LERADO
LERADO GROUP
隆成集團

Lerado Group (Holding) Company Limited

Stock Code : 1225

2006
ANNUAL REPORT

Contents

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
Tyrone LIN

Audit Committee

LIM Pat Wah Patrick *(Chairman)*
HUANG Zhi Wei
Tyrone LIN

Remuneration Committee

HUANG Ying Yuan *(Chairman)*
LIM Pat Wah Patrick
HUANG Zhi Wei
Tyrone LIN

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

Company Website

www.irasia.com/listco/hk/lerado/index.htm

Principal Bankers

ABN AMRO Bank
Shanghai Commercial Bank

Solicitors

Sidley Austin

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 727 registered patents on over 369 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

	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*
			(Restated)
Revenue	**1,125,465**	1,047,328	1,271,035
Profit before interest expenses and tax	**97,762**	13,998	81,136
As a percentage of revenue	**8.7%**	1.3%	6.4%
EBITDA	**127,372**	62,141	117,019
As a percentage of revenue	**11.3%**	5.9%	9.2%
Profit attributable to equity holders	**86,219**	9,155	69,677
As a percentage of revenue	**7.7%**	0.9%	5.5%
Total assets	**979,420**	909,183	952,851
Total capital employed*	**780,438**	725,330	734,438
Shareholders' equity	**772,227**	708,409	717,626
Earnings per share (HK cents)	**11.94**	1.27	9.64
Return on average capital employed	**11.7%**	1.4%	10.1%
Current ratio	**2.9**	2.8	2.5
Average inventory turnover (days)	**52**	57	49
Average trade debtor turnover (days)	**51**	58	55

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

Management Discussion and Analysis

The Group reported consolidated turnover of HK$1,125.5 million for the year ended 31 December 2006, representing a growth of 7.5% over last year. The profit attributable to equity holders of the Company increased at a higher rate to HK$86.2 million, compared with HK$9.2 million of the previous year. Basic earnings per share amounted to HK11.94 cents (2005: HK1.27 cents).

Business review

The Group's results rebounded in 2006 amid an improved operating environment. The comparatively stable prices of oil and metal tubes this year helped release pricing pressure of raw materials moderately. In addition, the Group's active restructuring of customer mix, phasing out lower-end models with extremely thin margins also led to improved gross margins. As a result, overall gross margin was raised from 19.1% to 23.0% this year.

Launching a series of new models which have been well accepted in the market contributed to the growth in the Group's revenue. The Group has been committing more resources in developing new designs in stimulating market demands. Research and development expenses amounted to 2.4% of the Group's turnover in 2006.

The Group has managed to control its operating expenses. Administrative expenses remained stable this year while marketing and distribution costs decreased by 6.5% resulting from the re-location of certain supporting functions to the Group's offices in China.

In terms of revenue, the growth momentum was mainly driven by the sales of "miscellaneous infant products", amounting to HK$390.9 million and representing 34.7% of the Group's revenue. Among this category, sales of car seats and walkers recorded the highest growth rate. With the convenient patented click-in mechanism, the Group has been successful in pushing up car seats sales by cross-selling the product to its stroller buyers. In the meanwhile, stroller sales stayed flat, with revenue of HK$505.8 million which accounted for 44.9% of the Group's turnover, following the exercise in screening out models with extremely low margins. Sales of beds and playards dropped by 7.1% and sales of other products increased by 12.4% as compared with the previous year.

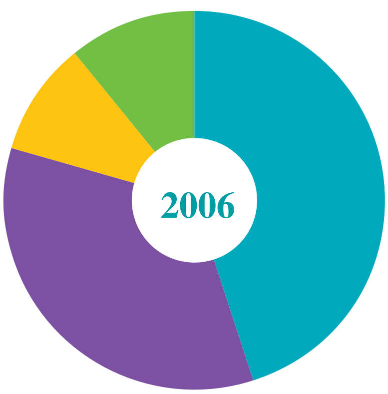
Outlook

Looking forward, the Group will allocate more resources in strengthening its design capabilities and developing innovative products to stimulate sales. We will take a close look at the future trend of raw material prices so as to formulate strategies that enhance the Group to maintain its competitiveness in the industry. We will also identify suitable business development and investment opportunities to increase our market penetration.

