



Lerado Group (Holding) Company Limited

Stock Code: 1225



ANNUAL
REPORT
05



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Corporate Information

EXECUTIVE DIRECTORS

HUANG Ying Yuan (*Chairman*)
CHEN Hsing Shin (*Vice Chairman and Chief Executive Officer*)
HUANG CHEN Li Chu (*Vice Chairman*)
LEUNG Man Fai

INDEPENDENT NON-EXECUTIVE DIRECTORS

LIM Pat Wah Patrick
HUANG Zhi Wei
YANG Yu Fu

AUDIT COMMITTEE

LIM Pat Wah Patrick (*Chairman*)
HUANG Zhi Wei
YANG Yu Fu

REMUNERATION COMMITTEE

HUANG Ying Yuan (*Chairman*)
LIM Pat Wah Patrick
HUANG Zhi Wei
YANG Yu Fu

QUALIFIED ACCOUNTANT

LEUNG Man Fai

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
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

Hong Kong Stock Exchange: 1225

PRINCIPAL BANKERS

ABN AMRO Bank
Hang Seng Bank

SOLICITORS

Sidley Austin
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 660 registered patents on over 340 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

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
		<i>(Restated)</i>	
Revenue	1,047,328	1,271,035	1,149,893
Profit before interest expenses and tax	13,998	81,136	97,138
As a percentage of revenue	1.3%	6.4%	8.4%
EBITDA	62,141	117,019	146,147
As a percentage of revenue	5.9%	9.2%	12.7%
Profit attributable to equity holders	9,155	69,677	81,170
As a percentage of revenue	0.9%	5.5%	7.1%
Total assets	909,183	952,851	1,006,219
Total capital employed*	725,330	734,438	721,656
Shareholders' equity	708,409	717,626	687,936
Earnings per share (HK cents)	1.27	9.64	11.28
Return on average capital employed	1.4%	10.1%	12.0%
Current ratio	2.8	2.5	1.79
Average inventory turnover (days)	57.3	49.3	46.2
Bank borrowings to equity ratio	—	—	0.02

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

Management Discussion and Analysis

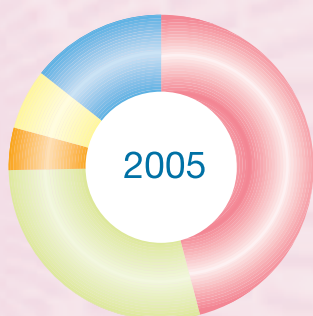


BUSINESS REVIEW AND OUTLOOK

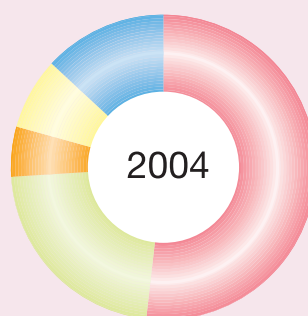
The year under review is another difficult year since 2004 following the high rise of oil price. The Group recorded consolidated revenue of HK\$1,047.3 million for the year ended 31 December 2005, a decrease of 17.6% over last year. The profit attributable to equity holders of the Company amounted to HK\$9.2 million (2004: HK\$69.7 million) while basic earnings per share dropped correspondingly from HK9.64 cents in 2004 to HK1.27 cents.

The prices of plastics and metal tubes kept surged and the Company's production cost had been under great pressure, resulting in squeeze in gross margin ratio by 2.3% to 19.1% in 2005. In response to such, the Group has reviewed with customers for price adjustments and has phased out orders with extremely thin margins, which are usually related to lower end products. As a result, gross margin for the second half of 2005 showed a pick up compared with the first half of the year.

REVENUE BY REGION



United States	45.9%
Europe	28.8%
Australia	4.5%
South America	6.4%
Others	14.4%



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

management discussion and analysis

Apart from the impact of rising material costs on the Group's profit, impairment losses of HK\$8.5 million on the value of intellectual property rights relating to certain models of strollers and playards were made, in view that the sales and manufacturing of such models had declined substantially. On the other hand, the Group strived to control its operating expenses at a comparatively low level, with marketing and distribution costs decreased by 23.1% and administrative expenses cut by 9.1%. An exception was that more resources on research and development had been employed to initiate new designs and to develop innovative products in the coming year. Research and development expenses represented 2.4% of the Group's total revenue in 2005, whereas for last year, only 1.4%.

In terms of revenue, sales to the United States of America (the "US") contributed to approximately half of the Group's total revenue, amounting to HK\$481.0 million. However, the US Sales also recorded a great

decline of 26.9%, as it comprised of a higher portion of lower end products, mostly strollers, which were phased out substantially due to their low margins. The slow down of sales of battery-operated ride-on cars to the US also contributed to the drop of the US sales.

Europe remained as our second largest market, sales to which amounted to HK\$301.3 million, accounting for 28.8% of the Group's total revenue. Amid the tough operating environment, sales to Australia and South America dropped inevitably by 30.2% and 30.4% respectively over last year.

In the year 2005, sales of beds and playards and miscellaneous infant products remained stable, while those of strollers recorded a decrease of 18.8% as a result of the exercise in screening out models with extremely low margins. Sales of battery-operated ride-on cars also slowed down as a major customer was re-examining its strategy in marketing this category of products.



management discussion and analysis

Looking forward, raw material prices will still be a key factor affecting the Group's performance. The Company will continue with its effort in developing innovative products to stimulate sales and will take a close look at the future trend of raw material prices so as to formulate strategies that enhance the Company to maintain its competitiveness in the industry.

INVESTMENTS

The Group has been holding a 30% equity interest in Weblink Technology Limited ("Weblink") since 2001 and the investment is classified as interests in associates in the balance sheet of the Group. Weblink and its subsidiaries (the "Weblink Group") are engaged in the manufacturing and distribution of optical fibre peripheral products and have been making losses during its initial years of operations. In 2005, a turnaround was noted due to the improved business environment and a breakeven was reached. Summarised financial information of the Weblink Group is set out in note 22 to the consolidated financial statements.

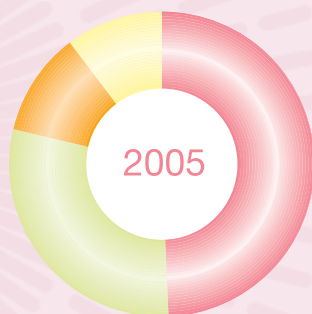
As to support the initial development and operations of Weblink, the shareholders of which had made, in proportion to their respective shareholdings, loans to Weblink since its incorporation. As at 31 December 2005, the Group's loan to Weblink amounted to HK\$11.7 million. After a review of the financial status of the Weblink Group, which still recorded net liabilities, an impairment loss of HK\$3.6 million was made against the loan during the year.

No new investment was made during the year ended 31 December 2005.

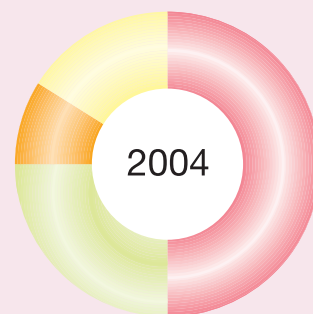
LIQUIDITY AND FINANCIAL RESOURCES

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

REVENUE BY PRODUCT



● Strollers	49.3%
● Miscellaneous infant products	29.4%
● Beds and playards	11.0%
● Others	10.3%



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

management discussion and analysis



As at 31 December 2005, the Group had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group employed a total workforce of around 5,500 staff members, of which above 5,300 worked in the PRC offices and production sites, 112 in Taiwan mainly for marketing, sales support and research and development, and 13 in Hong Kong mainly for finance and administration.

Apart from basic salaries, discretionary bonus and contribution to retirement benefits scheme, share options may also be granted to staff with reference to the individual's performance.

As at 31 December 2005, the Group had cash and bank balances, mainly in US Dollars and Renminbi, of HK\$178.4 million (2004: HK\$175.6 million) and was free of bank borrowings (2004: nil). The Group's gearing ratio, expressed as total bank borrowings to shareholders' fund, is zero (2004: nil).

As at 31 December 2005, the Group had net current assets of HK\$319.4 million (2004: HK\$310.1 million) and an improved current ratio of 2.8 compared with 2.5 in 2004. Trade receivable and inventory turnover were 58 days (2004: 55 days) and 57 days (2004: 49 days) respectively.

As at 31 December 2005, no asset of the Group was under charge.

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.





