2014. After the disposal, the Group’s revenue and operating results were solely derived from the medical products and plastic toys business segment (previously referred to as “all others” segment) which comprises the manufacture and distribution of medical care products like powered and non-powered mobility aid, wheel chairs and other durable medical equipment and the manufacture and distribution of plastic toys like swings, slides and children furniture (the “Medical Products and Plastic Toys Business”). The chief operating decision maker, the Group’s Executive Directors, review the internal reports for the Medical Products and Plastic Toys Business as a whole for the purposes of resources allocation and performance assessment. Accordingly, the Group has only one operating segment, which is the Medical Products and Plastic Toys Business. No segment analysis is presented other than entity-wide disclosures.

The segment information reported does not include any amounts for the Juvenile and Infant Product Business.

The Group’s Executive Directors make decisions according to the operating results of the segment and internal reports on the ageing analysis of inventories and trade receivables which are disclosed in note 8 and 9, respectively. No other information of segment assets and liabilities is regularly reviewed by Group’s Executive Directors for the assessment of performance of different business activities.

Revenue from major products

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

	2014 <i>HK\$’000</i>	2013 <i>HK\$’000</i>
Medical products	130,850	118,976
Plastic toys	23,826	28,600
	154,676	147,576

3. INCOME TAX EXPENSE

	Continuing operations		Discontinued operation		Consolidated	
	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax:						
Hong Kong Profits Tax	—	—	2,294	1,316	2,294	1,316
PRC Enterprise Income Tax	782	684	723	3,008	1,505	3,692
Other jurisdictions	45	—	1,038	1,164	1,083	1,164
	<u>827</u>	<u>684</u>	<u>4,055</u>	<u>5,488</u>	<u>4,882</u>	<u>6,172</u>
(Over) underprovision in prior years:						
Hong Kong Profits Tax	—	—	(10)	(143)	(10)	(143)
PRC Enterprise Income Tax	—	—	2,384	(687)	2,384	(687)
	<u>—</u>	<u>—</u>	<u>2,374</u>	<u>(830)</u>	<u>2,374</u>	<u>(830)</u>
Deferred taxation:						
Current year	(454)	(91)	(2,117)	3,313	(2,571)	3,222
	<u>373</u>	<u>593</u>	<u>4,312</u>	<u>7,971</u>	<u>4,685</u>	<u>8,564</u>

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 was regarded as "High and New Tech Enterprise" since late 2009. Accordingly, this PRC subsidiary was subject to a reduced PRC Enterprise Income Tax rate of 15% for the year ended 31 December 2014 (2013: 15%).

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

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

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

4 DISCONTINUED OPERATION

On 16 June 2014, the Company and its wholly-owned subsidiary, Lerado Group Limited (the "Seller"), entered into a sale and purchase agreement (the "S&P Agreement") with Dorel Industries Inc. and its wholly-owned subsidiary, Maxi Miliaan BV (the "Buyer"), being independent third parties of the Group, pursuant to which the Seller conditionally agreed to sell, and the Buyer conditionally agreed to buy the entire issued share capital of eight wholly-owned subsidiaries of the Company, together with their respective subsidiaries (the "Disposed Subsidiaries") which were engaged in the Juvenile and Infant Product Business (the "Disposal"), for a cash consideration of HK\$930,000,000 (subject to adjustments).

The control and benefits relating to the Disposed Subsidiaries have been transferred to the Buyer on 31 October 2014 (the “Disposal Date”) and hence the Group derecognised the relevant assets and liabilities of these subsidiaries on the Disposal Date. After the Disposal, the Group ceased to operate the Juvenile and Infant Product Business and has continued to operate the Medical Products and Plastic Toys Business. The Juvenile and Infant Product Business is treated and presented as discontinued operation. Comparative figures in the consolidated statement of profit or loss and other comprehensive income have been represented to disclose separately the profit or loss from discontinued operation.