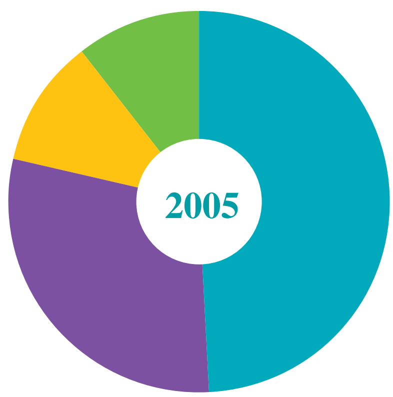
Investments

As to support the initial development and operations of Weblink Technology Limited ("Weblink"), an associate of the Company, the shareholders of Weblink had loaned to Weblink since its incorporation in proportion to their respective shareholdings. In May 2006, each of the shareholders

Revenue By Product



Strollers	44.9%
Miscellaneous infant products	34.7%
Beds and playards	9.5%
Others	10.9%



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

converted its entire loan into capital in Weblink. Immediately before the conversion, the carrying amount of the loan made by the Group as recorded in its balance sheet amounted to approximately HK$8.1 million. During the year ended 31 December 2006, the Group's share of loss of Weblink and its subsidiaries amounted to approximately HK$159,000.

On 27 December 2006, the Group increased its shareholding in Glory Time Investments Limited ("Glory Time") from 52.0% to 76.6% for a consideration of approximately HK$4.3 million. Glory Time and its subsidiary ("Glory Time Group") are engaged in the production of stroller wheels, which are mainly sold to the Group. For the year ended 31 December 2006, Glory Time Group recorded net profit of approximately HK$5.6 million.

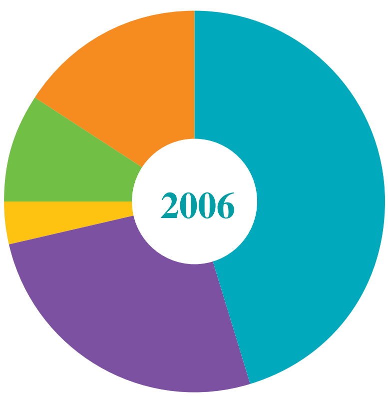
Except for those mentioned above, no new investment was made during the year ended 31 December 2006.

Employees and remuneration policies

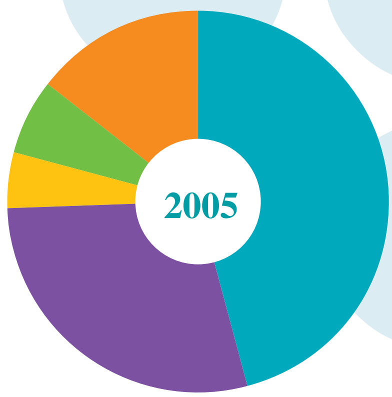
As at 31 December 2006, the Group employed a total workforce of around 5,800 staff members, of which about 5,700 worked in the PRC offices and production sites, above 100 in Taiwan mainly for marketing, sales support and research and development, and 14 in Hong Kong mainly for finance and corporate administration.

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.

Revenue By Region



United States	45.5%
Europe	25.9%
Australia	3.6%
South America	9.4%
Others	15.6%



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

Liquidity and financial resources

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

As at 31 December 2006, the Group had cash and bank balances, mainly in US dollars and Renminbi, of HK$259.8 million (2005: HK$178.4 million) and was free of bank borrowings (2005: nil). The Group's gearing ratio, expressed as total bank borrowings to shareholders' fund, is zero (2005: nil).

As at 31 December 2006, the Group had net current assets of HK$369.3 million (2005: HK$319.4 million) and an improved current ratio of 2.9 compared with 2.8 in 2005. Trade receivable and inventory turnover were 51 days (2005: 58 days) and 52 days (2005: 57 days) respectively.

Exchange risk exposure and contingent liabilities

The sales of the Group are mainly denominated in US dollars and purchases are mainly in HK dollars, Renminbi and New Taiwanese dollars. The Group does not foresee significant risk in exchange rate fluctuation.

As at 31 December 2006, the Group had no significant contingent liabilities.

Directors' Profile

From left to right
Upper row: Mr. HUANG Zhi Wei, Mr. LEUNG Man Fai, Mr. Tyrone LIN, Mr. LIM Pat Wah Patrick
Lower row: Mrs. HUANG CHEN Li Chu, Mr. HUANG Ying Yuan, Mr. CHEN Hsing Shin

Executive Directors

Mr. HUANG Ying Yuan, aged 56, is a founding member and the Chairman of the Group. Mr. Huang has 30 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 spouse of Mrs. Huang Chen Li Chu, Vice Chairman of the Group.

Mr. CHEN Hsing Shin, aged 63, 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 57, was appointed an Executive Director of the Company in 1998. Mrs. Huang has worked in the infant products industry in Taiwan for over 28 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 spouse of Mr. Huang Ying Yuan, Chairman of the Group.