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 55, is a founding member and the chairman of the Group. Mr. Huang has 29 years of experience in the infant products industry. Mr. Huang oversees the Group's strategic planning and has particular responsibility for marketing. Mr. Huang is the husband of Mrs. Huang Chen Li Chu, Vice Chairman of the Group.

Mr. CHEN Hsing Shin, aged 62, is a founding member and vice chairman of the Group. On 1 June 2005, Mr. Chen was appointed Chief Executive Officer, overseeing the Group's daily operations, with particular responsibility in production operations. Prior to the establishment of the Group, Mr. Chen worked in various manufacturing set-ups and was specialised in production site management.

Mrs. HUANG CHEN Li Chu, aged 56, was appointed an executive director of the Group in 1998. Mrs. Huang has worked in the infant products industry in Taiwan for over 27 years and established her own research and development company whose operations were acquired by the Group in early 1998. Mrs. Huang is in charge of the Group's research and development operations. Mrs. Huang is the wife of Mr. Huang Ying Yuan, chairman of the Group.

directors' profile

Mr. LEUNG Man Fai, aged 48, 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 46, 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 21 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 67, 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 30 September 2004.

Mr. YANG Yu Fu, aged 53, 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 30 September 2004.

Corporate Governance Report

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

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

The Company has applied the principles as set out in the CG Code and complied with all the Code Provisions.

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

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

THE BOARD

Responsibilities

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

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

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

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

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

Composition

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

corporate governance report

The Board of the Company comprises the following directors:

Executive directors:

HUANG Ying Yuan,	<i>Chairman of the Board and Remuneration Committee</i>
CHEN Hsing Shin,	<i>Vice Chairman of the Board and Chief Executive Officer</i>
HUANG CHEN Li Chu,	<i>Vice Chairman of the Board</i>
LEUNG Man Fai	

Independent non-executive directors:

LIM Pat Wah Patrick,	<i>Chairman of Audit Committee and member of Remuneration Committee</i>
HUANG Zhi Wei,	<i>member of Audit Committee and Remuneration Committee</i>
YANG Yu Fu,	<i>member of Audit Committee and Remuneration Committee</i>

Madam Huang Chen Li Chu is the wife of Mr. Huang Ying Yuan.

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

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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

Appointment and Succession Planning of Directors

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

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

In accordance with the Company's Bye-laws, all directors of the Company are subject to retirement by rotation once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

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

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

In accordance with the Company's Bye-laws, Messrs. Huang Ying Yuan, Chen Hsing Shin and Leung Man Fai shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

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

The Company's circular dated 27 April 2006 contains detailed information of the directors standing for re-election.

Induction and Continuing Development for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The directors are also continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities.

Board Meetings

Number of Meetings and Directors' Attendance

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

During the year ended 31 December 2005, six Board meetings were held and the attendance rate was 100%.

corporate governance report

The individual attendance (either in person or through other electronic means of communication) of each director at the Board meetings during the year ended 31 December 2005 is set out below:

	Attendance/Number of Meetings
<hr/>	
Executive Directors:	
HUANG Ying Yuan (Chairman)	6/6
CHEN Hsing Shin (Vice Chairman)	6/6
HUANG CHEN Li Chu (Vice Chairman)	6/6
LEUNG Man Fai	6/6
Independent Non-Executive Directors:	
LIM Pat Wah Patrick	6/6
HUANG Zhi Wei	6/6
YANG Yu Fu	6/6
<hr/>	

Practices and Conduct of Meetings

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

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

The Chief Executive Officer, Qualified Accountant, and Company Secretary attend all regular Board meetings and when necessary, committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman and Chief Executive Officer are held by Mr. Huang Ying Yuan and Mr. Chen Hsing Shin respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the executives, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. In addition, the Chairman has particular responsibility for strategic planning and marketing.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for formulating the organisational structure, control systems and internal procedures and processes for the Board's approval. In addition, with relevant expertise, he also has particular responsibility for production operations.

BOARD COMMITTEES

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

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

Remuneration Committee

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

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the directors and the senior management and other related matters. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about their proposals relating to the remuneration policy and structure and remuneration packages.

Since the establishment of the Remuneration Committee on 22 December 2005, it has met once for reviewing the remuneration policy and structure of the Company and remuneration packages of the directors and the senior management.

corporate governance report

The attendance records of individual members at the Remuneration Committee meeting are set out below:

	Attendance/Number of Meeting
HUANG Ying Yuan (Chairman)	1/1
LIM Pat Wah Patrick	1/1
HUANG Zhi Wei	1/1
YANG Yu Fu	1/1

Audit Committee

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

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the Qualified Accountant or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 December 2005 to review the financial results and reports, financial reporting and compliance procedures and risk management system and the re-appointment of the external auditors.

The attendance records of individual members at Audit Committee meetings in 2005 are set out below:

	Attendance/Number of Meetings
LIM Pat Wah Patrick (Chairman)	2/2
HUANG Zhi Wei	2/2
YANG Yu Fu	2/2

The Company's annual results for the year ended 31 December 2005 has been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2005.

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

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

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 24.

AUDITORS' REMUNERATION

The Company's external auditors are Deloitte Touche Tohmatsu. The remuneration paid/payable to Deloitte Touche Tohmatsu in respect of audit services and non-audit services for the year ended 31 December 2005 amounted to approximately HK\$1,617,000 and HK\$478,000 respectively.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Company and of the Stock Exchange.

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

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

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

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 39 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 25 of the annual report.

An interim dividend of HK1.5 cents per share amounting to HK\$10,832,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK3 cents per share to the shareholders on the register of members on 15 June 2006, amounting to HK\$21,663,000.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The Group revalued its land and buildings at the year end date. The revaluation resulted in a surplus and a deficit over book values amounting to HK\$9,872,000 and HK\$975,000, which has been credited directly to the property revaluation reserve and charged to income statement, respectively.

The Group revalued its investment properties at the year end date. The net increase in fair value of investment properties, which has been credited directly to income statement, amounted to HK\$3,700,000.

Details of these and other movements during the year in the property, plant and equipment and investment properties of the Group are set out in notes 17 and 18 to the financial statements, respectively.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2005 were as follows:

	2005 HK\$'000	2004 HK\$'000
Contributed surplus	244,461	244,461
Retained profit (accumulated losses)	3,200	(726)
	247,661	243,735

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.

report of the directors

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated and reclassified as appropriate, is set out on page 78. This summary does not form part of the audited financial statements.

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 1 March 2005)*

Independent non-executive directors:

Mr. Lim Pat Wah Patrick

Mr. Huang Zhi Wei

Mr. Yang Yu Fu

In accordance with clause 87 of the Company's Bye-Laws, Mr. Huang Ying Yuan, Mr. Chen Hsing Shin and Mr. Leung Man Fai 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 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. Leung Man Fai, has entered into a service agreement with the Company for a period of three years commencing 1 December 1998 and will continue thereafter unless and until terminated by either party by three months' prior written notice.

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).

report of the directors

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2005, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (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	Spouse interests			
Mr. Huang Ying Yuan	104,153,360	43,336,180 (Note 1)	147,489,540	20.43	7,000,000 (Note 2)
Mr. Chen Hsing Shin	96,805,800	—	96,805,800	13.41	3,500,000
Madam Huang Chen Li Chu	43,336,180	104,153,360 (Note 1)	147,489,540	20.43	7,000,000 (Note 3)
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. 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.
3. It represents 3,000,000 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 maintained 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.

report of the directors

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 32 to the financial statements.

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

Directors	Date of grant	Number of share options of the Company outstanding at 1 January 2005 and 31 December 2005
Mr. Huang Ying Yuan	18 August 1999	4,000,000
Mr. Chen Hsing Shin	18 August 1999	3,500,000
Madam Huang Chen Li Chu	18 August 1999	3,000,000
Mr. Leung Man Fai	18 August 1999	2,500,000
		13,000,000

The share options were granted by the Company on 18 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 1 January 2000 to 17 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\$4,537,000 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.

Details of the discloseable connected transactions during the year are set out in note 28 to the financial statements. Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors.

