LERADO GROUP 隆成集團

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 2012

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 2012, together with the comparative figures, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 *HK$'000*	2011 *HK$'000* (Restated)
Continuing operations			
Revenue	*2*	**1,654,608**	1,588,758
Cost of sales		**(1,295,971)**	(1,268,848)
Gross profit		**358,637**	319,910
Other income		**30,393**	22,309
Other gains and losses		**(1,212)**	(4,200)
Marketing and distribution costs		**(98,711)**	(95,580)
Research and development expenses		**(71,186)**	(59,379)
Administrative expenses		**(120,719)**	(121,183)
Other expenses		**(935)**	(1,200)
Share of result of an associate		**(400)**	1,248
Finance cost		**(6,583)**	(3,285)
Profit before taxation		**89,284**	58,640
Income tax expense	*3*	**(13,326)**	(9,626)

* *For identification purposes only*

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Profit for the year from continuing operations	4	**75,958**	49,014
Discontinued operation			
Loss for the year from discontinued operation	4	**(35,090)**	(21,588)
Profit for the year attributable to owners of the Company		**40,868**	27,426
Other comprehensive income (expense)			
Exchange differences arising from translation		**12,883**	29,828
Share of exchange difference of an associate		**113**	(39)
(Loss) gain on revaluation of land and buildings		**(5,979)**	34,881
Reversal of (recognition of) deferred tax liability arising on revaluation of land and buildings		**2,250**	(7,755)
Other comprehensive income for the year		**9,267**	56,915
Total comprehensive income for the year		**50,135**	84,341
Profit (loss) attributable to owners of the Company:			
— from continuing operations		**75,958**	49,014
— from discontinued operation		**(35,090)**	(21,588)
Profit for the year attributable to owners of the Company		**40,868**	27,426
Total comprehensive income (expense) attributable to owners of the Company:			
— from continuing operations		**85,225**	105,929
— from discontinued operation		**(35,090)**	(21,588)
Total comprehensive income for the year attributable to owners of the Company		**50,135**	84,341
Earnings per share	6		
From continuing and discontinued operation			
— Basic		**HK5.44 cents**	HK3.65 cents
— Diluted		**HK5.44 cents**	HK3.65 cents
From continuing operations			
— Basic		**HK10.12 cents**	HK6.53 cents
— Diluted		**HK10.12 cents**	HK6.53 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		**471,032**	478,283
Prepaid lease payments		**100,847**	102,505
Intellectual property rights		**945**	1,820
Investment in an associate		**7,035**	7,322
Available-for-sale investments		**641**	5,130
Deferred tax assets		**80**	639
Deposits paid for lease premium of land		**4,441**	4,394
		585,021	600,093
Current assets			
Inventories	*7*	**287,010**	259,044
Trade and other receivables and prepayments	*8*	**387,200**	359,187
Prepaid lease payments		**2,103**	2,101
Derivative financial instruments		**1,732**	—
Taxation recoverable		**935**	926
Pledged bank deposits		**194,833**	128,777
Bank balances and cash		**332,782**	371,993
		1,206,595	1,122,028
Current liabilities			
Trade and other payables and accruals	*9*	**306,375**	291,522
Taxation payable		**9,124**	14,125
Bank borrowings		**322,184**	286,133
Derivative financial instruments		**1,397**	1,495
		639,080	593,275
Net current assets		**567,515**	528,753
		1,152,536	1,128,846
Capital and reserves			
Share capital		**75,071**	75,057
Reserves		**1,027,481**	1,006,171
Total equity		**1,102,552**	1,081,228
Non-current liability			
Deferred tax liabilities		**49,984**	47,618
		1,152,536	1,128,846

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

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

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

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

New and revised HKFRS issued but not yet effective

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

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

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

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

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

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

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

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

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

Key requirements of these five standards are described below.