Mr. LEUNG Man Fai, aged 49, was appointed an Executive Director of the Company 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 United Kingdom 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 47, 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 22 years of experience in accounting and finance. Mr. Lim was first appointed an Independent Non-executive Director of the Company in November 1998.

Mr. HUANG Zhi Wei, aged 68, is currently the Executive Vice President of Guangdong General Chamber of Commerce. 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 Company on 30 September 2004.

Mr. Tyrone LIN, aged 63, holds a bachelor's degree in economics from Soochow University in Taiwan. Mr. Lin has solid experience in corporate banking, specializing in credit control and risk assessment. He had worked in BNP Paribas, Taipei branch for 20 years and he was the Senior Vice President when he left the bank in 2004. Prior to that, he had been with Irving Trust Company (now Bank of New York) for over 10 years. Mr. Lin is currently a financial advisor to a manufacturing enterprise with operations in the Greater China region. Mr. Lin was appointed an Independent Non-executive Director of the Company on 6 November 2006.

Corporate Governance Report

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identify and formulate 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 throughout the year, with an exception which is detailed in the section "The Board — Composition".

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 ensure 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.

During the year ended 31 December 2006, the Board of the Company comprises the following directors:

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
Tyrone LIN (appointed on 6 November 2006)
YANG Yu Fu (resigned on 1 November 2006)

Mrs. Huang Chen Li Chu is the spouse 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.

Due to the resignation of Mr. Yang Yu Fu as independent non-executive director on 1 November 2006, the number of independent non-executive directors during the period from 1 November 2006 to 5 November 2006 fell temporarily to two, which was below the minimum number required under Rule 3.10(1) of the Listing Rules. With effect from 6 November 2006, Mr. Tyrone Lin was appointed as an independent non-executive director to fill the said vacancy. Save for mentioned above, the Board at all times during the year 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 is appointed for a specific term of one to 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 reviews 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, Huang Chen Li Chu, Lim Pat Wah, Patrick and Tyrone Lin 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 2007 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.

The individual attendance (either in person or through other electronic means of communication) of each director at the regular Board meetings during the year ended 31 December 2006 is set out below:

	Attendance/ Number of Meetings
Executive Directors:	
HUANG Ying Yuan *(Chairman)*	6/6
CHEN Hsing Shin *(Vice Chairman and Chief Executive Officer)*	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	5/6
Tyrone Lin (appointed on 6 November 2006)	1/1
YANG Yu Fu (resigned on 1 November 2006)	5/5

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 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 the 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.

During 2006, the Remuneration Committee met to review the overall remuneration of the directors and the proposal on distribution of bonus to the executive directors for 2005.

The attendance records of individual members at the Remuneration Committee meeting in 2006 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
Tyrone LIN	(appointed on 6 November 2006)	–/–
YANG Yu Fu	(resigned on 1 November 2006)	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 meetings during the year ended 31 December 2006 to review the interim and annual financial results and reports, financial reporting and compliance procedures, risk management and internal control system and the re-appointment of the external auditors.

The attendance records of individual members at Audit Committee meetings in 2006 are set out below:

	Attendance/ Number of Meetings
LIM Pat Wah Patrick *(Chairman)*	2/2
HUANG Zhi Wei	2/2
Tyrone LIN *(appointed on 6 November 2006)*	–/–
YANG Yu Fu *(resigned on 1 November 2006)*	2/2

INTERNAL CONTROLS

The Company endeavours to implement a sound risk management and internal control system. The Board has delegated to the management the implementation of such systems of internal controls and has entrusted the Audit Committee with the responsibility to conduct a review of the internal controls of the Group which cover the material controls including financial, operational and compliance controls and risk management functions.

The Board has conducted a review of the Company’s internal control systems for the year, including financial, operational and compliance control and risk management functions and has assessed the effectiveness of internal controls by considering reviews performed by the Audit Committee and the management.

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 2006.

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 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 26.

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 2006 amounted to approximately HK$1,571,000 and HK$304,000 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 related 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 consolidated financial statements for the year ended 31 December 2006.

Principal activities

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

Results and appropriations

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 28 of the annual report.

An interim dividend of HK2.5 cents per share amounting to HK$18,049,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK5.5 cents per share, amounting to approximately HK$39,857,000, to the shareholders on the register of members on 11 June 2007.

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 over book values amounting to HK$6,304,000, of which HK$5,507,000 has been credited directly to the property revaluation reserve and HK$797,000 has been credited to consolidated 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 consolidated income statement, amounted to HK$2,200,000.