The profit or loss for the period/ year from discontinued operation is set out below:

	Ten months ended 31 October 2014 HK\$'000	Year ended 31 December 2013 HK\$'000
Revenue	1,003,939	1,442,918
Cost of sales	(821,013)	(1,176,208)
Other income	16,427	20,820
Other gains and losses	(5,573)	(6,029)
Marketing and distribution costs	(60,499)	(95,846)
Research and development expenses	(60,553)	(76,285)
Administrative expenses	(78,672)	(89,735)
Finance costs	(1,263)	(5,294)
Income tax expense	(4,312)	(7,971)
	<hr/>	<hr/>
(Loss) profit for the period/year from discontinued operation	(11,519)	6,370
<i>Add: Estimated loss on disposal of subsidiaries (Note)</i>	(116,797)	—
	<hr/>	<hr/>
(Loss) profit for the period/year from discontinued operation	<u>(128,316)</u>	<u>6,370</u>

Note: In accordance with the S&P Agreement, the consideration of HK\$930,000,000 (the “Consideration”) is subject to adjustments based on any difference between (1) the reference net assets value (the “Reference NAV”) of HK\$840,000,000 as stated in the S&P Agreement and (2) the net asset value of the Disposed Subsidiaries as of the Disposal Date adjusted for certain items as specifically stated in the S&P Agreement (the “Actual NAV”) as determined pursuant to the accounting policies as agreed under the S&P Agreement in the completion accounts.

If the Actual NAV is greater than the Reference NAV, the Buyer will pay the Group the difference. If the Actual NAV is lower than the Reference NAV, the Group will pay the Buyer the difference.

The Buyer has requested a significant downward adjustment to the Consideration of HK\$307,426,000 (the “Adjustment”) based on the draft completion accounts prepared by the Buyer. Out of the Consideration, consideration of HK\$622,574,000 is not in dispute between the Group and the Buyer. The Group’s entitlement to the remaining consideration of HK\$307,426,000 is still subject to possible adjustments to the Actual NAV pending the finalisation of the completion accounts of the Disposed Subsidiaries and a report by an

independent accountant regarding what appropriate adjustments shall be made to the Actual NAV (an independent accountant may be appointed when the Group and the Buyer cannot reach agreements on what the Actual NAV is in accordance with the S&P Agreement). Up to the date of approval of these consolidated financial statements the abovementioned uncertainty has not yet been resolved nor has an independent accountant been appointed. The Adjustment will eventually affect the gain or loss on Disposal to be recognised in the profit or loss.

For the above reasons, an estimated loss on disposal of subsidiaries of HK\$116,797,000 based on the portion of the consideration that is not in dispute with the Buyer has been recognised for the current year and consideration of HK\$307,426,000 has been recognised as deferred consideration and included in the Group's current liabilities as at 31 December 2014 which will be released to the profit or loss when the abovementioned uncertainty has been reasonably resolved.

5. (LOSS) PROFIT FOR THE YEAR

	Continuing operations		Discontinued operation		Consolidated	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
(Loss) profit for the year has been arrived at after charging (crediting):						
Salaries, allowances and bonuses, including those of directors	30,706	30,115	231,957	318,782	262,663	348,897
Equity settled share-based payments	18	414	—	—	18	414
Contributions to retirement benefit schemes, including those of directors	988	1,244	10,452	10,577	11,440	11,821
Total employee benefits expense, including those of directors	31,712	31,773	242,409	329,359	274,121	361,132
Amortisation of prepaid lease payments	442	442	1,993	2,356	2,435	2,798
Amortisation of intellectual property rights	—	—	358	430	358	430
Auditor's remuneration	1,462	1,277	444	585	1,906	1,862
Cost of inventories recognised as an expense	130,686	123,896	821,013	1,176,208	951,699	1,300,104
Depreciation of property, plant and equipment	3,371	4,514	42,679	53,273	46,050	57,787
Loss on disposal of property, plant and equipment	64	1	6,592	346	6,656	347
Impairment loss on trade and other receivable	1,009	6,538	—	583	1,009	7,121
Write-down of trade and other receivables	291	—	9,009	—	9,300	—
Direct write-off of inventories	4,073	—	2,431	—	6,504	—
Write-down of inventories to net realisable value	1,716	—	15,584	27,063	17,300	27,063
Bank interest income	(827)	(400)	(2,414)	(8,143)	(3,241)	(8,543)
Property rental income net of negligible outgoing expenses	(476)	—	—	(431)	(476)	(431)

