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# Corporate information

## EXECUTIVE DIRECTORS

HUANG Ying Yuan (*Chairman*)

CHEN Hsing Shin (*Vice Chairman*)

HUANG CHEN Li Chu (*Vice Chairman*)

LEUNG Man Fai

## INDEPENDENT NON-EXECUTIVE DIRECTORS

LIM Pat Wah Patrick

HUANG Zhi Wei

YANG Yu Fu

## COMPANY SECRETARY

KWOK Wai Lok

## REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

## PRINCIPAL PLACE OF BUSINESS

Unit 18, 17th Floor, China Merchants Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

## PRINCIPAL SHARE REGISTRAR

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street

Hamilton HM11

Bermuda

## BRANCH SHARE REGISTRAR

Secretaries Limited

Ground Floor, BEA Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

## PRINCIPAL BANKERS

ABN AMRO Bank

Hang Seng Bank

## SOLICITORS

Sidley Austin Brown & Wood

Richards Butler

## AUDITORS

Deloitte Touche Tohmatsu

# Company profile

Founded in 1988, Lerado Group designs, manufactures and distributes a wide range of infant and pre-school products including baby strollers, beds and playards, soft goods, high chairs, bouncers, infant car seats, battery-operated ride-on cars, as well as other accessories.

The Group has established efficient manufacturing bases in Zhongshan and Shanghai in the People's Republic of China (the "PRC"), with research and development ("R&D") centres located in Taiwan and the PRC. Our strong R&D capability enables us to design and manufacture a majority of our products on an original design manufacturing ("ODM") basis, while owning the patents on such designs. We currently own more than 600 registered patents on over 300 product features.

We also manufacture for customers on an original equipment manufacturing ("OEM") basis by producing the products according to customers' specifications. The majority of our

products are sold to the United States of America (the "US") and Europe. Our experienced manufacturing expertise and commitment to quality are trusted by our customers.

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

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



# Financial highlights

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	1,271,035	1,149,893	1,024,302
Profit before interest expenses and tax	80,594	97,138	103,325
As a percentage of turnover	6.3%	8.4%	10.1%
EBITDA	117,017	146,147	144,038
As a percentage of turnover	9.2%	12.7%	14.1%
Net profit	69,135	81,170	92,357
As a percentage of turnover	5.4%	7.1%	9.0%
Total assets	966,068	1,006,219	922,743
Total capital employed*	745,605	721,656	681,824
Shareholders' equity	728,793	687,936	664,920
Earnings per share (HK cents)	9.57	11.28	12.78
Return on average capital employed	9.8%	12.0%	14.4%
Current ratio	2.4	1.79	1.99
Average inventory turnover (days)	49.2	46.2	44.5
Bank borrowings to equity ratio	—	0.02	0.001

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

# Chairman's statement

**Dear Shareholders,**

On behalf of the Board of Directors, I am pleased to present the audited consolidated results of Lerado Group (Holding) Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December, 2004.

## **FINANCIAL RESULTS AND DIVIDENDS**

Turnover of the group rose 10.5% to HK\$1,271.0 million in 2004. However, due to the surge in material costs (mainly plastics and metals), gross margin had been squeezed to 21.5%, compared with 27.4% of the previous year. Net profit for the year was HK\$69.1 million (2003: HK\$81.2 million) while earnings per share dropped correspondingly to HK9.57 cents.

The Board recommends a final dividend of HK3.5 cents per share. Together with an interim dividend of HK2 cents per share, the total dividend of the year under review will amount to HK5.5 cents per share.

## **BUSINESS REVIEW**

The operating environment of the year under review was difficult. Though we see a gradual recovery of economy, the sharp rise in oil prices throughout the year led to increase in plastics price, substantially affecting the Group's cost of production.



## Chairman's statement

The Group's growth in turnover in the year under review was mainly attributable to the launch of infant car seats and the new ODM orders of battery-operated ride-on cars which had been well received in the market.

Geographically, the US remained our largest market, representing 51.8% of the Group's total turnover. With continuing recovery of the US economy, though at a slow pace, our sales to the country showed an increase of 9.1% over last year, amounted to HK\$658.1 million. On the other hand, sales to Europe stayed flat, amounted to HK\$282.1 million.

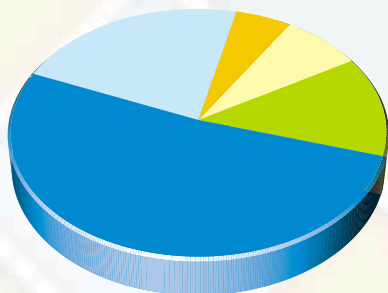
We are pleased to note that our result in exploring other markets has been promising. Sales to Australia, South

America and other countries amounted to HK\$68.1 million, HK\$96.6 million and HK\$166.1 million, representing encouraging growth of 27.5%, 77.9% and 9.3% respectively over last year.

### OUTLOOK

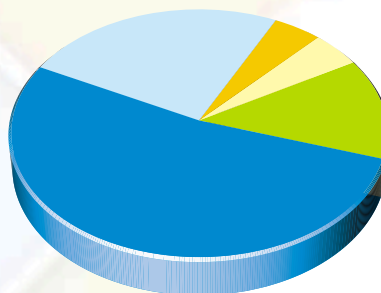
In anticipation of the high and volatile oil and commodity prices, we believe the year ahead is still full of challenge. Despite the pricing pressure on raw materials, we will keep on discussing with suppliers and customers to share the related impact. The Group is also investigating ways in further enhancing production efficiencies in order to lower our cost of production.

### Turnover By Region 2004



● United States	51.8%
● Europe	22.2%
● Australia	5.3%
● South America	7.6%
● Others	13.1%

### 2003



● United States	52.6%
● Europe	24.9%
● Australia	4.6%
● South America	4.7%
● Others	13.2%



On the marketing side, more resources in research and development will be incurred in the coming year with an aim to launch new product designs to cope with the market when consumer confidence is picking up. Efforts will also be placed in the development of the potential sectors like car seats and battery-operated ride-on cars.

We can expect to see the Group offering an increasingly diversified and balanced product portfolio. The Group will also remain open to vertical and horizontal expansion and is well positioned to grasp opportunities arising from the recovering economy.

#### APPRECIATION

I would like to express my sincere gratitude to Mr. Chen An-Hsin for his past contributions to the Group. I would also like to take this opportunity to thank our shareholders, business partners and employees for their efforts and supports.

**HUANG Ying Yuan**

*Chairman*

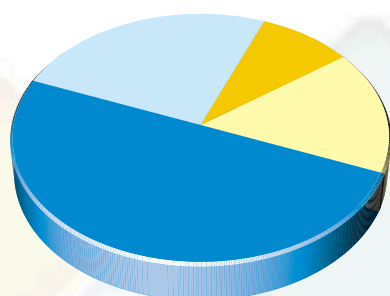
14th April, 2005



# Management Discussion and Analysis

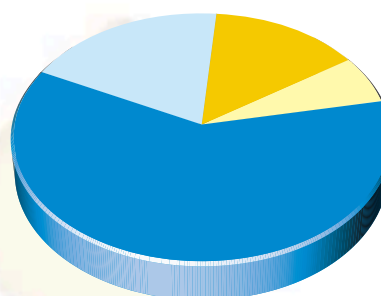
## Turnover by Product

2004



● Strollers	50.0%
● Miscellaneous infant products	25.0%
● Beds and playards	8.9%
● Others	16.1%

2003



● Strollers	56.3%
● Miscellaneous infant products	20.6%
● Beds and playards	11.5%
● Others	11.6%

Note: Miscellaneous infant products include soft goods, car seats, high chairs, bouncers and walkers, etc.

### FINANCIAL REVIEW

The Group recorded a consolidated turnover of HK\$1,271.0 million for the year ended 31st December, 2004, an increase of 10.5% over last corresponding year, as a result of our product diversification strategy.

While our core product, strollers, remained flat in sales of HK\$636.0 million and sales of beds and playards decreased by 14.7% to HK\$ 113.2 million due to reduced household travel, miscellaneous infant products recorded sales of HK\$317.7 million, representing a growth of 34.1%.



