# 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 2011

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 2011, together with the comparative figures, as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2011*

| | Notes | **2011** | 2010 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Revenue | *2* | **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 | | **(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 | | **(3,285)** | (278) |
| Profit before taxation | | **37,052** | 123,727 |
| Income tax expense | *3* | **(9,626)** | (18,750) |
| Profit for the year | *4* | **27,426** | 104,977 |

* *For identification purposes only*

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **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 | *6* | | |
| Basic | | **HK 3.65 cents** | HK13.99 cents |
| Diluted | | **HK 3.65 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 | | **478,283** | 416,432 |
| Prepaid lease payments | | **102,505** | 100,690 |
| Intellectual property rights | | **1,820** | 3,107 |
| Investment in an associate | | **7,322** | 6,113 |
| Available-for-sale investments | | **5,130** | 4,879 |
| Deferred tax assets | | **639** | 473 |
| Deposits paid for lease premium of land | | **4,394** | 4,208 |
| | | **600,093** | 535,902 |
| Current assets | | | |
| Inventories | *7* | **259,044** | 244,965 |
| Trade and other receivables and prepayments | *8* | **359,187** | 348,306 |
| Prepaid lease payments | | **2,101** | 2,095 |
| Derivative financial instruments | | — | 6,435 |
| Taxation recoverable | | **926** | 887 |
| Pledged bank deposits | | **128,777** | — |
| Bank balances and cash | | **371,993** | 396,693 |
| | | **1,122,028** | 999,381 |
| Current liabilities | | | |
| Trade and other payables and accruals | *9* | **291,522** | 342,969 |
| Taxation payable | | **14,125** | 21,138 |
| Bank borrowings | | **286,133** | 85,800 |
| Derivative financial instruments | | **1,495** | 2,857 |
| | | **593,275** | 452,764 |
| Net current assets | | **528,753** | 546,617 |
| | | **1,128,846** | 1,082,519 |
| Capital and reserves | | | |
| Share capital | | **75,057** | 75,057 |
| Reserves | | **1,006,171** | 970,617 |
| Total equity | | **1,081,228** | 1,045,674 |
| Non-current liability | | | |
| Deferred tax liabilities | | **47,618** | 36,845 |
| | | **1,128,846** | 1,082,519 |

## 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 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.

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]<br>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.

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.

## 2. 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.

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.

*For the year ended 31 December 2011*

| | Manufacture and distribution of juvenile and infant products<br>*HK$'000* | Retail sale of juvenile and infant products<br>*HK$'000* | All others<br>*HK$'000* | Consolidated<br>*HK$'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** |

*For the year ended 31 December 2010*

| | Manufacture and distribution of juvenile and infant products | Retail sale of juvenile and infant products | All others | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'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 |

## 3. 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: | | |
| 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.

## 4. 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 |

## 5. DIVIDENDS

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'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.

## 6. 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** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'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 |

## 7. INVENTORIES

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

## 8. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'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 anlaysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of reporting period:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'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 |

## 9. TRADE AND OTHER PAYABLES AND ACCRUALS

| | 2011 | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'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 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 | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'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.

## DIVIDENDS

The Board recommends a final dividend of HK2.0 cents per shares. The final dividend will be payable to the shareholders whose names appear in the register of members of the company on 1 June 2012. Dividend warrants are expected to be sent out on or before 11 June 2012.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed for the following periods:

(a) For the purpose of determining shareholders' entitlement to attend and vote at the forthcoming annual general meeting (the "AGM") to be held on 28 May 2012, the Register of Members of the Company will be closed from 24 May to 28 May 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant shares certificates must be lodged by 4:30 p.m. on Wednesday, 23 May 2012 with the Company's branch share registrar, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(b) For the purpose of determining shareholders' entitlement to the proposed final dividend, the Register of Members of the Company will be closed on 1 June 2012 to 4 June 2012 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend of the year, all transfers accompanied by the relevant shares certificates must be lodged by 4:30 p.m. on Thursday, 31 May 2012 with the Company's branch share registrar, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

## 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.

***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.

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, was HK$500.8 million. After deducting a borrowing of HK$286.1 million, the Group recorded a net pledged bank deposits and bank balances and cash of HK$214.7 million 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).

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 30 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.

## 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.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors consider that the Company has compiled with Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 if 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 chairman and chief executive officer ("CEO") should be separate and should not be preformed by the same individual. The division of responsibilities between the chairman and CEO of the Company should be clearly established and set out in writing. The roles of the chairman and the CEO of the Company were not separated and were performed by the same individual, Mr. Huang Ying Yuan throughout the year 2011.

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.

## 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 2011.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Monday, 28 May 2012 at 2:30 p.m. A notice of the annual general meeting will be issued and delivered to shareholders of the Company in due course.

## 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*

29 March 2012

*As at the date of this announcement, the Board of Directors of the Company comprises Mr. Huang Ying Yuan, Mrs. Huang Chen Li Chu, Mr. Chen Chun Chieh and Mr. Chen Chao Jen being the Executive Directors, and Mr. Lim Pat Wah Patrick, Mr. Huang Zhi Wei and Mr. Chern Shyh Feng being the Independent Non-executive Directors.*