6. DIVIDENDS

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
2014 special dividend of HK30 cents (2013: nil) per share	228,203	—
No final dividend paid in respect of the financial year ended 31 December 2013 (2013: 2012 final dividend of HK2.0 cents per share)	—	15,061
No interim dividend paid in respect of the six months ended 30 June 2014 (2013: 2013 interim dividend of HK1.5 cents per share)	—	11,296
	<u>228,203</u>	<u>26,357</u>

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2014 (2013: nil).

7. LOSS PER SHARE

(a) From continuing and discontinued operations

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Loss for the year attributable to owners of the Company, for the purpose of basic and diluted loss per share	<u>(145,996)</u>	<u>(19,829)</u>
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for the purpose of basic loss per share	758,090,034	752,356,110
Effect of dilutive potential ordinary shares in respect of share options	<u>1,534,591</u>	<u>1,461,536</u>
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u>759,624,625</u>	<u>753,817,646</u>

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

(b) From continuing operations

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Loss for the year from continuing operations	<u><u>(17,680)</u></u>	<u><u>(26,199)</u></u>

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

No diluted loss per share from continuing operations is presented for both years since their assumed exercise of the share options would result in a decrease in diluted loss per share.

(c) From discontinued operation

For 2013, basic earning per share from discontinued operation was HK0.85 cents per share and diluted earning per share from discontinued operation was HK0.85 cents per share, which were calculated based on the profit from discontinued operation for the year 2013 of HK\$6,370,000 and the denominators detailed above.

8. INVENTORIES

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Raw materials	16,775	79,250
Work in progress	6,522	67,627
Finished goods	<u>3,301</u>	<u>121,819</u>
	<u><u>26,598</u></u>	<u><u>268,696</u></u>

During the year, an allowance of HK\$17,300,000 (2013: HK\$27,063,000) was made on obsolete and slow-moving inventory items identified.

9. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade receivables	29,920	274,500
<i>Less:</i> allowance for doubtful debts	<u>(4,640)</u>	<u>(6,766)</u>
	<u>25,280</u>	<u>267,734</u>
Purchase deposits, other receivables and deposits	18,630	76,084
<i>Less:</i> allowance for doubtful debts	<u>—</u>	<u>(6,538)</u>
	<u>18,630</u>	<u>69,546</u>
Advance to a supplier	—	7,116
Prepayments	6,770	11,823
Escrow sum (<i>Note</i>)	<u>77,554</u>	<u>—</u>
Trade and other receivables and prepayments	<u><u>128,234</u></u>	<u><u>356,219</u></u>

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Within 30 days	9,829	127,334
31 to 90 days	13,445	113,063
Over 90 days	<u>2,006</u>	<u>27,337</u>
	<u><u>25,280</u></u>	<u><u>267,734</u></u>

Note: A sum of US\$10 million out of the consideration for the Disposal (as described in note 4) has been kept in escrow account on behalf of the Group and the Buyer which will be released to the Group at the later of 30 April 2015 and the date when all claims initiated against the Group in the capacity as the Seller prior to 30 April 2015 have been settled, resolved or withdrawn.

10. TRADE AND OTHER PAYABLES AND ACCRUALS

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade payables	24,252	208,314
Accrued expenses	10,597	56,867
Other payables	55,770	47,534
	<u>90,619</u>	<u>312,715</u>

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Within 30 days	13,310	72,344
31 to 90 days	429	106,903
Over 90 days	10,513	29,067
	<u>24,252</u>	<u>208,314</u>

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 settled within the credit timeframe.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group was principally engaged in the manufacture and distribution of juvenile and infant products, medical products and plastic toys.