Apart from the increase in sales of other products such as high chairs and bed rails, the successful launch of our OEM infant car seats served as a key contributor of the rise in the sales of miscellaneous infant products.

During the year under review, our ODM battery-operated ride-on cars were well accepted in the markets like the US and Australia, thus boosting sales of the product category of “others”, which includes also spare parts processing and plastic toys, etc. Turnover of this category amounted to HK\$204.2 million, representing an increase of 53.5% over the previous year.

On the production side, the sharp rise of raw material price, especially plastics and metals which accounted for two-third of our cost of materials used, added great pressure to our production costs. Our gross margin was inevitably narrowed down to 21.5% from 27.4% of last year. Net profit for the year dropped correspondingly to HK\$69.1 million from HK\$81.2 million of last year.

### PROPERTY REVALUATION

At the year end, a revaluation was performed on the Group's land and buildings and investment properties. The net surplus arising from the revaluation amounting to HK\$11.2 million was credited to the income statement.

### INVESTMENTS

Having reviewed the financial position and future plans of Shanghai Tao Tao Transgenic Engineering Co., Ltd, in which the Group had an 8% unlisted equity interest since 2001, a provision of HK\$9.7 million was made against this investment during the year under review.

The jointly controlled entity, E-1 SkyTech Investment Company Limited, which remained inactive since 2001, had completed its legal procedures of dissolution during the year. Any losses arising from the dissolution had already been accounted for in prior years.

The Group had not made any investments during the year ended 31st December, 2004.



# Management and Discussion Analysis

## LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31st December, 2004, the Group had cash and bank balances, mainly in US and Hong Kong currencies, of HK\$175.6 million (2003: HK\$95.1 million) and was free of bank borrowings (2003: HK\$15.3 million). The Group's gearing ratio, expressed as total bank borrowings to shareholders' fund, thus dropped to zero from 0.02 of 2003.

As at 31st December, 2004, the Group had net current assets of HK\$298.3 million (2003: HK\$225.5 million) and an improved current ratio of 2.4 compared with 1.8 in 2003. Trade receivable and inventory turnover were 55 days (2003: 59 days) and 49 days (2003: 46 days) respectively.

## EXCHANGE RISK EXPOSURE AND CONTINGENT LIABILITIES

The sales of the Group are mainly denominated in US dollars and purchases are mainly in HK dollars, Renminbi and New Taiwanese dollars. The Group does not foresee significant risk in exchange rate fluctuation and no financial instruments have been used for hedging purposes.

As at 31st December, 2004, the Group had no significant contingent liabilities.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2004, the group employed a total workforce of over 6,800 staff members, of which 6,650 worked in the PRC production sites. The remaining worked in the marketing, R & D and other administrative departments in our Hong Kong and Taiwan offices. Apart from basic salaries, discretionary bonus and contribution to retirement funds, share options may also be granted to staff with reference to the individual's performance.

# Directors' profile



From left to right

Upper row: Mr. LEUNG Man Fai, Mr. YANG Yu Fu, Mr. HUANG Zhi Wei, Mr. LIM Pat Wah Patrick

Lower row: Mr. CHEN Hsing Shin, Mr. HUANG Ying Yuan, Mrs. HUANG CHEN Li Chu

## EXECUTIVE DIRECTORS

**Mr. HUANG Ying Yuan**, aged 54, is a founding member and the chairman and president of the Group. Mr. Huang has 28 years of experience in the infant products industry. Mr. Huang oversees the strategic planning and daily operations of the Group and has particular responsibility for marketing.

**Mr. CHEN Hsing Shin**, aged 61, is a founding member and vice chairman of the Group. Prior to the establishment of the Group, Mr. Chen worked in various manufacturing set-ups and was specialised in production site management. With his expertise, Mr. Chen oversees the Group's production operations in the PRC.

# Directors' profile

**Mrs. HUANG CHEN Li Chu**, aged 55, was appointed an executive director of the Group in 1998. Mrs. Huang has worked in the infant products industry in Taiwan for over 26 years and established her own research and development company whose operations were acquired by the Group in early 1998. Mrs. Huang is in charge of the Group's research and development operations.

**Mr. LEUNG Man Fai**, aged 47, was appointed an executive director of the Group in November 1998. He is also the financial controller of the Group. Prior to joining the Group in July 1995, Mr. Leung worked in the accounting field for over 15 years. He graduated from Manchester Polytechnic in the UK with a bachelor's degree in accounting and finance and holds a master's degree from the University of New South Wales in Australia in professional accounting. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Australian Society of Certified Practising Accountants.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. LIM Pat Wah Patrick**, aged 45, is a senior advisor of an advisory firm. Mr. Lim is a Chartered Financial Analyst and a fellow member of the Chartered Institute of Management Accountants and Association of Chartered Certified Accountants. He obtained a bachelor's degree in accounting from Birmingham University, a master's degree in management of information systems from the London School of Economics and Political Science and a master's degree in management from University of Sydney. Mr. Lim has over 20 years of experience in accounting and finance. Mr. Lim was appointed an independent non-executive director of the Group in November, 1998.

**Mr. HUANG Zhi Wei**, aged 66, is currently the Executive Vice President of Guangdong Association of Enterprises with Foreign Investment. Mr. Huang has spent over a decade in economic-related government sectors in China. He served as the Deputy Director General of Guangdong Department of Foreign Trade & Economic Cooperation and the Director General of Guangdong Board of Investment from 1993 to 2000 respectively. He also served as the Executive Officer of Foshan Economic Committee from 1984 to 1992. Prior to this, he worked as an engineer in Foshan Power Plant for almost 10 years and served as the Chief Engineer and Deputy General Manager of Foshan Household Electrical Appliances Corporation from 1981 to 1984. Mr. Huang graduated from the Central China University of Science and Engineering, majored in Electric Engineering. Mr. Huang was appointed an independent non-executive director of the Group on 30th September, 2004.

**Mr. YANG Yu Fu**, aged 52, is the department head of China Productivity Center in Taiwan and is in charge of the operations in Taichung Regional Office. He obtained a bachelor's degree in industrial engineering from National Taipei University of Technology and master's degrees in management from both Chaoyang University of Technology, Taiwan, and Regis University, U.S.A. Mr. Yang has worked at China Productivity Center for almost 20 years and has acted as the operations management consultant for companies of different industries in Taiwan over the years. Prior to joining China Productivity Center, Mr. Yang held management positions in various enterprises. Mr. Yang was appointed an independent non-executive director of the Group on 30th September, 2004.

# Directors' report

The directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2004.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its major subsidiaries are engaged in the design, manufacture and trading of infant products. The activities of principal subsidiaries are set out in note 36 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31st December, 2004 are set out in the consolidated income statement on page 20.

An interim dividend of HK2 cents per share amounting to HK\$14,457,000 was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK 3.5 cents per share to the shareholders on the register of members on 7th June, 2005.

## INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to expand and upgrade the manufacturing facilities.

The Group revalued its investment properties and land and buildings at the balance sheet date on the basis of open market value.

Details of these and other movements during the year in the investment properties and property, plant and equipment of the Group are set out in notes 11 and 12 to the financial statements, respectively.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 23 to the financial statements.

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 23 to the financial statements. The directors considered that the repurchases may result in an increase in earnings per share of the Group.

# Directors' report

## DIRECTORS

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

### Executive directors:

Mr. Huang Ying Yuan (*Chairman*)

Mr. Chen Hsing Shin (*Vice Chairman*)

Madam Huang Chen Li Chu (*Vice Chairman*)

Mr. Leung Man Fai

Mr. Chen An-Hsin (resigned on 1st March, 2005)

### Non-executive director:

Mr. Chen Jo Wan (resigned on 5th January, 2004)

### Independent non-executive directors:

Mr. Lim Pat Wah Patrick

Mr. Huang Zhi Wei (appointed on 30th September, 2004)

Mr. Yang Yu Fu (appointed on 30th September, 2004)

Mr. Ng Kwun Wan (resigned on 30th September, 2004)

Pursuant to clause 86 of the Company's bye laws, Mr. Huang Zhi Wei and Mr. Yang Yu Fu, being directors appointed during the year, shall hold office only until the next following annual general meeting after their appointments and will therefore retire at the forthcoming annual general meeting, being eligible, offer themselves for re-election.