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.

report of the directors

Save as disclosed therein and in note 28 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 31 December 2005, 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
Templeton Investment Counsel, LLC	43,129,968	Investment manager	6.0%
OCM Emerging Markets Funds, LP	38,122,000	Investment manager	5.3%
Gold Field Business Ltd.	36,689,675	Beneficial owner	5.1%
Mr. Chen An Hsin	36,689,675	Corporate interest (<i>Note i</i>)	5.1%
Veer Palthe Voute NV	36,364,000	Investment manager (<i>Note ii</i>)	5.0%
Dresdner Bank Aktiengesellschaft	36,364,000	Corporate interest (<i>Note ii</i>)	5.0%
Allianz Aktiengesellschaft	36,364,000	Corporate interest (<i>Note ii</i>)	5.0%

Notes:

- (i) Mr. Chen An Hsin owns the entire interest of Gold Field Business Ltd.
- (ii) Veer Palthe Voute NV was 100% indirectly owned by Dresdner Bank Aktiengesellschaft, which was in turn 81.1% indirectly owned by Allianz Aktiengesellschaft.

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 31 December 2005.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$136,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 40.3% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 20.0% 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.

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.

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

There was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year.

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, who are 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 share option schemes as an incentive to directors and eligible employees, details of the scheme are set out in note 32 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2005.

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

13 April 2006

Report of the Auditors



TO THE MEMBERS OF LERADO GROUP (HOLDING) COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Lerado Group (Holding) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") from pages 25 to 77 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 consolidated financial statements which give a true and fair view. In preparing consolidated 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 Hong Kong Standards on Auditing 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 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, 13 April 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
			(Restated)
Revenue	8	1,047,328	1,271,035
Cost of sales		(847,264)	(999,451)
Gross profit		200,064	271,584
Other income		14,842	31,049
Investment income	9	2,894	833
Marketing and distribution costs		(66,868)	(87,002)
Research and development expenses		(24,777)	(17,184)
Administrative expenses		(93,792)	(103,135)
Other expenses		(18,365)	(15,009)
Finance costs	10	(5)	(742)
Profit before tax	11	13,993	80,394
Income tax expense	14	(3,439)	(6,017)
Profit for the year		10,554	74,377
Attributable to:			
Equity holders of the Company		9,155	69,677
Minority interests		1,399	4,700
		10,554	74,377
Dividends	15	36,105	50,599
Earnings per share	16		
Basic		HK1.27 cents	HK9.64 cents
Diluted		N/A	HK9.62 cents

Consolidated Balance Sheet

At 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Non-current assets			
Property, plant and equipment	17	331,519	343,729
Investment properties	18	15,700	12,000
Prepaid lease payments	19	32,970	33,308
Negative goodwill	20	—	(2,818)
Intellectual property rights	21	25,677	40,775
Interests in associates	22	—	—
Other investments	23	—	3,963
Available-for-sale-investments	24	4,052	—
Deferred tax assets	25	4,107	841
		414,025	431,798
Current assets			
Inventories	26	121,793	144,122
Trade and other receivables	27	184,766	188,823
Prepaid lease payments	19	870	849
Loan to an associate	34	8,100	11,700
Derivative financial instruments	29	504	—
Tax recoverable		702	—
Bank balances and cash		178,423	175,559
		495,158	521,053
Current liabilities			
Trade and other payables	30	173,275	206,177
Tax liabilities		1,707	3,997
Loan from a minority shareholder	28	780	780
		175,762	210,954
Net current assets		319,396	310,099
Total assets less current liabilities		733,421	741,897

consolidated balance sheet

At 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Capital and reserves			
Share capital	31	72,210	72,210
Reserves		636,199	645,416
Equity attributable to equity holders of the Company		708,409	717,626
Minority interests		16,921	16,812
Total equity		725,330	734,438
Non-current liability			
Deferred tax liabilities	25	8,091	7,459
		733,421	741,897

The financial statements on pages 25 to 77 were approved and authorised for issue by the Board of Directors on 13 April 2006 and are signed on its behalf by:

HUANG Ying Yuan
DIRECTOR

CHEN Hsing Shin
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Attributable to equity holders of the Company												Total
	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	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	
At 1 January 2004 as originally stated	72,284	90,916	38,510	45,819	12,622	929	(3,348)	(88)	1,057	429,235	687,936	—	687,936
Effects of changes in accounting policies (see note 3)	—	—	—	(13,952)	—	—	—	—	—	4,274	(9,678)	18,464	8,786
At 1 January 2004 as restated	72,284	90,916	38,510	31,867	12,622	929	(3,348)	(88)	1,057	433,509	678,258	18,464	696,722
Exchange differences arising from translation of the financial statements of operations outside Hong Kong	—	—	—	—	—	—	3,783	—	—	—	3,783	—	3,783
Revaluation surplus on land and buildings (restated)	—	—	—	19,071	—	—	—	—	—	—	19,071	—	19,071
Deferred tax liability arising on revaluation of properties (restated)	—	—	—	(1,630)	—	—	—	—	—	—	(1,630)	—	(1,630)
Net income recognised directly in equity	—	—	—	17,441	—	—	3,783	—	—	—	21,224	—	21,224
Profit for the year (restated)	—	—	—	—	—	—	—	—	—	69,677	69,677	4,700	74,377
Total recognised income and expense for the year	—	—	—	17,441	—	—	3,783	—	—	69,677	90,901	4,700	95,601
Shares repurchased and cancelled	(74)	—	—	—	—	—	—	—	—	—	(74)	—	(74)
Premium on repurchase of shares	—	(860)	—	—	—	—	—	—	—	—	(860)	—	(860)
Transfer of reserves for cancellation of shares	—	—	—	—	—	—	—	—	74	(74)	—	—	—
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	2,288	2,288
Transfer of statutory reserves	—	—	—	—	3,002	138	—	—	—	(3,140)	—	—	—
Dividends (note 15)	—	—	—	—	—	—	—	—	—	(50,599)	(50,599)	(8,640)	(59,239)
	(74)	(860)	—	—	3,002	138	—	—	74	(53,813)	(51,533)	(6,352)	(57,885)
At 31 December 2004 as restated	72,210	90,056	38,510	49,308	15,624	1,067	435	(88)	1,131	449,373	717,626	16,812	734,438
Effects of changes in accounting policies (see note 3)	—	—	—	—	—	—	—	88	—	2,730	2,818	—	2,818
At 1 January 2005 as restated	72,210	90,056	38,510	49,308	15,624	1,067	435	—	1,131	452,103	720,444	16,812	737,256
Exchange differences arising from translation of the financial statements of operations outside Hong Kong	—	—	—	—	—	—	5,323	—	—	—	5,323	—	5,323
Revaluation surplus on land and buildings	—	—	—	9,872	—	—	—	—	—	—	9,872	—	9,872
Deferred tax liability arising on revaluation of properties	—	—	—	(280)	—	—	—	—	—	—	(280)	—	(280)
Net income recognised directly in equity	—	—	—	9,592	—	—	5,323	—	—	—	14,915	—	14,915
Profit for the year	—	—	—	—	—	—	—	—	—	9,155	9,155	1,399	10,554
Total recognised income and expense for the year	—	—	—	9,592	—	—	5,323	—	—	9,155	24,070	1,399	25,469
Transfer of statutory reserves	—	—	—	—	988	—	—	—	—	(988)	—	—	—
Dividends (note 15)	—	—	—	—	—	—	—	—	—	(36,105)	(36,105)	(1,290)	(37,395)
	—	—	—	—	988	—	—	—	—	(37,093)	(36,105)	(1,290)	(37,395)
At 31 December 2005	72,210	90,056	38,510	58,900	16,612	1,067	5,758	—	1,131	424,165	708,409	16,921	725,330

consolidated statement of changes in equity

For the year ended 31 December 2005

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 profit for the year 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 31 December 2005