Medical Products and Plastic Toys Business

For the medical products and plastic toys business, US continued to be the largest export market of the Group. Sales revenue from US customers increased by 18.5% this year to HK\$70.3 million, representing 45.4% of the total revenue from continuing operations. Revenue from European customers also increased by 15.7% this year to HK\$55.2 million, accounting for 35.7% of the total revenue from continuing operations.

In terms of products, sales revenue from medical products for the year was HK\$130.9 million, representing an increase of 10% over last year and accounted for 84.6% of the total revenue from continuing operations. The improvement was mainly due to the higher demand and more orders from overseas customers for powered scooters. Sales revenue from plastic toys decreased by 16.7% this year to HK\$23.8 million mainly due to the intense competition in the market and the decline in orders from Middle East customers.

Juvenile and Infant Products Business

In June 2014, the Group entered into a sale and purchase agreement to dispose of its manufacture and distribution of juvenile and infant products business (the “Disposed Business”) at a consideration of HK\$930 million (subject to adjustment). With the slower than expected economic recovery in the two major markets of the Group’s juvenile and infant products, US and Europe, coupled with the declining birth rates experienced by developed countries, the export markets continued to be weak. The Group has experienced a decline in profit margin in recent years under this difficult operating environment and therefore decided to exit the Disposed Business. The disposal was completed in October 2014. Please refer to the “Disposal of Subsidiaries” section below for details of the disposal.

Revenue from discontinued operations for the ten months period before completion of disposal of subsidiaries amounted to HK\$1,003.9 million, representing a 30.4% decrease as compared to last year. The decline was mainly due to lower sales revenue from US customers and the decrease in sales of strollers.

Prospects

After the disposal of the manufacture and distribution of juvenile and infant products business during the year, the Group will continue to carry on the existing medical products and plastic toys business. Building on the increasing demand for the medical products in the overseas markets, it is the Group’s intention to expand the medical business into the PRC domestic market and develop new products to enlarge product offering in light of the growing aging population in the PRC.

The Group will also explore opportunities to diversify into other business sectors that could benefit from the growing aging population and health consciousness in the PRC, with a view to creating synergistic effects with the existing medical products business.

Given the Directors with concrete financial knowledge and background and Company’s strong cash position, the Directors are in the view that it is a suitable time for the Company to take an active approach in generating immediate revenue and diversifying the Company’s business portfolio in other business sector including securities trading, money lending business, and other financial and property investment.

On 23 February 2015, a wholly-owned subsidiary of the Company, Red Honour Holdings Limited (“Red Honour”), entered into a sale and purchase agreement with the vendors, pursuant to which the vendors conditionally agreed to sell, and Red Honour conditionally agreed to buy the entire issued share capital of the target company (the “Target”) at a consideration of HK\$1,600,000 plus the net asset value of the Target on the completion date (the “Acquisition”). The Target is principally engaged in securities brokerage business and intends to engage in margin financing business once the Acquisition is completed. The Acquisition has not been completed at the date of approval of these consolidated financial statements.

Going forward, with a view to achieving better return and enhancing the expansion of the Group, the Group will look for potential investment opportunities to diversify its business scope.

Financial Review

Consolidated revenue from continuing operations for 2014 was HK\$154.7 million (2013: HK\$147.6 million), representing an increase of 4.8% over last year. The increase was mainly due to the increase in sales of medical products.

Gross profit margin of continuing operations for the year was 15.5%, representing a decrease of approximately 0.5 percentage points as compared to the gross profit margin of 16% last year.

Loss for the year from continuing operations decreased by HK\$8.5 million to HK\$17.7 million. The improvement was mainly due to the increase in other income by HK\$3.9 million and the decrease in administrative expenses by HK\$2.7 million.