In accordance with clause 87 of the Company's bye-laws, Mr. Lim Pat Wah Patrick retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

The terms of office of the non-executive director and independent non-executive directors are subject to retirement by rotation in accordance with the Company's bye-laws.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except for Messrs. Chen An-Hsin and Leung Man Fai, has entered into a service agreement with the Company for a period of three years commencing 1st December, 1998 and will continue thereafter unless and until terminated by either party by three months' prior written notice.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company and its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2004, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange



pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) contained in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), were as follows:

Long positions in shares and underlying shares of the Company

Name of director	Number of shares held as		Total	Approximate % of the issued share capital	Share options
	Beneficial owner	Other interests			
Mr. Huang Ying Yuan	104,153,360	Spouse interest of 43,336,180 (Note 1)	147,489,540	20.43	7,000,000 (Note 3)
Mr. Chen Hsing Shin	96,805,800	—	96,805,800	13.41	3,500,000
Madam Huang Chen Li Chu	43,336,180	Spouse interest of 104,153,360 (Note 1)	147,489,540	20.43	7,000,000 (Note 4)
Mr. Chen An-Hsin	—	Corporate interest of 36,689,675 (Note 2)	36,689,675	5.08	—
Mr. Leung Man Fai	—	—	—	—	2,500,000

Notes:

1. The spouse interest represents the shares held by the spouse of Mr. Huang Ying Yuan and Madam Huang Chen Li Chu, respectively. Madam Huang Chen Li Chu is the wife of Mr. Huang Ying Yuan.
2. Mr. Chen An-Hsin beneficially owns the entire interest of Gold Field Business Ltd., which in turn owns 36,689,675 ordinary shares in the Company.
3. It represents 4,000,000 share options beneficially owned by Mr. Huang Ying Yuan and 3,000,000 share options held by the spouse of him.
4. It represents 3,000,000 share options beneficially owned by Madam Huang Chen Li Chu and 4,000,000 share options held by the spouse of her.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations, which were recorded in the register as required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

# Directors' report

## SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 24 to the financial statements.

The following table discloses movements in the Company's share options during the year:

Director	Date of grant	Number of share options of the Company outstanding at 1st January, 2004 and
		31st December, 2004
Mr. Huang Ying Yuan	18th August, 1999	4,000,000
Mr. Chen Hsing Shin	18th August, 1999	3,500,000
Madam Huang Chen Li Chu	18th August, 1999	3,000,000
Mr. Leung Man Fai	18th August, 1999	2,500,000
		<hr/>
		13,000,000

The share options were granted by the Company on 18th August, 1999 to subscribe for shares in the Company at an exercise price of HK\$1.26 per share, subject to adjustment. These share options are exercisable from 1st January, 2000 to 17th August, 2009.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

## CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

The Group had made sales of infant products, toys and other products of HK\$4,328,000 to 好萊兒嬰兒用品有限公司, a company in which Huang Tien Cheng, a brother of Mr. Huang Ying Yuan, has beneficial and controlling interests.

The above transactions are regarded as connected transactions pursuant to Chapter 14 of the Listing Rules. Particulars of these and other discloseable connected transactions are disclosed in note 35 to the financial statements.

The independent non-executive directors have reviewed the above connected transactions and confirm that these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on arm's length basis, on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iii) in accordance with the terms of the agreements governing such transactions.

Save as disclosed therein and in note 35 to the financial statements:

- (i) no contracts of significance subsisted at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

### SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

#### Long position in shares and underlying shares of the Company

Name of substantial shareholder	Number of shares	Capacity	Approximate % of the issued share capital
Mr. Cheah Cheng Hye	57,768,000	Corporate interest ( <i>Note</i> )	8.0%
Value Partners Limited	57,768,000	Investment manager	8.0%
Templeton Investment Counsel, LLC	43,339,968	Investment manager	6.0%
OCM Emerging Markets Funds, LP	38,122,000	Investment manager	5.3%

*Note:* Mr. Cheah Cheng Hye beneficially owns approximately 32% interest in Value Partners Limited.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 31st December, 2004.

### DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$112,000.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

Other than the repurchase by the Company of certain of its shares on the Stock Exchange as described in note 23 to the financial statements, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 47.2% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 18.0% of total sales. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 30% of the total purchases of the Group.

# Directors' report

None of the directors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers of the Group.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualifications and competence.

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 24 to the financial statements.

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2004.

## AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the board

HUANG Ying Yuan  
*Chairman*

14th April, 2005

# Auditors' report



TO THE SHAREHOLDERS OF  
LERADO GROUP (HOLDING) COMPANY LIMITED  
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 20 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of The Companies Act of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

Hong Kong, 14th April, 2005

# Consolidated Income Statement

For the year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover		1,271,035	1,149,893
Cost of sales		(997,985)	(835,109)
Gross profit		273,050	314,784
Investment income	4	833	356
Other operating income		31,049	17,996
Marketing and distribution costs		(87,002)	(88,689)
Research and development expenses		(17,184)	(14,794)
Administrative expenses		(105,143)	(113,660)
Other operating expenses		(15,009)	(18,855)
Profit from operations	5	80,594	97,138
Finance costs	7	(742)	(121)
Profit from ordinary activities before taxation		79,852	97,017
Income tax expense	8	(6,017)	(16,421)
Profit before minority interests		73,835	80,596
Minority interests		(4,700)	574
Net profit for the year		69,135	81,170
Dividends	9	50,599	57,369
Earnings per share	10		
Basic		9.57 cents	11.28 cents
Diluted		9.55 cents	11.26 cents



# Consolidated Balance Sheet

At 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-Current Assets			
Investment properties	11	12,000	7,500
Property, plant and equipment	12	391,103	369,028
Negative goodwill	13	(2,818)	(3,238)
Intellectual property rights	15	40,775	46,084
Interest in associates	16	11,700	11,700
Interest in a jointly controlled entity	17	—	49,117
Other investments	18	3,963	13,663
Deferred tax assets	26	841	1,700
		457,564	495,554
Current Assets			
Inventories	19	144,122	124,678
Trade and other receivables	20	188,823	290,917
Bank balances and cash		175,559	95,070
		508,504	510,665
Current Liabilities			
Trade and other payables	21	206,177	217,094
Amount due to a jointly controlled entity	22	—	49,117
Taxation		3,997	3,723
Secured short term bank borrowings		—	15,256
		210,174	285,190
Net Current Assets		298,330	225,475
		755,894	721,029
Capital and Reserves			
Share capital	23	72,210	72,284
Reserves		656,583	615,652
		728,793	687,936
Minority Interests		16,812	18,464
Non-Current Liabilities			
Deferred tax liabilities	26	9,509	11,074
Loans from minority shareholders	27	780	3,555
		10,289	14,629
		755,894	721,029

The financial statements on pages 20 to 63 were approved and authorised for issue by the board of directors on 14th April, 2005 and are signed on its behalf by:

HUANG Ying Yuan  
Chairman

CHEN Hsing Shin  
Vice Chairman

# Balance Sheet

At 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-Current Asset			
Interest in subsidiaries	14	410,537	411,182
Current Assets			
Other receivables		73	73
Bank balances		12	41
		85	114
Current Liabilities			
Amounts due to subsidiaries		3,424	1,175
Other payables		66	188
		3,490	1,363
Net Current Liabilities		(3,405)	(1,249)
		407,132	409,933
Capital and Reserves			
Share capital	23	72,210	72,284
Reserves	25	334,922	337,649
		407,132	409,933