	2005 HK\$'000	2004 HK\$'000 (Restated)
OPERATING ACTIVITIES		
Profit before tax	13,993	80,394
Adjustments for:		
Finance costs	5	742
Interest income	(1,962)	(536)
Gain on derivative financial instruments	(504)	—
Dividend income from available-for-sale investments	(32)	—
Depreciation and amortisation of property, plant and equipment	33,112	31,544
Amortisation of intellectual property rights	5,250	5,309
Amortisation of prepaid lease payments	870	924
Allowance for bad and doubtful debts	6,958	2,618
Deficit (surplus) arising on revaluation of land and buildings	975	(6,674)
Loss on dissolution of subsidiaries	—	198
Loss (gain) on disposal of property, plant and equipment	78	(169)
Unrealised holding loss on other investments	—	9,700
Impairment loss on intellectual property rights	8,540	—
Impairment loss on loan to an associate	3,600	—
Negative goodwill released to income	—	(420)
Surplus arising on revaluation of investment properties	(3,700)	(4,500)
Operating cash flows before movements in working capital	67,183	119,130
Decrease (increase) in inventories	23,375	(19,592)
(Increase) decrease in trade and other receivables	(1,854)	99,298
Decrease in trade and other payables	(31,819)	(11,064)
Cash generated from operations	56,885	187,772
Hong Kong Profits Tax paid	(5,059)	(5,394)
Taxation in other jurisdictions paid	(4,330)	(2,984)
NET CASH FROM OPERATING ACTIVITIES	47,496	179,394

consolidated cash flow statement

For the year ended 31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000 (Restated)
INVESTING ACTIVITIES			
Interest received		1,962	536
Proceeds on disposal of property, plant and equipment		200	1,646
Dividend income from available-for-sale investments		32	—
Purchase of property, plant and equipment		(9,528)	(24,872)
Dissolution of subsidiaries	33	—	(532)
NET CASH USED IN INVESTING ACTIVITIES		(7,334)	(23,222)
FINANCING ACTIVITIES			
Dividends paid		(36,105)	(50,599)
Dividends paid to a minority shareholder of a subsidiary		(1,290)	(8,640)
Interest paid		(5)	(742)
Repayment of bank loans		—	(71,904)
Repurchase of shares		—	(934)
Bank loans raised		—	56,648
NET CASH USED IN FINANCING ACTIVITIES		(37,400)	(76,171)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,762	80,001
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		175,559	95,070
Effect of foreign exchange rate changes		102	488
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
represented bank balances and cash		178,423	175,559

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005

1. GENERAL

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

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 39.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005 and goodwill and negative goodwill previously recognised and brought forward as at 1 January 2005. The principal effects of the application of transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in goodwill reserves. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in goodwill reserves of HK\$88,000 has been transferred to the Group's retained profits on 1 January 2005 (see note 3 for the financial impact).

notes to the consolidated financial statements

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Business Combinations (continued)

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2005 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005. A corresponding adjustment to the Group's retained profits of HK\$2,818,000 has been made (see note 3 for the financial impact).

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application and the adoption of HKAS 32 has had no material impact on how the financial instruments of the Group are presented for the current or prior accounting periods. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of SSAP 24.

By 31 December 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in equity securities are classified as "investment securities" and "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. From 1 January 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets" and "loans and receivables". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" is measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its equity securities in accordance with the transitional provisions of HKAS 39. As a result, "other investments" amounted to HK\$3,963,000 has been classified as available-for-sale investments on 1 January 2005. There was no material effect on the results of current and prior years (see note 3 for the financial impact).

notes to the consolidated financial statements

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

Financial Instruments *(continued)*

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets” and “loans and receivables”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “other financial liabilities”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Derivatives

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group did not have any derivatives in prior years. For the year ended 31 December 2005, as the derivatives do not meet the requirements of hedge accounting in accordance with HKAS 39, the Group has deemed such derivative as held for trading. The Group measured its derivative at fair value with the change in fair values recognised in profit or loss for the period in which they arise.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

notes to the consolidated financial statements

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 “Investment Property”. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The application of HKAS 40 has had no major impact on current year and prior year figures.

Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 Income Taxes — Recovery of Revalued Non-Depreciable Assets which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. The application of the interpretation has had no major impact on current year and prior year figures.

Share-based Payments

In the current year, the Group has applied HKFRS 2 “Share-based Payment” which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. HKFRS 2 is applicable to options granted on or after 1 January 2005 and retrospectively to options granted after 7 November 2002 and remained unvested as at 1 January 2005. As no option has been granted under the Company’s share option scheme since 2002, the adoption of HKFRS 2 has had no effect on the results of the Group.

notes to the consolidated financial statements

For the year ended 31 December 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 on the results for the current and prior years are as follows:

	Effect of adopting	2005 HK\$'000	2004 HK\$'000
Decrease in negative goodwill released to income (included in other income)	HKFRS 3	(420)	—
Decrease in depreciation and amortisation, net of changes in valuation (included in cost of sales)	HKAS 17	854	542
Gains arising from changes in fair value of derivative financial instruments (included in other income)	HKAS 39	504	—
Increase in profit for the year		938	542

The cumulative effects of the changes in accounting policies on 31 December 2004 and 1 January 2005 are summarised below:

	At 31 December 2004 (Originally stated) HK\$'000	HKAS 17 Adjustments HK\$000	HKAS 1 and HKAS 27 Adjustment HK\$000	At 31 December 2004 (Restated) HK\$000	Effect of HKFRS 3 adjustments HK\$000	HKAS 39 Adjustment HK\$000	At 1 January 2005 (Restated) HK\$'000
Balance sheet items affected:							
Property, plant and equipment	391,103	(47,374)	—	343,729	—	—	343,729
Prepaid lease payments							
— Non-current	—	33,308	—	33,308	—	—	33,308
— Current	—	849	—	849	—	—	849
Negative goodwill	(2,818)	—	—	(2,818)	2,818	—	—
Other investments	3,963	—	—	3,963	—	(3,963)	—
Available-for-sale investments	—	—	—	—	—	3,963	3,963
Deferred tax liabilities	(9,509)	2,050	—	(7,459)	—	—	(7,459)
Total effects on assets and liabilities	382,739	(11,167)	—	371,572	2,818	—	374,390
Property revaluation reserve	65,291	(15,983)	—	49,308	—	—	49,308
Goodwill reserve	(88)	—	—	(88)	88	—	—
Retained profits	444,557	4,816	—	449,373	2,730	—	452,103
Minority interests	—	—	16,812	16,812	—	—	16,812
Total effects on equity	509,760	(11,167)	16,812	515,405	2,818	—	518,223
Minority interests	16,812	—	(16,812)	—	—	—	—

notes to the consolidated financial statements

For the year ended 31 December 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

The financial effects of the changes in accounting policies to the total equity on 1 January 2004 are summarised below:

	As originally stated <i>HK\$'000</i>	Effect of HKAS 17 Adjustments <i>HK\$'000</i>	Effect of HKAS 1 and HKAS 27 Adjustment <i>HK\$'000</i>	As restated <i>HK\$'000</i>
Property revaluation reserve	45,819	(13,952)	—	31,867
Retained profits	429,235	4,274	—	433,509
Minority interests	—	—	18,464	18,464
Total effects on equity	475,054	(9,678)	18,464	483,840

4. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARD NOT YET EFFECTIVE

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 21 (Amendment)	The effects of changes in foreign exchanges rates — Net investment in a foreign operation ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ²
HKAS 39 (Amendment)	The fair value option ²
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) — INT 4	Determining whether an arrangement contains a lease ²
HK(IFRIC) — INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ²
HK(IFRIC) — INT 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment ³
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies” ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

notes to the consolidated financial statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2001 representing the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition, was held in reserve. This amount has been transferred to the Group's retained profits on 1 January 2005.

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is not reversed in subsequent periods.

notes to the consolidated financial statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of subsidiaries represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

All negative goodwill as at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's retained profits.

Property, plant and equipment

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

Construction in progress is stated at cost less any identified impairment losses. 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 is provided to write off the cost of items 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.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, 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 any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease 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 retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

notes to the consolidated financial statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Intellectual property rights

Intellectual property rights are stated at cost less accumulated amortisation and any 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.

Interests in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment losses. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are mainly classified into loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss and bank balances. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and other receivables, bank balances and loan to an associate are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Derivative financial instruments

Derivatives financial instruments of the Group do not qualify for hedge accounting thus they are deemed as held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

notes to the consolidated financial statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

Financial liabilities including trade and other payables and loans from minority shareholders are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Inventories

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

Impairment losses (other than goodwill)

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.

Revenue recognition

Revenue represents the fair value of the amounts received and receivable for goods sold by the Group, less returns, to outside customers.

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 from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised where the shareholders' rights to receive payment have been established.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, 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 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 associate except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not 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 profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

notes to the consolidated financial statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit scheme

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement benefit schemes are charged as an expense as they fall due.