Loss for the year from discontinued operations amounted to HK\$128.3 million which is mainly attributable to the estimated loss on disposal of subsidiaries recognized during the year. As explained in the “Disposal of Subsidiaries” section below, the final consideration is yet to be determined as a result of the disputed items. For the year ended 31 December 2014, the gain or loss on disposal of subsidiaries was recognized only to the extent of the portion of the consideration that is not in dispute. Accordingly, an estimated loss on disposal of subsidiaries of HK\$116.8 million was recognized for the year ended 31 December 2014.

Loss attributable to owners of the Company increased by HK\$126.2 million to HK\$146 million mainly due to the estimated loss on disposal of subsidiaries of HK\$116.8 million recognized during the year as mentioned above.

Liquidity and Financial Resources

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

During the year, the Group had net cash inflow of HK\$49.4 million from its operating activities and HK\$963.8 million from investing activities and used HK\$426.1 million in financing activities. Cash and cash equivalent at 31 December 2014 increased by HK\$577.8 million as compared to HK\$219.2 million as at 31 December 2013.

As at 31 December 2014, the Group’s bank and cash, mainly denominated in Hong Kong dollar and US dollar, was HK\$797 million. The Group has fully repaid the bank loans during the year and there was no outstanding bank borrowing as at 31 December 2014.

As at 31 December 2014, the Group had net current assets of HK\$532.6 million (31 December 2013: HK\$494.9 million) and a current ratio of 2.3 (31 December 2013: 1.9). Average trade receivable turnovers and average inventory turnovers were 46 days (31 December 2013: 63 days) and 57 days (31 December 2013: 78 days) respectively.

Disposal of Subsidiaries

On 16 June 2014, a wholly-owned subsidiary of the Company (the “Seller”) and the Company entered into a sale and purchase agreement (the “S&P Agreement”) with a subsidiary of Dorel Industries Inc. (the “Buyer”), pursuant to which the Seller conditionally agreed to sell, and the Buyer conditionally agreed to buy, the entire issued share capital of eight wholly-owned subsidiaries of the Company, together with their respective subsidiaries, that engaged in the Group’s Juvenile and Infant Products Business (the “Disposed Subsidiaries”) at a consideration of HK\$930 million (subject to adjustment) (the “Disposal”). The Disposal constitutes a very substantial disposal for the Company and was approved by the shareholders of the Company in September 2014. The Disposal was completed in October 2014.

As disclosed in the Company’s circular dated 28 August 2014 (the “Circular”) and pursuant to the S&P Agreement, the consideration for the Disposal is subject to adjustments based on the difference between the Reference NAV of HK\$840 million and the Actual NAV (as defined in the Circular) as determined pursuant to the accounting policies as agreed under the S&P Agreement in the completion accounts. The Group disagreed with the draft completion accounts prepared by the Buyer and the significant downward adjustment to the consideration for the Disposal of HK\$307.4 million requested by the Buyer. Up to the date of the approval of these consolidated financial statements, the Buyer and the Group have not reached agreement on the disputed items in the draft completion accounts and have agreed that the disputed items shall be referred to an independent accountant to be appointed by the Seller and the Buyer pursuant to the terms of the S&P Agreement who shall determine what adjustments (if any) are required to be made to the draft completion accounts.

As a result of the disputed items, the Actual NAV and the final consideration for the Disposal are yet to be determined. For the year ended 31 December 2014, the gain or loss on disposal of subsidiaries was only recognized to the extent of the portion of the consideration that is not in dispute. The downward adjustment to the consideration for the Disposal of HK\$307.4 million claimed by the Buyer was presented as deferred consideration in the consolidated statement of financial position at 31 December 2014. When the consideration for the Disposal is finalized in future period, any difference between the gain or loss on disposal of subsidiaries calculated based on the final consideration and the estimated loss on disposal previously recognized in 2014 will be recognized in the profit or loss in future period.

Pledge of Assets

During the year, the Group has fully repaid the bank borrowings secured with pledged bank deposits. No asset of the Group was pledged as at 31 December 2014.