HUANG Ying Yuan  
Chairman

CHEN Hsing Shin  
Vice Chairman

# Consolidated Statement of Changes in Equity

For the year ended 31st December, 2004

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Property revaluation reserve HK\$'000	Statutory surplus reserve fund HK\$'000	Enterprise expansion fund HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>											
At 1st January, 2003	72,245	90,110	38,510	46,263	12,579	929	(2,162)	(88)	446	406,088	664,920
Exchange differences arising from translation of the financial statements of operations outside Hong Kong	—	—	—	—	—	—	(1,186)	—	—	—	(1,186)
Revaluation deficit on land and buildings	—	—	—	(414)	—	—	—	—	—	—	(414)
Deferred tax liability arising on revaluation of properties	—	—	—	(30)	—	—	—	—	—	—	(30)
Net losses not recognised in the income statement	—	—	—	(444)	—	—	(1,186)	—	—	—	(1,630)
Shares repurchased and cancelled	(611)	—	—	—	—	—	—	—	—	—	(611)
Premium on repurchase of shares	—	(6,734)	—	—	—	—	—	—	—	—	(6,734)
Transfer of reserves for cancellation of shares	—	—	—	—	—	—	—	—	611	(611)	—
Share options exercised	650	7,540	—	—	—	—	—	—	—	—	8,190
Net profit for the year	—	—	—	—	—	—	—	—	—	81,170	81,170
Transfer of statutory reserves	—	—	—	—	43	—	—	—	—	(43)	—
Dividends (Note 9)	—	—	—	—	—	—	—	—	—	(57,369)	(57,369)
	39	806	—	—	43	—	—	—	611	23,147	24,646
At 31st December, 2003	72,284	90,916	38,510	45,819	12,622	929	(3,348)	(88)	1,057	429,235	687,936
Exchange differences arising from translation of the financial statements of operations outside Hong Kong	—	—	—	—	—	—	3,783	—	—	—	3,783
Revaluation surplus on land and buildings	—	—	—	21,418	—	—	—	—	—	—	21,418
Deferred tax liability arising on revaluation of properties	—	—	—	(1,946)	—	—	—	—	—	—	(1,946)
Net gains not recognised in the income statement	—	—	—	19,472	—	—	3,783	—	—	—	23,255
Shares repurchased and cancelled	(74)	—	—	—	—	—	—	—	—	—	(74)
Premium on repurchase of shares	—	(860)	—	—	—	—	—	—	—	—	(860)
Transfer of reserves for cancellation of shares	—	—	—	—	—	—	—	—	74	(74)	—
Net profit for the year	—	—	—	—	—	—	—	—	—	69,135	69,135
Transfer of statutory reserves	—	—	—	—	3,002	138	—	—	—	(3,140)	—
Dividends (Note 9)	—	—	—	—	—	—	—	—	—	(50,599)	(50,599)
	(74)	(860)	—	—	3,002	138	—	—	74	15,322	17,602
At 31st December, 2004	72,210	90,056	38,510	65,291	15,624	1,067	435	(88)	1,131	444,557	728,793

## Consolidated Statement of Changes in Equity

For the year ended 31st December, 2004

For the year ended 31st December, 2003, the accumulated profits of the Group include a loss of HK\$883,000 attributable to a jointly controlled entity.

The special reserve represents the difference between the nominal value of shares of Lerado Group Limited together with its share premium and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China, other than Hong Kong (the "PRC"), the PRC subsidiaries of the Group are required to maintain two statutory reserves, being a statutory surplus reserve fund and an enterprise expansion fund which are not distributable. Appropriations to such reserves are made out of net profit after taxation as per the statutory accounts of the PRC subsidiaries and the amount and allocation basis are decided by the respective board of directors annually.

# Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	Note	2004 HK\$'000	2003 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit from ordinary activities before taxation		79,852	97,017
Adjustments for:			
Interest income		(536)	(356)
Interest expenses		742	121
Allowance for bad and doubtful debts		2,618	5,694
(Gain) loss on disposal of property, plant and equipment		(169)	1,747
Unrealised holding loss on other investments		9,700	8,334
Depreciation and amortisation of property, plant and equipment		33,010	30,574
Amortisation of intellectual property rights		5,309	5,308
(Surplus) deficit arising on revaluation of land and buildings		(6,674)	2,213
(Surplus) deficit arising on revaluation of investment properties		(4,500)	3,000
Release of negative goodwill		(420)	(420)
Loss (gain) on dissolution/disposal of subsidiaries		198	(660)
Operating cash flows before movements in working capital		119,130	152,572
Increase in inventories		(19,592)	(43,173)
Decrease (increase) in trade and other receivables		99,298	(66,398)
(Decrease) increase in trade and other payables		(11,064)	56,517
Cash generated from operations		187,772	99,518
Hong Kong Profits Tax paid		(5,394)	(4,347)
Taxation in other jurisdictions paid		(2,984)	(10,307)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>179,394</b>	<b>84,864</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(24,872)	(71,970)
Dissolution/disposal of subsidiaries (net of cash and cash equivalents disposed of)	28	(532)	(540)
Proceeds from disposal of property, plant and equipment		1,646	579
Interest received		536	356
Acquisition of additional interest in subsidiaries		—	(1,161)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(23,222)</b>	<b>(72,736)</b>

# Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	Note	2004 HK\$'000	2003 HK\$'000
FINANCING ACTIVITIES			
Repayment of bank loans		(71,904)	(8,449)
Dividends paid		(50,599)	(57,369)
Dividend paid to a minority shareholder of a subsidiary		(8,640)	—
Repurchase of shares		(934)	(7,345)
Interest paid		(742)	(121)
Bank loans raised		56,648	22,705
Proceeds from issue of shares		—	8,190
NET CASH USED IN FINANCING ACTIVITIES		(76,171)	(42,389)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		80,001	(30,261)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		95,070	125,811
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		488	(480)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		175,559	95,070



# Note to the Financial Statements

For the year ended 31st December, 2004

## 1. GENERAL

The Company is an exempted company incorporated in Bermuda under The Companies Act 1981 of Bermuda (as amended) with limited liability. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are the design, manufacture and trading of infant products.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRS(s)") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies are as follows:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or at such time as the goodwill is determined to be impaired.

# Note to the Financial Statements

For the year ended 31st December, 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Goodwill *(continued)*

Goodwill arising on acquisition after 1st January, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

### Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition after 1st January, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### Interest in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interest in associates is stated at the Group's share of the net assets of the associates less any identified impairment loss.

### Interest in joint ventures

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in its jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entity is included in the consolidated income statement.

### Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

## Note to the Financial Statements

For the year ended 31st December, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rental invoiced in advance, from properties under operating leases, is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

#### Investment properties

Investment properties are completed properties which held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No amortisation is provided on investment properties except where the unexpired term of the relevant lease is twenty years or less.

#### Property, plant and equipment

Property, plant and equipment other than land and buildings and construction in progress are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

# Note to the Financial Statements

For the year ended 31st December, 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment *(continued)*

Any surplus arising on the revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a deficit of the same asset previously recognised as an expense, in which case the surplus is credited to the income statement to the extent of the deficit previously charged. A deficit in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Construction in progress is stated at cost less any identified impairment loss. Cost which includes all development expenditure and other direct costs, including borrowing cost capitalised, attributable to such projects. Construction in progress is not depreciated or amortised until the completion of construction. Cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

Depreciation and amortisation are provided to write off the cost or valuation of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Freehold land	Nil
Leasehold land and buildings	2% or the remaining period of the leases or land use rights, if shorter
Leasehold improvements	10 — 20%
Plant and machinery	10 — 20%
Furniture, fixtures and equipment	20 — 33 <sup>1</sup> / <sub>3</sub> %
Motor vehicles	20 — 50%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

## Note to the Financial Statements

For the year ended 31st December, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

#### Intellectual property rights

Intellectual property rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated to write off the cost of the intellectual property rights over their estimated useful lives, using the straight-line method.

#### Investments

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

#### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

#### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

# Note to the Financial Statements

For the year ended 31st December, 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.



For the year ended 31st December, 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Retirement benefit scheme

The contributions payable in the current year to the Group's Mandatory Provident Fund Scheme ("MPF Scheme"), operated for its employees in Hong Kong, are charged in the income statement as retirement benefit scheme contribution.

The operations in the PRC and Taiwan are members of state-managed retirement benefit schemes operated by the PRC and Taiwan government and the retirement benefit scheme contributions charged to the income statement represent the amount of contributions payable by the subsidiaries in the PRC and Taiwan to their retirement benefit schemes.

## 4. INVESTMENT INCOME

	2004 HK\$'000	2003 HK\$'000
Bank interest income	529	356
Other interest income	7	—
Property rental income	297	—
	833	356

The Group had no significant outgoings in respect of the property rental income generated for the year ended 31st December, 2004.