Borrowing costs

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Hong Kong dollars at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies described in note 5, management makes various estimations based on past experiences, expectations of the future and other information. The key source of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

Land and buildings and investment properties

The Group's land and buildings and investment properties of HK\$224,826,000 and HK\$15,700,000, respectively, were stated at fair value in accordance with the accounting policy stated in note 5. The fair value of the land and buildings and investment properties are determined by Grant Sherman Appraisal Limited, a firm of independent property valuers and the fair value of land and buildings and investment properties as at respective year end were set out in notes 17 and 18, respectively. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Impairment on intellectual property rights

The Group's net book value of intellectual property rights as at 31 December 2005 was approximately HK\$25,677,000. The Group amortises the intellectual property rights on a straight-line basis over their useful lives. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive economic benefits from the use of the Group's intellectual property rights. During the year ended 31 December 2005, as sales and manufacturing of certain models of strollers and beds and playards products declined substantially, the carrying amount of the respective intellectual property rights of HK\$8,540,000 was fully impaired. For the remaining intellectual property rights, if the conditions of its sales are deteriorated, resulting in the recoverable amount of the intellectual property rights less than its carrying amount, additional impairment loss may be required.

Allowances for inventories

The management of the Group reviews the inventories listing at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. As at 31 December 2005, the carrying amount of inventories (net of allowances) is HK\$121,793,000. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items. If the conditions of inventories are deteriorated, resulting in an allowance of recoverable amount, additional allowances may be required.

Impairment of trade debts

The policy for impairment of bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these debts, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group are deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2005, the carrying value of trade receivables net of impairment was HK\$164,456,000.

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7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, loan to an associate, cash and cash equivalent and trade payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. There is concentration of credit risk by certain major customers. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Foreign exchange risk

As substantial transactions entered into by the Group are denominated in United States Dollar ("USD") and Renminbi ("RMB"), the Group's exposure to foreign exchange risk is insignificant.

8. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group, less returns, to outside customers during the year.

9. INVESTMENT INCOME

	2005 HK\$'000	2004 HK\$'000
Bank interest income (<i>note i</i>)	1,962	529
Gain on derivative financial instruments	504	—
Property rental income (<i>note ii</i>)	396	297
Dividend income from available-for-sale investments	32	—
Other interest income	—	7
	2,894	833

(i) Bank interest income bears interest at fixed rates ranging from 1.0%–4.1% per annum.

(ii) The Group had no significant outgoings in respect of the property rental income generated for both years.

notes to the consolidated financial statements

For the year ended 31 December 2005

10. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	—	740
Bank overdrafts	5	—
Other borrowings	—	2
	5	742

11. PROFIT BEFORE TAX

	2005 HK\$'000	2004 HK\$'000
		(Restated)
Profit before tax has been arrived at after charging:		
Salaries and allowances, including those of directors	136,310	157,859
Contribution to retirement benefits schemes, including those of directors	5,011	4,715
Total employee benefits expense including those of directors	141,321	162,574
Depreciation and amortisation for property, plant and equipment	33,112	31,544
Amortisation of intellectual property rights (included in other expenses)	5,250	5,309
Amortisation of prepaid lease payments (included in cost of sales)	870	924
Total depreciation and amortisation	39,232	37,777
Impairment for bad and doubtful debts	6,958	2,618
Auditors' remuneration	1,915	1,632
Deficit arising on revaluation of land and building	975	—
Loss on dissolution of subsidiaries	—	198
Loss on disposal of property, plant and equipment	78	—
Unrealised holding loss on other investments	—	9,700
Impairment loss on intellectual property rights (included in other expenses)	8,540	—
Impairment loss on loan to an associate	3,600	—
and after crediting:		
Gain on disposal of property, plant and equipment	—	169
Negative goodwill released to income	—	420
Surplus arising on revaluation of investment properties	3,700	4,500
Surplus arising on revaluation of land and buildings	—	6,674

notes to the consolidated financial statements

For the year ended 31 December 2005

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2004: nine) directors were as follows:

2005

	Huang Ying Yuan HK\$'000	Chen Hsing Shin HK\$'000	Huang Chen Li Chu HK\$'000	Leung Man Fai HK\$'000	Chen An-Hsin (Note) HK\$'000	Lim Pat Wah Patrick HK\$'000	Huang Zhi Wei HK\$'000	Yang Yu Fu HK\$'000	Total HK\$'000
Fees	—	—	—	—	—	160	160	160	480
Other emoluments									
Salaries and allowances	2,111	1,639	1,413	1,005	322	—	—	—	6,490
Bonus	253	253	253	41	—	—	—	—	800
Contributions to retirement benefits schemes	—	—	—	64	—	—	—	—	64
Total emoluments	2,364	1,892	1,666	1,110	322	160	160	160	7,834

2004

	Huang Ying Yuan HK\$'000	Chen Hsing Shin HK\$'000	Huang Chen Li Chu HK\$'000	Leung Man Fai HK\$'000	Chen An-Hsin (Note) HK\$'000	Lim Pat Wah Patrick HK\$'000	Huang Zhi Wei HK\$'000	Yang Yu Fu HK\$'000	Ng Kwun Wan (Note) HK\$'000	Total HK\$'000
Fees	—	—	—	—	—	160	42	42	111	355
Other emoluments										
Salaries and allowances	2,167	1,712	1,469	613	1,397	—	—	—	—	7,358
Bonus	1,694	1,694	1,048	262	1,170	—	—	—	—	5,868
Contributions to retirement benefits schemes	—	—	—	86	—	—	—	—	—	86
Total emoluments	3,861	3,406	2,517	961	2,567	160	42	42	111	13,667

Note: Mr. Chen An-Hsin and Mr. Ng Kwun Wan resigned on 1 March 2005 and 30 September 2004, respectively.

No directors waived any emoluments in the year ended 31 December 2005 (2004: nil).

notes to the consolidated financial statements

For the year ended 31 December 2005

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2004: five) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The remaining one (2004: none) individual was as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and allowances	486	—
Bonus	411	—
Total emoluments	897	—

Their emoluments were within the following bands:

	2005 No. of employees	2004 No. of employees
Nil to HK\$1,000,000	1	—

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

notes to the consolidated financial statements

For the year ended 31 December 2005

14. INCOME TAX EXPENSE

	2005 HK\$'000	2004 HK\$'000
Current tax:		
Hong Kong	3,567	4,783
The PRC	1,816	2,537
Other jurisdictions	894	391
	6,277	7,711
Under(over) provision in prior years:		
Hong Kong	(41)	389
The PRC	—	476
Other jurisdictions	117	93
	76	958
Deferred tax (note 25):		
Current year	(2,914)	(463)
Attributable to a change in tax rate	—	(2,189)
	(2,914)	(2,652)
	3,439	6,017

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

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

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

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.

notes to the consolidated financial statements

For the year ended 31 December 2005

14. INCOME TAX EXPENSE (continued)

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

	2005 HK\$'000	2004 HK\$'000 (Restated)
Profit before tax	13,993	80,394
Tax at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	2,449	14,069
Tax effect of expenses not deductible for tax purpose	5,628	595
Tax effect of income not taxable for tax purpose	(273)	(1,075)
Tax effect of tax losses not recognised	596	—
Tax effect of other deferred tax assets not recognised	1,625	177
Utilisation of tax losses previously not recognised	(4,893)	—
Recognition of deferred tax assets previously not recognised	(2,129)	—
Decrease in opening deferred tax liability resulting from change in applicable tax rate	—	(2,189)
Effect of different tax rates of subsidiaries	1,170	(2,821)
Income tax on concessionary rate	(810)	(3,697)
Underprovision in prior year	76	958
Tax charge for the year	3,439	6,017

Details of deferred tax are set out in note 25.

15. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
2004 final dividend of HK3.5 cents (2003 final dividend: HK5 cents) per share	25,273	36,142
2005 interim dividend of HK1.5 cents (2004 interim dividend: HK2 cents) per share	10,832	14,457
	36,105	50,599

The 2005 final dividend of HK3 cents (2004: HK3.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

notes to the consolidated financial statements

For the year ended 31 December 2005

16. EARNINGS PER SHARE

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

	2005	2004
		(Restated)
Profit for the year and earnings for the purposes of the basic and diluted earnings per share	HK\$9,155,000	HK\$69,677,000
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	722,096,724	722,722,938
Effect of dilutive potential ordinary shares in respect of share options	—	1,215,827
Weighted average number of ordinary shares for the purposes of diluted earnings per share	722,096,724	723,938,765

The adjustment to basic and diluted earnings per share, arising from the changes in accounting policies shown in note 3, is as follows:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005	2004	2005	2004
Reconciliation of earnings per share:				
Reported figure before adjustment	1.14	9.57	N/A	9.55
Adjustment arising from the adoption of HKAS 17	0.13	0.07	N/A	0.07
Restated	1.27	9.64	N/A	9.62

Diluted earnings per share for the year ended 31 December 2005 has not been presented as the exercise price of the Company's outstanding share options was higher than the average market price per share.

notes to the consolidated financial statements

For the year ended 31 December 2005

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST OR VALUATION							
At 1 January 2004 as originally stated	227,066	6,369	138,803	58,340	12,248	27,524	470,350
Effects of changes in accounting policies	(46,415)	—	—	—	—	—	(46,415)
At 1 January 2004 as restated	180,651	6,369	138,803	58,340	12,248	27,524	423,935
Exchange realignment	3,458	15	219	309	(22)	81	4,060
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 (restated)	15,964	—	—	—	—	—	15,964
At 31 December 2004 as restated	227,880	6,403	146,282	67,903	10,028	1,443	459,939
Exchange realignment	1,481	(62)	3,225	849	209	57	5,759
Additions	404	70	5,936	1,455	459	1,204	9,528
Disposals	(102)	(308)	(69)	(506)	(366)	—	(1,351)
Transfer	(536)	—	—	—	—	536	—
Adjustment on valuation	(4,301)	—	—	—	—	—	(4,301)
At 31 December 2005	224,826	6,103	155,374	69,701	10,330	3,240	469,574
Comprising:							
At cost	—	6,103	155,374	69,701	10,330	3,240	244,748
At valuation — 2005	224,826	—	—	—	—	—	224,826
	224,826	6,103	155,374	69,701	10,330	3,240	469,574
DEPRECIATION AND AMORTISATION							
At 1 January 2004	—	4,253	55,733	32,959	8,377	—	101,322
Exchange realignment	183	25	68	152	16	—	444
Provided for the year (restated)	9,598	555	11,758	8,461	1,172	—	31,544
Eliminated on disposals	—	(11)	(374)	(4,070)	(2,669)	—	(7,124)
Attributable to dissolution of subsidiaries	—	—	—	(195)	—	—	(195)
Adjustment on valuation (restated)	(9,781)	—	—	—	—	—	(9,781)
At 31 December 2004	—	4,822	67,185	37,307	6,896	—	116,210
Exchange realignment	679	(55)	1,764	460	156	—	3,004
Provided for the year	12,561	45	11,907	7,968	631	—	33,112
Eliminated on disposals	(42)	(310)	(21)	(409)	(291)	—	(1,073)
Adjustment on valuation	(13,198)	—	—	—	—	—	(13,198)
At 31 December 2005	—	4,502	80,835	45,326	7,392	—	138,055
CARRYING VALUES							
At 31 December 2005	224,826	1,601	74,539	24,375	2,938	3,240	331,519
At 31 December 2004 as restated	227,880	1,581	79,097	30,596	3,132	1,443	343,729

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

notes to the consolidated financial statements

For the year ended 31 December 2005

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

Certain buildings erected on the lands of the Group in the PRC were not granted formal title of their ownership. At 31 December 2005, the net book value of buildings in the PRC for which the Group had not been granted formal title amounted to HK\$69,436,000 (2004: HK\$71,650,000). In the opinion of directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

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

Freehold land	Nil
Land and buildings	2% or the remaining period of the leases, if shorter
Leasehold improvements	10–20%
Plant and machinery	10–20%
Furniture, fixtures and equipment	20–33 $\frac{1}{3}$ %
Motor vehicles	20–50%

The carrying values of land and buildings held by the Group at the balance sheet date comprises:

	2005 HK\$'000	2004 HK\$'000
		(Restated)
Held in Hong Kong under long leases	46,200	42,000
Held in the PRC under medium term land use rights	141,326	145,280
Held in Taiwan, freehold	37,300	40,600
	224,826	227,880

A leasehold land and buildings of the Group with carrying values of HK\$340,000 (2004: HK\$354,000) as at 31 December 2005 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 31 December 2005 by Grant Sherman Appraisal Limited, a firm of independent property valuers not connected with the Group. All the land and buildings in Hong Kong and in the PRC of an aggregate carrying value of HK\$59,700,000 were valued on an open market value basis. The remaining land and buildings in the PRC amounting to HK\$127,486,000 and the land and buildings in Taiwan amounting to HK\$37,300,000 were valued on depreciated replacement cost basis.

Decrease in fair value of HK\$975,000 was charged (2004: increase of HK\$6,674,000 was credited) to the income statement and an increase of HK\$9,872,000 (2004: increase HK\$19,071,000) 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\$146,444,000 (2004: HK\$158,182,000).

notes to the consolidated financial statements

For the year ended 31 December 2005

18. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
FAIR VALUE	
At 1 January 2004	7,500
Net increase in fair value recognised in the income statement	4,500
At 31 December 2004	12,000
Net increase in fair value recognised in the income statement	3,700
At 31 December 2005	15,700

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by Grant Sherman Appraisal Limited, a firm of independent property valuers not connected with the Group. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

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

19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments of HK\$32,970,000 (2004: HK\$33,308,000) represent leasehold land in the PRC held under medium-term lease. An amount of HK\$870,000 (2004: HK\$849,000) is classified under current assets for reporting purpose.

20. NEGATIVE GOODWILL

	<i>HK\$'000</i>
GROSS AMOUNT	
At 1 January 2004 and 31 December 2004	4,196
RELEASED TO INCOME	
At 1 January 2004	958
Released during the year	420
At 31 December 2004	1,378
CARRYING VALUES	
At 31 December 2004 as originally stated	2,818
Derecognised upon the application of HKFRS 3	(2,818)
At 1 January 2005 as restated	—

As explained in note 3, all negative goodwill arising on acquisition prior to 1 January 2005 was derecognised as a result of the application of HKFRS 3.

notes to the consolidated financial statements

For the year ended 31 December 2005

21. INTELLECTUAL PROPERTY RIGHTS

	HK\$'000
COST	
At 1 January 2004, 31 December 2004 and 31 December 2005	88,982
Exchange realignment	(3,091)
At 31 December 2005	85,891
AMORTISATION AND IMPAIRMENT	
At 1 January 2004	42,898
Provided for the year	5,309
At 31 December 2004	48,207
Exchange realignment	(1,783)
Provided for the year	5,250
Impairment loss recognised in the year	8,540
At 31 December 2005	60,214
CARRYING VALUES	
At 31 December 2005	25,677
At 31 December 2004	40,775

The amount represents the carrying amount of the Group's intellectual property rights acquired in 1996. The intellectual property rights entitle the Group to manufacture infant products using the registered technology for a period of 4 to 18 years from the date of acquisition. The net carrying amount will therefore be amortised over the remaining useful lives, using the straight-line method.

notes to the consolidated financial statements

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22. INTERESTS IN ASSOCIATES

	2005 HK\$'000	2004 HK\$'000
Share of net assets of associates	—	—

Details of the Group's associates at 31 December 2005 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 peripheral 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	Established	PRC	US\$1,548,000	30%	Manufacturing and distribution of optical fibre peripheral products

The summarised financial information in respect of the Group's associates is set out below:

	2005 HK\$'000	2004 HK\$'000
Total assets	33,788	32,042
Total liabilities	(45,862)	(43,766)
Net liabilities	(12,074)	(11,724)
Revenue	24,758	17,967
Profit (loss) for the year	278	(2,049)

notes to the consolidated financial statements

For the year ended 31 December 2005

22. INTERESTS IN ASSOCIATES *(continued)*

The Group has discontinued recognition of its share of losses of an associate. The amounts of unrecognised share of the associate for the year and cumulatively, are as follows:

	2005 HK\$'000	2004 HK\$'000
Unrecognised share of losses of associates for the year	—	(615)
Accumulated unrecognised share of losses of associates	(3,596)	(3,680)

23. OTHER INVESTMENTS

Upon the application of HKAS 39 on 1 January 2005, other investments at 31 December 2004 of HK\$3,963,000 were reclassified to available-for-sale investments under HKAS 39 (see note 3 for details).