Exchange Risk Exposure

The Group’s monetary assets, liabilities and transactions are mainly denominated in US dollar, Renminbi, Hong Kong 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.

Contingent Liability

As at 31 December 2014, the Group was involved:

- (i) in proceedings in relation to certain wholly-owned subsidiaries of the Company and Disposed Subsidiaries which entered into agreement with a U.S. based supplier in August 2002, pursuant to which the supplier appointed the Group as its exclusive distributor for the territories of China and Taiwan for a term of five years. The date of termination of the agreement is still being reviewed.

The supplier initiated proceedings against the Group in the U.S. alleging that the Group owed them outstanding commission of approximately US\$2.2 million which is still being reviewed by the United States District Court. The Group denied the allegations of the supplier and disputed their claims. The next trial date is still to be confirmed. As the outcome of the proceedings is uncertain, the Board is of the opinion that no provision for any potential liability would need to be made for the related claims in the consolidated financial statements of the Company as at 31 December 2014.

- (ii) as a joint defendant in a civil claim initiated at the United States District Court for the District of Nebraska in April 2014 together with, among others, Baby Trend, Inc. on the alleged faulty design in a car seat manufactured by the Group under contract for Baby Trend, Inc. A trial date has not been set. The outcome of the proceedings is uncertain as at 31 December 2014 and no provisions for any potential liability needs to be made for the related claim in the consolidated financial statements of the Company as at 31 December 2014.

Employees and Remuneration Policies

As at 31 December 2014, the Group employed a total workforce of around 300 staff members, of which about 280 worked in the PRC, about 10 in Taiwan and the remaining in Hong Kong.

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

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

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

CORPORATE GOVERNANCE CODE

The Directors consider that the Company has complied with Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 December 2014, save for deviations as stated hereof:

Code Provision A.2.1 — The roles of the chairman and the chief executive officer of the Company were not separated and were performed by the same individual, Mr. Huang Ying Yuan throughout the year ended 31 December 2014.

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

COMPLIANCE WITH THE MODEL CODE

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. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard as set out in the Model Code throughout the year.

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

The following is the extract of the Independent Auditor’s Report from the external auditors of the Company, Messrs. Deloitte Touche Tohmatsu:

“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 2014, and of the Group’s loss 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 4 to the consolidated financial statements which indicate that the Group recognised a loss on disposal of subsidiaries of HK\$116,797,000, as a result of the disposal of the subsidiaries that are engaged in juvenile and infant products business (the “Disposal”) for the year ended 31 December 2014. The Group has not reached an agreement with the buyer of the Disposal on certain items in the calculation of the adjustment to the consideration of the Disposal (the “Adjustment”). As the Adjustment has not been concluded as at the date of this report,

the finalisation of the Adjustment may have a material effect on the final amount to be recognised. This would also have an impact on the profit or loss ultimately recognised in respect of the Disposal. However the ultimate outcome of this matter cannot be presently determined.”

AUDIT COMMITTEE

The Audit Committee of the Company comprising the three Independent Non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and has discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group’s audited financial statements for the year ended 31 December 2014.

DIVIDENDS

The Board does not recommend the payment of a final dividend.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2014 as set out in the preliminary announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The Company’s annual report containing all the relevant information required by the Listing Rules will be published in due course on the website of The Hong Kong Exchange and Clearing Limited at www.hkexnews.hk and the website at www.irasia.com/listco/hk/lerado/index.htm.

By Order of the Board
Huang Ying Yuan
Chairman

30 March 2015

As at the date of this announcement, the executive Directors of the Company are Mr. HUANG Ying Yuan, Mr. HUANG Shen Kai, Mr. CHEN Chun Chieh and Mr. LAI Kin Chung, Kenneth; and the independent non-executive Directors of the Company are Mr. MAK Kwong Yiu, Mr. YE Jianxin and Mr. CHERN Shyh Feng.