# Note to the Financial Statements

For the year ended 31st December, 2004

## 5. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration		
Basic salaries and allowances	144,660	146,591
Bonus	13,199	14,227
Retirement benefit scheme contributions	4,715	3,965
	162,574	164,783
Auditors' remuneration	1,632	1,570
Allowance for bad and doubtful debts	2,618	5,694
Amortisation of intellectual property rights (included in other operating expenses)	5,309	5,308
Deficit arising on revaluation of land and buildings	—	2,213
Deficit arising on revaluation of investment properties	—	3,000
Depreciation and amortisation of property, plant and equipment	33,010	30,574
Loss on disposal of property, plant and equipment	—	1,747
Unrealised holding loss on other investments	9,700	8,334
Loss on dissolution of subsidiaries	198	—
and after crediting:		
Gain on disposal of property, plant and equipment	169	—
Gain on disposal of subsidiaries	—	660
Release of negative goodwill to other operating income	420	420
Surplus arising on revaluation of investment properties	4,500	—
Surplus arising on revaluation of land and buildings	6,674	—

For the year ended 31st December, 2004

## 6. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Directors' fees		
Non-executive director	—	98
Independent non-executive directors	355	260
	355	358
Other emoluments		
Executive directors		
Basic salaries and allowances	7,358	8,792
Bonus	5,868	7,349
Retirement benefit scheme contributions	86	163
	13,312	16,304
	13,667	16,662

The emoluments of the directors were within the following emolument bands:

	2004 Number of directors	2003 Number of directors
Nil to HK\$1,000,000	6	3
HK\$1,000,001 to HK\$1,500,000	—	2
HK\$2,500,001 to HK\$3,000,000	2	—
HK\$3,000,001 to HK\$3,500,000	1	2
HK\$3,500,001 to HK\$4,000,000	1	2
	10	9

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments.

# Note to the Financial Statements

For the year ended 31st December, 2004

## 6. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS *(continued)*

### (b) Highest paid individuals

The five highest paid individuals of the Group were all directors for both years.

## 7. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	740	119
Other borrowings	2	2
	<b>742</b>	<b>121</b>

## 8. INCOME TAX EXPENSE

	2004 HK\$'000	2003 HK\$'000
Current tax:		
Hong Kong	4,783	4,316
The PRC	2,537	8,045
Other jurisdictions	391	735
	<b>7,711</b>	<b>13,096</b>
Under(over) provision in prior years:		
Hong Kong	389	(20)
The PRC	476	581
Other jurisdictions	93	141
	<b>958</b>	<b>702</b>
Deferred tax (credit) charge <i>(Note 26)</i> :		
Current year	(463)	(386)
Attributable to change in tax rates	(2,189)	3,009
	<b>(2,652)</b>	<b>2,623</b>
	<b>6,017</b>	<b>16,421</b>

## Note to the Financial Statements

For the year ended 31st December, 2004

### 8. INCOME TAX EXPENSE *(continued)*

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year.

The statutory tax rate for the PRC subsidiaries is 24% and those subsidiaries regarded as export enterprise by local tax authority are subject to preferential income tax rate of 12%. During the year, a PRC subsidiary was qualified as export enterprise and the change in applicable tax rate has been reflected in the calculation of current and deferred taxation.

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

A portion of the Group's profit neither arises in, nor is derived from Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax.

The tax expense for the year can be reconciled to the profit per the income statement as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Profit before taxation	79,852	97,017
Tax at Hong Kong Profits Tax rate of 17.5% (2003: 17.5%)	13,974	16,978
Tax effect of expenses not deductible for tax purpose	623	2,202
Tax effect of income not taxable for tax purpose	(1,075)	(189)
Under provision in prior year	958	702
Tax effect of deferred tax assets not recognised	177	33
Tax effect of tax losses not recognised	—	3,793
(Decrease) increase in opening deferred tax liability resulting from change in applicable tax rate	(2,189)	3,009
Effect of different tax rates of subsidiaries	(2,821)	(6,620)
Income tax on concessionary rate	(3,697)	(3,868)
Others	67	381
Tax expense for the year	6,017	16,421

Details of deferred taxation are set out in note 26.

# Note to the Financial Statements

For the year ended 31st December, 2004

## 9. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
2003 final dividend of HK5 cents (2002 final dividend: HK6 cents) per share	36,142	43,042
2004 interim dividend of HK2 cents (2003 interim dividend: HK2 cents) per share	14,457	14,327
	50,599	57,369

The 2004 final dividend of HK3.5 cents per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 10. EARNINGS PER SHARE

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

	2004	2003
Net profit for the year and earnings for the purposes of the basic and diluted earnings per share	HK\$69,135,000	HK\$81,170,000
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	722,722,938	719,669,442
Effect of dilutive potential ordinary shares in respect of share options	1,215,827	952,982
Weighted average number of ordinary shares for the purposes of diluted earnings per share	723,938,765	720,622,424

## 11. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1st January, 2004	7,500
Surplus on valuation credited to the income statement	4,500
At 31st December, 2004	12,000

The investment properties are held under long leases and are situated in Hong Kong.

Investment properties were revalued at 31st December, 2004 by Grant Sherman Appraisal Limited, an independent property valuer, on an open market value basis.

# Note to the Financial Statements

For the year ended 31st December, 2004

## 12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
<b>COST OR VALUATION</b>							
At 1st January, 2004	227,066	6,369	138,803	58,340	12,248	27,524	470,350
Exchange realignment	3,536	15	219	309	(22)	81	4,138
Additions	536	38	7,745	9,672	1,053	5,828	24,872
Disposals	—	(19)	(485)	(4,846)	(3,251)	—	(8,601)
Attributable to dissolution of subsidiaries	—	—	—	(291)	—	—	(291)
Transfer	27,271	—	—	4,719	—	(31,990)	—
Adjustment on valuation	16,845	—	—	—	—	—	16,845
At 31st December, 2004	275,254	6,403	146,282	67,903	10,028	1,443	507,313
Comprising:							
At cost	—	6,403	146,282	67,903	10,028	1,443	232,059
At valuation — 2004	275,254	—	—	—	—	—	275,254
	275,254	6,403	146,282	67,903	10,028	1,443	507,313
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st January, 2004	—	4,253	55,733	32,959	8,377	—	101,322
Exchange realignment	183	25	68	152	16	—	444
Provided for the year	11,064	555	11,758	8,461	1,172	—	33,010
Eliminated on disposals	—	(11)	(374)	(4,070)	(2,669)	—	(7,124)
Attributable to dissolution of subsidiaries	—	—	—	(195)	—	—	(195)
Adjustment on valuation	(11,247)	—	—	—	—	—	(11,247)
At 31st December, 2004	—	4,822	67,185	37,307	6,896	—	116,210
<b>NET BOOK VALUES</b>							
At 31st December, 2004	275,254	1,581	79,097	30,596	3,132	1,443	391,103
At 31st December, 2003	227,066	2,116	83,070	25,381	3,871	27,524	369,028

## Note to the Financial Statements

For the year ended 31st December, 2004

### 12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The net book value of land and buildings held by the Group at the balance sheet date comprises:

	2004 HK\$'000	2003 HK\$'000
Held in Hong Kong under long leases	42,000	28,000
Held in the PRC under medium term land use rights	192,654	160,066
Held in Taiwan, freehold	40,600	39,000
	275,254	227,066

A leasehold building of the Group with net book value of HK\$354,000 (2003: HK\$398,000) as at 31st December, 2004 was valued by the directors, who estimated that its fair value was not materially different from its carrying amount.

The remaining land and buildings of the group were revalued at 31st December, 2004 by Grant Sherman Appraisal Limited, an independent property valuer not connected to the Group. All the land and buildings in Hong Kong and land and buildings in the PRC of HK\$13,200,000 were valued on an open market value basis. The remaining land and buildings in the PRC amounting to HK\$179,100,000 and the land and buildings in Taiwan amounting to HK\$40,600,000 were valued on depreciated replacement cost basis.

A surplus on revaluation of HK\$6,674,000 (2003: deficit of HK\$2,213,000 was charged) was credited to the income statement and a surplus of HK\$21,418,000 (2003: deficit HK\$414,000 was charged) was credited to property revaluation reserve.