24. AVAILABLE-FOR-SALE INVESTMENTS

The Group's available-for-sale investments at 31 December 2005 represent non-current investments in unlisted equity securities issued by private entities incorporated in the PRC and Taiwan. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

notes to the consolidated financial statements

For the year ended 31 December 2005

25. DEFERRED TAX

The following are the major deferred tax liabilities (assets) provided (recognised) 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 1 January 2004 as originally stated	606	5,511	3,257	9,374
Effects of changes in accounting policies (<i>see note 3</i>)	—	(1,734)	—	(1,734)
At 1 January 2004 as restated	606	3,777	3,257	7,640
Charge (credit) to the income statement for the year	(424)	1,345	(1,384)	(463)
Charge to equity for the year	—	1,705	—	1,705
Effects of changes in tax rates				
— credit to the income statement for the year	—	—	(2,189)	(2,189)
— credit to equity for the year	—	(75)	—	(75)
At 1 January 2005 as restated	182	6,752	(316)	6,618
Charge (credit) to the income statement for the year	52	(2,129)	(837)	(2,914)
Charge to equity for the year	—	280	—	280
At 31 December 2005	234	4,903	(1,153)	3,984

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
		(<i>Restated</i>)
Deferred tax assets	(4,107)	(841)
Deferred tax liabilities	8,091	7,459
	3,984	6,618

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25. DEFERRED TAX (continued)

At 31 December 2005, the Group has unused tax losses of HK\$48,648,000 (2004: HK\$73,202,000). At 31 December 2004, the Group had deductible temporary difference amounted to HK\$7,543,000. 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.

26. INVENTORIES

	2005 HK\$'000	2004 HK\$'000
Raw materials	69,719	77,674
Work in progress	19,418	16,671
Finished goods	32,656	49,777
	121,793	144,122

27. 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\$164,456,000 (2004: HK\$167,147,000) and their aged analysis is as follows:

	2005 HK\$'000	2004 HK\$'000
Within 30 days	88,899	84,313
31 to 90 days	47,292	65,388
Over 90 days	28,265	17,446
	164,456	167,147

The directors consider that the carrying amount of the Group's trade and other receivables approximates their fair values.

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28. CONNECTED AND RELATED PARTY DISCLOSURES

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	2005 HK\$'000	2004 HK\$'000
好萊兒嬰兒用品有限公司	(note i)	Sales made by the Group	4,537	4,328
Yojin Industrial Corporation	Huang Ying Yuan Huang Chen Li Chu (note ii)	Rental expenses paid by the Group (note iii)	636	848
Chen Chin Yuan	(note iv)	Rental expenses paid by the Group (note iii)	88	164
Chen Hung Jung	(note v)	Rental expenses paid by the Group (note iii)	87	151

(b) Transactions with directors:

Name of director	Nature of transactions	2005 HK\$'000	2004 HK\$'000
Huang Ying Yuan	Rental expenses paid by the Group (note iii)	219	379
Chen Hsing Shin	Rental expenses paid by the Group (note iii)	219	379
Huang Chen Li Chu	Rental expenses paid by the Group (note iii)	15	28

- (c) Other than the above, at 31 December 2005, the Group also had (i) loan to an associate of HK\$8,100,000 (2004: HK\$11,700,000) and (ii) loan from minority shareholder of HK\$780,000 (2004: HK\$780,000). The loan from minority shareholder is made by the minority shareholder to the related subsidiaries in the proportion of their interests in the respective subsidiaries, as appropriate.

The amounts are unsecured, interest-free and repayable on demand. The directors consider that the carrying amount of the balances approximates their fair values.

notes to the consolidated financial statements

For the year ended 31 December 2005

28. CONNECTED AND RELATED PARTY DISCLOSURES (continued)

(d) Compensation of key management personnel

The remuneration of directors as key management of the Group during the year was as follows:

	2005 HK\$'000	2004 HK\$'000
Short-term benefits	7,290	13,226
Post-employment benefits	64	86
	7,354	13,312

The remuneration of directors is decided by the directors, who are authorised by the shareholders, having regard to the performance of the individuals and market trends.

Notes:

- 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.
- Huang Ying Yuan and Huang Chen Li Chu have beneficial interests in Yojin Industrial Corporation.
- The rentals were charged in accordance with the relevant tenancy agreements agreed by both parties.
- Chen Chin Yuan is a brother of Chen Hsing Shin.
- Chen Hung Jung is a brother of Huang Chen Li Chu.

29. DERIVATIVE FINANCIAL INSTRUMENTS

During the year, the Group had entered into forward sale contracts in USD in exchange for RMB. At 31 December 2005, the notional principal amount of the outstanding contracts is USD3,000,000 which will be matured within one year and the changes in their fair value are recognised in the income statement in accordance with HKAS 39.

The above financial instruments are measured at fair value based on the quoted market prices for equivalent instruments at the balance sheet date.

30. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$128,384,000 (2004: HK\$153,109,000) and their aged analysis is as follows:

	2005 HK\$'000	2004 HK\$'000
Within 30 days	53,892	63,230
31 to 90 days	51,010	79,325
Over 90 days	23,482	10,554
	128,384	153,109

The directors consider that the carrying amount of the Group's trade and other payables approximates their fair values.

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31. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2004	722,838,724	72,284
Shares repurchased and cancelled (<i>note</i>)	(742,000)	(74)
At 31 December 2004 and 31 December 2005	722,096,724	72,210

Note: The repurchased shares were subsequently cancelled during the year ended 31 December 2004 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.

32. SHARE OPTIONS

The Company adopted a share option scheme on 2 December 1998 (the "1998 Scheme") for the primary purpose of providing incentives to directors and eligible employees, which will expire on 1 December 2008. Under the 1998 Scheme, the board of directors (the "Board") 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.

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. 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.

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32. SHARE OPTIONS (continued)

At 31 December 2005, the number of shares in respect of which options had been granted and remained outstanding under the 1998, representing 1.8% (2004: 1.8%) of the shares of the Company in issue at that date, with details set out below.

					Number of shares to be issued upon exercise of the share options
	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January 2004, 31 December 2004 and 31 December 2005
Total directors	18.8.1999	4.5 months	1.1.2000–17.8.2009	1.26	13,000,000

As a result of the amendments of Chapter 17 of the Listing Rules on 1 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 30 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 1 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 the Company may offer to 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.

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

32. 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 10 years after the date of approval of the 2002 Scheme. Subject to earlier termination by the Company in general meeting or by the Board's meeting, the 2002 Scheme shall be valid and effective for a period of 10 years after the date of adoption of the 2002 Scheme. The exercise price is determined by the directors and shall not be less than the highest of (i) the closing price of the Company's shares on the date on which the option is offered, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of offer, and (iii) the nominal value of the share.

No options were granted under the 2002 Scheme since its adoption up to 31 December 2005.

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

The eligible employees have rights to exercise their respective share options at any time during the period from the date the share options become vested (i.e. 17 January 2007 for Batch I and 17 January 2008 for Batch II) to the expiry date (i.e. 16 January 2011 for both Batches).

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.

notes to the consolidated financial statements

For the year ended 31 December 2005

33. DISSOLUTION OF SUBSIDIARIES

	2005 HK\$'000	2004 HK\$'000
Net assets disposed of:		
Property, plant and equipment	—	96
Trade and other receivables	—	31
Bank balances and cash	—	931
Trade and other payables	—	(2,749)
Minority interests	—	2,288
	—	597
Loss on dissolution of subsidiaries	—	(198)
Cash return upon dissolution of subsidiaries	—	399
Cash outflow arising on dissolution:		
Bank balances and cash disposed of	—	(931)
Cash return	—	399
	—	(532)

The subsidiaries dissolved during the year ended 31 December 2004 did not contribute significantly to the turnover, operating results or cash flows of the Group.

34. LOAN TO AN ASSOCIATE

	2005 HK\$'000	2004 HK\$'000
Loan to an associate	11,700	11,700
Less: impairment loss	(3,600)	—
	8,100	11,700

The amount is unsecured, interest-free and repayable on demand. The directors consider that the carrying amount of the balance approximates its fair value.

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For the year ended 31 December 2005

35. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2005 HK\$'000	2004 HK\$'000
Minimum lease payments paid under operating leases in respect of rented premises during the year	2,213	3,414

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

	2005 HK\$'000	2004 HK\$'000
Within one year	100	2,105
In the second to fifth year inclusive	67	2,111
	167	4,216

At 31 December 2004, the above amount included operating lease commitments for premises of HK\$1,513,000 entered into by the Group with, amongst others, the directors of the Company, Messrs. Huang Ying Yuan and Chen Hsing Shin.

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 four years and rentals are fixed for an average of four years.