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

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

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

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

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

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

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

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

2. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two operating divisions — manufacture of juvenile and infant products and all others. These divisions are the basis upon which the internal reports are prepared about the components of the Group that are regularly reviewed by the chief operating decision maker, the Group's Executive Directors, in order to allocate resources to segments and to assess their performance. The operation of retail sales of juvenile and infant products representing retail sales of milk powder, diapers, nursery products, food, apparel, strollers etc. (the "Retail Operations") was discontinued following the close down of all the retail shops in the PRC on 31 December 2012.

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

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

The segment information reported in this announcement does not include any amounts for the Retail Operations, and accordingly, the prior period information are re-presented.

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

Information regarding the above segments is reported below.

Segment revenue and results

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

For the year ended 31 December 2012

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

For the year ended 31 December 2011

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

3. INCOME TAX EXPENSE

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

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

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

Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary of the Company is entitled to an exemption from PRC Enterprise Income Tax for two years starting from its first profit making year, followed by a 50% relief in PRC Enterprise Income Tax rate for the next three years. 2007 is the first year of tax exemption granted to that subsidiary and the tax relief ended in 2011 accordingly. This PRC subsidiary is therefore, being accounted for based on the PRC Enterprise Income Tax rate of 25% since 2012. In addition, another PRC subsidiary of the Company was regarded as "High and New Tech Enterprise" since late 2009. Accordingly, that PRC subsidiary was subject to a reduced PRC Enterprise Income Tax rate of 15% for the year ended 31 December 2012 (2011: 15%).

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

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

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

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

4. PROFIT FOR THE YEAR

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

5. DIVIDENDS

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

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

6. EARNINGS PER SHARE

(a) For continuing and discontinued operations

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

	2012	2011
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company, for the purpose of basic and diluted earnings per share	**40,868**	27,426
	Number of shares	*Number of shares*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**750,617,299**	750,570,724
Effect of dilutive potential ordinary shares in respect of share options	**90,405**	427,006
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**750,707,704**	750,997,730

(b) From continuing operations

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

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

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

(c) From discontinued operation

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

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

7. INVENTORIES

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

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

8. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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

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

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

9. TRADE AND OTHER PAYABLES AND ACCRUALS

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

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

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

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

DIVIDENDS

The Board recommends a final dividend of HK2.0 cents per shares. The proposed final dividend, subject to the approval of the shareholders, will be payable to the shareholders whose names appear in the register of members of the company on Tuesday, 4 June 2013. Dividend warrants are expected to be sent out on or before Tuesday, 11 June 2013.

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 Tuesday, 28 May 2013, the Register of Members of the Company will be closed from Friday, 24 May 2013 to Tuesday, 28 May 2013 (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 Thursday, 23 May 2013 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 Monday, 3 June 2013 to Tuesday, 4 June 2013 (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 Friday, 31 May 2013 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

Business Review

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

Manufacture of Juvenile and Infant Products

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

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

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

Retail Sales of Juvenile and Infant Products

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

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

Prospects

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

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

Financial Review

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

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

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

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

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

Cash Flow and Financial Resources

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

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

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

Pledge of Assets

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

Exchange Risk Exposure and Contingent Liabilities

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollar, Renminbi, US dollar, Euro and New Taiwan dollar. In the event that Renminbi further appreciates, the Group will still be affected directly. Although the Group currently does not maintain any hedging policy to hedge against foreign exchange exposure that may arise from the above transactions, the management team continuously assesses the foreign currency exposure, with an aim to minimize the impact of foreign exchange fluctuation on the Group's business operations.

As at 31 December 2012, the Group had no significant contingent liabilities.

Employees and Remuneration Policies

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

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

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

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

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

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 2012.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Tuesday, 28 May 2013 at 9:00 a.m. A notice of the annual general meeting will be issued and delivered to shareholders of the Company in due course.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 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

28 March 2013

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Huang Ying Yuan, Mrs. Huang Chen Li Chu and Mr. Chen Chun Chieh 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.