If the land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated amortisation at HK\$192,338,000 (2003: HK\$202,735,000).



For the year ended 31st December, 2004

## 13. NEGATIVE GOODWILL

THE GROUP  
HK\$'000

### GROSS AMOUNT

At 1st January, 2004 and 31st December, 2004	4,196
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### RELEASED TO INCOME

At 1st January, 2004	958
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Released during the year	420
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At 31st December, 2004	1,378
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### CARRYING AMOUNTS

At 31st December, 2004	2,818
------------------------	-------

At 31st December, 2003	3,238
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The negative goodwill is released to other operating income on a straight-line basis over 10 years based on the remaining weighted average useful lives of the identifiable acquired depreciable assets.

## 14. INTEREST IN SUBSIDIARIES

THE COMPANY

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	244,660	244,660
Amounts due from subsidiaries	165,877	166,522
	410,537	411,182

Details of the Company's principal subsidiaries at 31st December, 2004 are set out in note 36.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the Company will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

# Note to the Financial Statements

For the year ended 31st December, 2004

## 15. INTELLECTUAL PROPERTY RIGHTS

THE GROUP  
HK\$'000

### COST

At 1st January, 2004 and at 31st December, 2004	88,982
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### AMORTISATION AND IMPAIRMENT

At 1st January, 2004	42,898
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Provided for the year	5,309
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At 31st December, 2004	48,207
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### NET BOOK VALUES

At 31st December, 2004	40,775
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At 31st December, 2003	46,084
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The Group's intellectual property rights are amortised over a period ranging from 4 to 18 years.

## 16. INTEREST IN ASSOCIATES

THE GROUP

	2004 HK\$'000	2003 HK\$'000
Share of net assets of associates	—	—
Loan to an associate	11,700	11,700
	11,700	11,700

# Note to the Financial Statements

For the year ended 31st December, 2004

## 16. INTEREST IN ASSOCIATES *(continued)*

Details of the Group's associates at 31st December, 2004 are as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Group	Principal activity
FLT Hong Kong Technology Limited	Incorporated	British Virgin Islands ("BVI")	US\$1	30%	Trading of optical fibre products
Weblink Technology Limited ("Weblink")	Incorporated	BVI	US\$100	30%	Investment holding
珠海保稅區隆宇光電科技有限公司	Incorporated	PRC	US\$1,548,000	30%	Manufacturing and distribution of optical fibre products

The loan to an associate is unsecured, non-interest bearing and has no fixed terms of repayment. In the opinion of the directors, the amount will not be repayable within twelve months from the balance sheet date and is therefore shown as non-current.

## 17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets of a jointly controlled entity	—	49,117

The jointly controlled entity was dissolved during the year ended 31st December, 2004.

## 18. OTHER INVESTMENTS

The carrying amount of other investments of the Group represents the fair value of unlisted securities at the balance sheet date.

# Note to the Financial Statements

For the year ended 31st December, 2004

## 19. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	77,674	58,326
Work in progress	16,671	18,470
Finished goods	49,777	47,882
	<b>144,122</b>	<b>124,678</b>

Included above are finished goods of HK\$3,282,000 (2003: HK\$1,243,000) carried at net realisable values.

## 20. TRADE AND OTHER RECEIVABLES

The Group has defined credit terms which are agreed with its trade customers. Included in trade and other receivables are trade receivables of HK\$167,147,000 (2003: HK\$214,900,000) and their aged analysis is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	84,313	99,270
31 to 90 days	65,388	103,842
Over 90 days	17,446	11,788
	<b>167,147</b>	<b>214,900</b>

## 21. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$153,109,000 (2003: HK\$154,030,000) and their aged analysis is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	63,230	72,942
31 to 90 days	79,325	72,686
Over 90 days	10,554	8,402
	<b>153,109</b>	<b>154,030</b>

## 22. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

The amount due to a jointly controlled entity of the group was unsecured, non-interest bearing and was fully settled upon dissolution of the jointly controlled entity during the year ended 31st December, 2004.

## 23. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
<hr/>		
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 1st January, 2003, 31st December, 2003 and 31st December, 2004	1,000,000,000	100,000
<hr/>		
<i>Issued and fully paid:</i>		
At 1st January, 2003	722,448,724	72,245
Shares repurchased and cancelled	(6,110,000)	(611)
Exercise of share options	6,500,000	650
<hr/>		
At 31st December, 2003	722,838,724	72,284
Shares repurchased and cancelled ( <i>Note</i> )	(742,000)	(74)
<hr/>		
At 31st December, 2004	722,096,724	72,210
<hr/>		

*Note:* During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
October 2004	232,000	1.27	1.26	293
November 2004	510,000	1.27	1.24	641
<hr/>				
	742,000			934
<hr/>				

# Note to the Financial Statements

For the year ended 31st December, 2004

## 23. SHARE CAPITAL *(continued)*

*Note: (continued)*

The repurchased shares were subsequently cancelled upon repurchase and accordingly, the issued capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company as set out in the consolidated statement of changes in equity and note 25.

## 24. SHARE OPTIONS

The Company adopted a share option scheme on 2nd December, 1998 (the "1998 Scheme") for the primary purpose of providing incentives to directors and eligible employees and will expire on 1st December, 2008. Under the 1998 Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 30 days from the date of grant.

Under the 1998 Scheme, the exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the Company's shares, and 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

At 31st December, 2004, the number of shares in respect of which options had been granted and remained outstanding under the 1998 Scheme was 13,000,000 (2003: 13,000,000), representing 1.8% (2003: 1.8%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 1998 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

No option may be granted to any one person which if exercised in full would result in the total number of shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the number of shares issued and issuable under all the options which may be granted under the 1998 Scheme at the time it is proposed to grant the said option to that person.

An option may be exercised in accordance with the terms of the 1998 Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the 1998 Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the 1998 Scheme shall be valid and effective for a period of 10 years after the date of adoption of the 1998 Scheme by shareholders of the Company by resolution at a general meeting.

For the year ended 31st December, 2004

## 24. SHARE OPTIONS *(continued)*

The following options to subscribe for shares were outstanding under the 1998 Scheme:

				Number of shares to be issued upon exercise of the share options		
				Outstanding at 31st December, 2003 and 2004	Outstanding at 1st January, 2003	Exercised during 2003
Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$			(Note)
Total directors	18.8.1999	4.5 months	1.1.2000 – 17.8.2009	1.26	19,500,000	(6,500,000)
						13,000,000

*Note:* The market value per share ranged from HK\$1.39 to HK\$1.41 at the time the share options were exercised.

As a result of the amendments of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) on 1st September, 2001, certain terms of the 1998 Scheme are no longer in compliance with the Listing Rules and the Company can no longer grant any further options under the 1998 Scheme without being in breach of the Listing Rules. Accordingly, the Company terminated the 1998 Scheme and adopted a new share option scheme (the “2002 Scheme”), which was approved in the Company’s annual general meeting on 30th May, 2002, for the primary purpose of providing incentives to directors and eligible participants.

Except that no further options may be granted under the 1998 Scheme subsequent to its termination, all the other provisions of the 1998 Scheme will remain in force so as to give effect to the exercise of all outstanding options granted under the 1998 Scheme prior to 1st September, 2001 and all such options will remain valid and exercisable in accordance with the provisions of the 1998 Scheme.

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

Options granted should be accepted within 30 days from the date of grant. The total number of shares in respect of which options may be granted under the 2002 Scheme and any other share option scheme of the Company at any time shall not exceed 10% of the shares of the Company in issue at any point in time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders. Options granted to substantial shareholders or any of its associates in excess of 0.1% of the Company’s share capital or with a value in excess of HK\$5 million must be approved in advance by the Company’s shareholders.