The Group as lessor

Property rental income earned during the year was HK\$396,000 (2004: HK\$297,000). The investment properties held have committed tenant for the next year.

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

	2005 HK\$'000	2004 HK\$'000
Within one year	363	396
In the second to fifth year inclusive	—	363
	363	759

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For the year ended 31 December 2005

36. CAPITAL COMMITMENTS

	2005 HK\$'000	2004 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	106	729

37. RETIREMENT BENEFIT SCHEME

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

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

notes to the consolidated financial statements

For the year ended 31 December 2005

38. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31 December 2005 is as follows:

	Notes	2005 HK\$'000	2004 HK\$'000
Non-current asset			
Investments in subsidiaries		244,660	244,660
Current assets			
Other receivables		73	73
Amount due from a subsidiary	(a)	168,312	165,877
Bank balances		70	12
		168,455	165,962
Current liabilities			
Other payables		505	66
Amounts due to subsidiaries	(a)	1,552	3,424
		2,057	3,490
Net current assets		166,398	162,472
		411,058	407,132
Capital and reserves			
Share capital		72,210	72,210
Reserves	(b)	338,848	334,922
		411,058	407,132

Notes:

(a) Amount due from a subsidiary/amounts due to subsidiaries

The amounts are unsecured, interest-free and repayable on demand. The directors consider that the carrying amount of the balances approximates their fair values.

notes to the consolidated financial statements

For the year ended 31 December 2005

38. BALANCE SHEET OF THE COMPANY (continued)

Notes: (continued)

(b) Reserves

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	(Accumulated losses)/ retained profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	90,916	244,461	1,057	1,215	337,649
Profit for the year	—	—	—	48,732	48,732
Premium on repurchase of shares	(860)	—	—	—	(860)
Transfer of reserve for cancellation of shares	—	—	74	(74)	—
Dividends (note 15)	—	—	—	(50,599)	(50,599)
At 1 January 2005	90,056	244,461	1,131	(726)	334,922
Profit for the year	—	—	—	40,031	40,031
Dividends (note 15)	—	—	—	(36,105)	(36,105)
At 31 December 2005	90,056	244,461	1,131	3,200	338,848

notes to the consolidated financial statements

For the year ended 31 December 2005

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2005 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 a)	Principal activities (Note b)
Angel Juvenile Products (Zhongshan) Co., Ltd.	PRC (Note c)	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
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 c)	US\$6,260,000 registered capital	100%	Manufacture and trading of nursery products
中山市隆成日用製品有限公司	PRC (Note c)	US\$20,750,000 registered capital	100%	Manufacture and trading of infant products
中山市國宏塑膠製品有限公司	PRC (Note c)	US\$2,800,000 registered capital	52%	Manufacture and trading of stroller wheels
金和信股份有限公司	Taiwan	NTD205,000,000 ordinary shares	100%	Provision of purchasing services and trading of infant products

Notes:

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

notes to the consolidated financial statements

For the year ended 31 December 2005

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

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 Group 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.

40. 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

notes to the consolidated financial statements

For the year ended 31 December 2005

40. SEGMENT INFORMATION (continued)

Business segments (continued)

Segment information about these businesses is presented below:

2005

	Strollers HK\$'000	Beds and playards HK\$'000	Miscellaneous infant products HK\$'000	Others HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	516,259	115,408	307,603	108,058	1,047,328
RESULTS					
Segment results	9,605	(2,457)	3,113	1,718	11,979
Unallocated corporate expenses					(4,580)
Investment income					2,894
Surplus arising on revaluation of investment properties					3,700
Profit before tax					13,993
Income tax expense					(3,439)
Profit for the year					10,554

notes to the consolidated financial statements

For the year ended 31 December 2005

40. SEGMENT INFORMATION (continued)

Business segments (continued)

2005 (continued)

Balance Sheet

	Strollers HK\$'000	Beds and playards HK\$'000	Miscellaneous infant products HK\$'000	Others HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	438,911	84,018	254,688	98,401	876,018
Unallocated corporate assets					33,165
Consolidated total assets					909,183
LIABILITIES					
Segment liabilities	88,002	16,906	48,881	19,480	173,269
Unallocated corporate liabilities					10,584
Consolidated total liabilities					183,853

Other Information

	Strollers HK\$'000	Beds and playards HK\$'000	Miscellaneous infant products HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	4,358	909	2,942	1,319	—	9,528
Depreciation and amortisation for property, plant and equipment	15,663	2,937	9,821	4,691	—	33,112
Amortisation of intellectual property rights and prepaid lease payments	2,659	879	2,351	231	—	6,120
Impairment loss on intellectual property rights	2,811	5,059	670	—	—	8,540
Allowance for bad and doubtful debts	2,911	663	2,275	1,109	—	6,958
Impairment loss on loan to an associate	—	—	—	—	3,600	3,600
Loss on disposal of properties, plant and equipment	78	—	—	—	—	78

notes to the consolidated financial statements

For the year ended 31 December 2005

40. SEGMENT INFORMATION (continued)

Business segments (continued)

2004

	Strollers	Beds and playards	Miscellaneous infant products	Others	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Restated)</i>	<i>(Restated)</i>	<i>(Restated)</i>	<i>(Restated)</i>	<i>(Restated)</i>
REVENUE					
External sales	636,005	113,155	317,706	204,169	1,271,035
RESULTS					
Segment results	48,691	4,652	15,064	10,422	78,829
Unallocated corporate expenses					(10,442)
Investment income					833
Surplus arising on revaluation of investment properties					4,500
Surplus arising on revaluation of land and buildings					6,674
Profit before tax					80,394
Income tax expense					(6,017)
Profit for the year					74,377

notes to the consolidated financial statements

For the year ended 31 December 2005

40. SEGMENT INFORMATION (continued)

Business segments (continued)

2004 (continued)

Balance Sheet

	Strollers	Beds and playards	Miscellaneous infant products	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
ASSETS					
Segment assets	459,774	74,150	244,451	145,972	924,347
Unallocated corporate assets					28,504
Consolidated total assets					952,851
LIABILITIES					
Segment liabilities	106,386	17,717	48,961	31,058	204,122
Unallocated corporate liabilities					14,291
Consolidated total liabilities					218,413

Other Information

	Strollers	Beds and playards	Miscellaneous infant products	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Capital additions	13,964	2,025	5,537	3,346	24,872
Depreciation and amortisation for property, plant and equipment	15,381	2,272	8,607	5,284	31,544
Amortisation of intellectual property rights and prepaid lease payments	2,714	888	2,403	228	6,233
Allowance for bad and doubtful debts	1,180	205	866	367	2,618

notes to the consolidated financial statements

For the year ended 31 December 2005

40. SEGMENT INFORMATION (continued)

Geographical segments

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

	2005 HK\$'000	2004 HK\$'000
United States of America	480,984	658,058
Europe	301,296	282,118
Australia	47,565	68,112
South America	67,242	96,615
Others	150,241	166,132
	1,047,328	1,271,035

The following is an analysis of the carrying amount of total 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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
PRC	470,793	497,924	9,002	16,978
Taiwan	285,997	316,068	524	7,815
Hong Kong	144,293	127,159	2	79
	901,083	941,151	9,528	24,872

Financial Summary

RESULTS

	Year ended 31 December				
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000
				(Restated)	
TURNOVER	1,117,930	1,024,302	1,149,893	1,271,035	1,047,328
PROFIT BEFORE TAX	113,084	103,273	97,017	80,394	13,993
INCOME TAX EXPENSE	(4,989)	(10,970)	(16,421)	(6,017)	(3,439)
PROFIT FOR THE YEAR	108,095	92,303	80,596	74,377	10,554
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF					
THE COMPANY	105,476	92,357	81,170	69,677	9,155
MINORITY INTERESTS	2,619	(54)	(574)	4,700	1,399
	108,095	92,303	80,596	74,377	10,554

ASSETS AND LIABILITIES

	At 31 December				
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000
				(Restated)	
TOTAL ASSETS	915,277	922,743	1,006,219	952,851	909,183
TOTAL LIABILITIES	(277,668)	(241,919)	(299,819)	(218,413)	(183,853)
	637,609	680,824	706,400	734,438	725,330
EQUITY ATTRIBUTABLE TO:					
EQUITY HOLDERS					
OF THE COMPANY	619,697	664,920	687,936	717,626	708,409
MINORITY INTERESTS	17,912	15,904	18,464	16,812	16,921
	637,609	680,824	706,400	734,438	725,330