# Note to the Financial Statements

For the year ended 31st December, 2004

## 24. SHARE OPTIONS *(continued)*

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

No options were granted under the 2002 Scheme since its adoption.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## 25. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated profits (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>					
At 1st January, 2003	90,110	244,461	446	1,676	336,693
Premium on repurchase of shares	(6,734)	—	—	—	(6,734)
Exercised of share options	7,540	—	—	—	7,540
Transfer of reserves for cancellation of shares	—	—	611	(611)	—
Net profit for the year	—	—	—	57,519	57,519
Dividends ( <i>Note 9</i> )	—	—	—	(57,369)	(57,369)
At 31st December, 2003	90,916	244,461	1,057	1,215	337,649
Premium on repurchase of shares	(860)	—	—	—	(860)
Transfer of reserves for cancellation of shares	—	—	74	(74)	—
Net profit for the year	—	—	—	48,732	48,732
Dividends ( <i>Note 9</i> )	—	—	—	(50,599)	(50,599)
At 31st December, 2004	90,056	244,461	1,131	(726)	334,922



## 25. RESERVES (continued)

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation.

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

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, at the balance sheet date, the Company's reserves available for distribution to shareholders comprise:

	2004 HK\$'000	2003 HK\$'000
Contributed surplus	244,461	244,461
Accumulated (losses) profits	(726)	1,215
	243,735	245,676

## Note to the Financial Statements

For the year ended 31st December, 2004

### 26. DEFERRED TAX

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

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2003	633	5,500	588	6,721
Charge (credit) to the income statement for the year	(86)	105	(405)	(386)
Charge to equity for the year	—	30	—	30
Effect of change in tax rates (credit) charge to the income statement for the year	59	(124)	3,074	3,009
At 31st December, 2003	606	5,511	3,257	9,374
Charge (credit) to the income statement for the year	(424)	1,345	(1,384)	(463)
Charge to equity for the year	—	2,021	—	2,021
Effect of change in tax rates — credit to the income statement for the year	—	—	(2,189)	(2,189)
— credit to equity for the year	—	(75)	—	(75)
At 31st December, 2004	182	8,802	(316)	8,668

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been set off in accordance with the conditions set out in the standard. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Deferred tax liabilities	9,509	11,074
Deferred tax assets	(841)	(1,700)
	8,668	9,374

## 26. DEFERRED TAX *(continued)*

At 31st December, 2004, the Group had unused tax losses and deductible temporary differences in respect of revaluation of properties of HK\$73,202,000 (2003: HK\$73,202,000) and HK\$7,543,000 (2003: HK\$6,532,000), respectively. No deferred tax assets have not been recognised because of the unpredictability of future profit streams. The unrecognised tax losses are losses that will expire in five year's time since its initial recognition.

## 27. LOANS FROM MINORITY SHAREHOLDERS

The loans from minority shareholders of the group are unsecured, non-interest bearing and have no fixed terms of repayment. The minority shareholders have agreed not to demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

## 28. DISSOLUTION/DISPOSAL OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets (liabilities) disposed of:		
Property, plant and equipment	96	122
Trade and other receivables	31	1,908
Inventories	—	5,053
Bank balances and cash	931	540
Trade and other payables	(2,747)	(8,403)
Minority interests	2,286	120
	597	(660)
(Loss) gain on dissolution/disposal of subsidiaries	(198)	660
Cash return upon dissolution of subsidiaries	399	—
Cash outflow arising on dissolution/disposal		
Bank balances and cash disposed of	(931)	(540)
Cash return	399	—
	(532)	(540)

The subsidiaries dissolved/disposed of during the year did not contribute significantly to the turnover, operating results or cash flows of the Group.

## Note to the Financial Statements

For the year ended 31st December, 2004

### 29. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2004, the return on investment in a jointly controlled entity of HK\$49,117,000 was satisfied by the settlement of amount due to the jointly controlled entity of the same amount.

Upon the acquisition of additional interest in subsidiaries during the year ended 31st December, 2003, the loan from minority shareholder of HK\$5,679,000 was assigned to the Group.

### 30. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Minimum lease payments paid under operating leases in respect of rented premises during the year	3,414	5,148

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	2,105	2,117
In the second to fifth year inclusive	2,111	3,776
	4,216	5,893

Included above are operating lease commitments for premises of HK\$1,513,000 (2003: HK\$2,266,000) entered into by the group with two directors of the Company, Messrs. Huang Ying Yuan, Chen Hsing Shin, and a former director, Mr. Chen Jo Wan.

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average term ranging from one to five years and rentals are fixed for an average of five years.

## 30. OPERATING LEASE ARRANGEMENTS *(continued)*

### The Group as lessor

Property rental income earned during the year was HK\$297,000 (2003: Nil). The investment properties held have committed tenants for the next two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	396	297
In the second to fifth year inclusive	363	759
	759	1,056

## 31. COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	729	11,022

The Company had no significant capital commitments at the balance sheet date.

## 32. PLEDGE OF ASSETS

At 31st December, 2003, other receivables of HK\$34,871,000 were pledged to banks to secure bank borrowings of HK\$15,256,000. The pledge was released upon full repayment of such bank borrowings during the year ended 31st December, 2004.

## 33. CONTINGENT LIABILITIES

At 31st December, 2004, the Company had guarantees of approximately HK\$375 million (2003: HK\$284 million) given to banks in respect of banking facilities granted to certain subsidiaries of the Company.

# Note to the Financial Statements

For the year ended 31st December, 2004

## 34. RETIREMENT BENEFIT SCHEME

The Group operates an MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

The employees employed by the subsidiaries in the PRC and Taiwan are members of the stated-managed retirement benefit schemes operated by the PRC and Taiwan government. The PRC and Taiwan subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefit. The only obligation of the Group with respect to the retirement benefit schemes operated by the PRC and Taiwan government is to make the required contributions under the schemes.

## 35. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the group had transactions and/or balances with the directors and/or related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules. The transactions during the year and balances with them at the balance sheet date, are as follows:

### (a) Transactions with connected or related parties:

Name of party	Interested directors	Nature of transactions	2004 HK\$'000	2003 HK\$'000
好萊兒嬰兒用品 有限公司	(Note i)	Sales made by the Group (Note ii)	4,328	—
Yojin Industrial Corporation	Huang Ying Yuan and Huang Chen Li Chu (Note iii)	Rental expenses paid by the Group (Note iv)	848	821
		Purchase of fabrics and sponge and plastic parts by the Group (Note ii)	—	197
		Sales made by the Group (Note ii)	—	71
		Purchase of property, plant and equipment (Note ii)	—	16
Chen Chin Yuan	(Note v)	Rental expenses paid by the Group (Note iv)	164	164
Chen Hung Jung	(Note vi)	Rental expenses paid by the Group (Note iv)	151	151

### (b) Transactions with directors/former directors:

Name of director/ former director	Nature of transactions	2004 HK\$'000	2003 HK\$'000
Huang Ying Yuan	Rental expenses paid by the Group (Note iv)	379	379
Chen Hsing Shin	Rental expenses paid by the Group (Note iv)	379	379
Huang Chen Li Chu	Rental expenses paid by the Group (Note iv)	28	27
Tsang Yat Kiang	Rental expenses paid by the Group (Note iv)	—	190
Chen Jo Wan	Rental expenses paid by the Group (Note iv)	—	228

# Note to the Financial Statements

For the year ended 31st December, 2004

## 35. CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

Other than the above, at 31st December, 2004, the Group also had loans from minority shareholders of HK\$780,000 (2003: HK\$3,555,000), details are disclosed in note 27. These loans are made by the minority shareholders to the related subsidiaries in the proportion of their interests in the respective subsidiaries, as appropriate.

Notes:

- i. 好萊兒嬰兒用品有限公司 is controlled by Huang Tien Cheng, who is a brother of Huang Ying Yuan.
- ii. These transactions were carried out with reference to market price or, where no market price was available, at terms determined and agreed by both parties.
- iii. Huang Ying Yuan and Huang Chen Li Chu have beneficial interests in Yojin Industrial Corporation.
- iv. The rentals were charged in accordance with the relevant tenancy agreements agreed by both parties.
- v. Chen Chin Yuan is a brother of Chen Hsing Shin.
- vi. Chen Hung Jung is a brother of Huang Chen Li Chu.

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2004 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company (Note i)	Principal activities (Note ii)
Angel Juvenile Products (Zhongshan) Co., Ltd.	PRC (Note iii)	US\$2,400,000 registered capital	100%	Manufacture and trading of infant products
Glory Time Investments Limited	BVI	US\$1,540,000 ordinary shares	52%	Investment holding
Kintop Limited	Hong Kong	HK\$2 ordinary shares	100%	Trading of infant products
Lerado China Limited	BVI	HK\$5,000 ordinary shares	100%	Investment holding and trading of infant products in Taiwan



# Note to the Financial Statements

For the year ended 31st December, 2004

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company (Note i)	Principal activities (Note ii)
Lerado Group Limited	BVI	HK\$10,702 ordinary shares	100%	Investment holding
Lerado H.K. Limited	Hong Kong	HK\$5,000 ordinary shares	100%	Trading of infant products in Hong Kong and Taiwan
Lerado Overseas Limited	BVI	HK\$5,000 ordinary shares	100%	Provision of purchasing and marketing services in Taiwan
Link Treasure Limited	BVI	US\$5,000 ordinary shares	100%	Provision of research and development services in Taiwan
Shanghai Lerado Daily Article Co., Ltd.	PRC (Note iii)	US\$5,260,000 registered capital	100%	Manufacture and trading of nursery products
中山市隆成日用制品 有限公司	PRC (Note iii)	US\$16,167,992 registered capital	100%	Manufacture and trading of infant products
中山市國宏塑膠製品 有限公司	PRC (Note iii)	US\$2,413,300 registered capital	52%	Manufacture and trading of stroller wheels
金和信股份有限公司	Taiwan	NT\$205,000,000 ordinary shares	100%	Provision of purchasing services and trading of infant products

# Note to the Financial Statements

For the year ended 31st December, 2004

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Notes:

- i. The Company directly holds the interest in Lerado Group Limited, all other interests shown above are indirectly held by the Company.
- ii. The principal activities are carried out in place of incorporation/establishment except as otherwise stated under principal activities above.
- iii. These PRC subsidiaries are foreign investment enterprises.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 37. SEGMENT INFORMATION

### Business segments

For management purposes, the Group is currently organised into three major operating divisions — strollers, beds and playards and miscellaneous infant products. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- |                               |  |
|-------------------------------|--|
| Strollers                     | — manufacture and distribution of strollers.   |
| Beds and playards             | — manufacture and distribution of beds and playards.   |
| Miscellaneous infant products | — manufacture and distribution of miscellaneous infant products such as soft goods, car seats, high chairs, bouncers and walkers, etc. |
| Others                        | — manufacture and distribution of battery-operated ride-on cars and other products.  |

For the year ended 31st December, 2004

## 37. SEGMENT INFORMATION (continued)

### Business segments (continued)

Segment information about these businesses is presented below:

2004

	Strollers	Beds and	Miscellaneous infant	Others	Consolidated
	HK\$'000	playards HK\$'000	products HK\$'000	HK\$'000	HK\$'000
Income statement for the year ended 31st December, 2004:					
External sales	636,005	113,155	317,706	204,169	1,271,035
Segment results	50,757	5,456	19,190	8,193	83,596
Investment income					833
Surplus arising on revaluation of investment properties					4,500
Surplus arising on revaluation of property, plant and equipment					6,674
Other operating expenses					(15,009)
Profit from operations					80,594
Finance costs					(742)
Profit from ordinary activities before taxation					79,852
Income tax expense					(6,017)
Profit before minority interests					73,835

# Note to the Financial Statements

For the year ended 31st December, 2004

## 37. SEGMENT INFORMATION (continued)

Business segments (continued)

2004 (continued)

	Strollers	Beds and	Miscellaneous infant	Others	Consolidated
	HK\$'000	playards HK\$'000	products HK\$'000	HK\$'000	HK\$'000
Balance sheet at					
31st December, 2004:					
ASSETS					
Segment assets	466,306	75,216	247,960	148,082	937,564
Interest in associates					11,700
Unallocated corporate assets					16,804
Consolidated total assets					966,068
LIABILITIES					
Segment liabilities	107,406	17,881	49,503	32,167	206,957
Unallocated corporate liabilities					13,506
Consolidated total liabilities					220,463

Other Information:

	Strollers	Beds and	Miscellaneous infant	Others	Consolidated
	HK\$'000	playards HK\$'000	products HK\$'000	HK\$'000	HK\$'000
Capital additions	13,964	2,025	5,537	3,346	24,872
Depreciation and amortisation of property, plant and equipment and intellectual property rights	18,424	3,195	9,060	7,640	38,319
Allowance for bad and doubtful debts	1,180	205	866	367	2,618

For the year ended 31st December, 2004

## 37. SEGMENT INFORMATION (continued)

### Business segments (continued)

2003

	Strollers	Beds and	Miscellaneous infant	Others	Consolidated
	HK\$'000	playards HK\$'000	products HK\$'000	HK\$'000	HK\$'000
<hr/>					
Income statement for the year ended 31st December, 2003:					
External sales	647,368	132,639	236,916	132,970	1,149,893
	<hr/>				
Segment results	75,997	11,633	18,042	9,965	115,637
	<hr/>				
Investment income					356
Other operating expenses					(18,855)
					<hr/>
Profit from operations					97,138
Finance costs					(121)
					<hr/>
Profit from ordinary activities before taxation					97,017
Income tax expense					(16,421)
					<hr/>
Profit before minority interests					80,596
					<hr/>

# Note to the Financial Statements

For the year ended 31st December, 2004

## 37. SEGMENT INFORMATION (continued)

### Business segments (continued)

2003 (continued)

	Strollers HK\$'000	Beds and playards HK\$'000	Miscellaneous infant products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Balance sheet at 31st December, 2003:					
ASSETS					
Segment assets	498,729	86,488	218,030	119,236	922,483
Interest in associates					11,700
Interest in a jointly controlled entity					49,117
Unallocated corporate assets					22,919
Consolidated total assets					1,006,219
LIABILITIES					
Segment liabilities	124,587	24,113	44,077	27,872	220,649
Unallocated corporate liabilities					79,170
Consolidated total liabilities					299,819
Other Information:					
	Strollers HK\$'000	Beds and playards HK\$'000	Miscellaneous infant products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Capital additions	41,698	7,970	14,861	7,441	71,970
Depreciation and amortisation of property, plant and equipment and intellectual property rights	18,513	3,614	7,603	6,152	35,882
Loss on disposal of property, plant and equipment	250	—	—	1,497	1,747
Allowance for bad and doubtful debts	1,744	353	1,678	1,919	5,694

For the year ended 31st December, 2004

## 37. SEGMENT INFORMATION (continued)

### Geographical segments

The Group's operations are principally located in Hong Kong, the PRC and Taiwan. Group administration is carried out in Hong Kong and Taiwan and the manufacturing function is carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	2004 HK\$'000	2003 HK\$'000
United States of America	658,058	603,398
Europe	282,118	286,748
Australia	68,112	53,430
South America	96,615	54,319
Others	166,132	151,998
	<b>1,271,035</b>	<b>1,149,893</b>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
United States of America	—	245	—	4
Hong Kong	127,159	137,672	79	347
Taiwan	316,068	316,492	7,815	2,107
PRC	510,300	489,237	16,978	69,512
	<b>953,527</b>	<b>943,646</b>	<b>24,872</b>	<b>71,970</b>

# Financial Summary

## RESULTS

	Year ended 31st December,				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
TURNOVER	1,180,286	1,117,930	1,024,302	1,149,893	1,271,035
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION	131,943	113,084	103,273	97,017	79,852
INCOME TAX EXPENSE	(6,725)	(4,989)	(10,970)	(16,421)	(6,017)
PROFIT BEFORE MINORITY INTERESTS	125,218	108,095	92,303	80,596	73,835
MINORITY INTERESTS	1,922	(2,619)	54	574	(4,700)
NET PROFIT FOR THE YEAR	127,140	105,476	92,357	81,170	69,135

## ASSETS AND LIABILITIES

	At 31st December,				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
TOTAL ASSETS	830,460	915,277	922,743	1,006,219	966,068
TOTAL LIABILITIES	(243,544)	(277,668)	(241,919)	(299,819)	(220,463)
MINORITY INTERESTS	1,834	(17,912)	(15,904)	(18,464)	(16,812)
SHAREHOLDERS' FUNDS	588,750	619,697	664,920	687,936	728,793