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 15 and 16 to the consolidated financial statements, respectively.

Share capital

Details of share capital of the Company are set out in note 29 to the consolidated financial statements.

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 29 to the consolidated financial statements. The directors considered that the repurchases could result in an increase in earnings per share of the Group.

Distributable reserves of the company

The Company's reserves available for distribution to shareholders as at 31 December 2006 and 2005 were as follows:

	2006	2005
	HK$'000	*HK$'000*
Contributed surplus	**244,461**	244,461
Accumulated profits	**2,456**	3,200
	246,917	247,661

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.

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 consolidated financial statements and restated and reclassified as appropriate, is set out on page 78. This summary does not form part of the audited consolidated 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)*
Mrs. Huang Chen Li Chu *(Vice Chairman)*
Mr. Leung Man Fai

Independent non-executive directors:

Mr. Lim Pat Wah Patrick	
Mr. Huang Zhi Wei	
Mr. Tyrone Lin	(appointed on 6 November 2006)
Mr. Yang Yu Fu	(resigned on 1 November 2006)

Pursuant to clause 86 of the Company's bye-laws, Mr. Tyrone Lin, being director appointed during the year, shall hold office only until the next following general meeting after his appointment and will therefore retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with clause 87 of the Company's bye-laws, Mrs. Huang Chen Li Chu and Mr. Lim Pat Wah Patrick retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other directors will 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 Mr. 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.

Other than as disclosed above, no directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' interests in shares and underlying shares

At 31 December 2006, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed 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 Beneficial owner	Spouse interests	Total	Approximate % of the issued share capital	Share options
Mr. Huang Ying Yuan	104,153,360	43,336,180 *(Note 1)*	147,489,540	20.4	7,000,000 *(Note 2)*
Mr. Chen Hsing Shin	96,805,800	—	96,805,800	13.4	3,500,000
Mrs. Huang Chen Li Chu	43,336,180	104,153,360 *(Note 1)*	147,489,540	20.4	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 Mrs. Huang Chen Li Chu, respectively. Mrs. Huang Chen Li Chu is the spouse 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 his spouse.

3. It represents 3,000,000 share options beneficially owned by Mrs. Huang Chen Li Chu and 4,000,000 share options held by her spouse.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures 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.

Share options

Particulars of the share option schemes and the movements in share options of the Company are set out in note 30 to the financial statements.

Arrangements to purchase shares or debentures

Other than 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.

Substantial shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2006, 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 shareholders	Number of shares	Capacity	Approximate % of the issued share capital
Allianz Aktiengesellschaft	66,032,000	Corporate interest *(Note i)*	9.1%
Dresdner Bank Aktiengesellschaft	66,032,000	Corporate interest *(Note i)*	9.1%
Veer Palthe Voute NV	66,032,000	Investment manager *(Note i)*	9.1%
OCM Emerging Markets Funds, LP	38,122,000	Investment manager	5.3%
Mr. David Michael Webb	36,742,000	*(Note ii)*	5.1%
Mr. Chen An Hsin	36,689,675	Corporate interest *(Note iii)*	5.1%
Gold Field Business Ltd.	36,689,675	Beneficial owner *(Note iii)*	5.1%

Note:

(i) Veer Palthe Voute NV was 100% indirectly owned by Dresdner Bank Aktiengesellschaft, which was 81.1% indirectly owned by Allianz Aktiengesellschaft.

(ii) Mr. David Michael Webb beneficially owns 5,110,000 shares, and in addition, he holds 31,632,000 shares through Preferable Situation Assets Limited, which is 100% directly owned by him.

(iii) Mr. Chen An Hsin owns the entire interest of Gold Field Business Ltd.

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 2006.

Connected transactions

During the year, Group had made sales of infant products, toys and other products of HK$3,169,000 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 consolidated 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.

Save as disclosed herein and in note 28 to the financial statements, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

Directors' interest in contracts of signifiance

Other than as disclosed under the heading "Connected transactions'', no contracts of significance to which the Company and its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

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 independent.

Donations

During the year, the Group made charitable and other donations amounting to HK$197,000.

Major customers and suppliers

During the year, the aggregate sales attributable to the Group's five largest customers represented approximately 42.8% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 17.3% 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, owning 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

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

Month of repurchase	Number of ordinary shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$*
May 2006	156,000	0.56	0.55	86,955

Save as described above, 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 board of 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 a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 30 to the consolidated financial statements.

Sufficiency of public float

The Company has maintained a sufficient public float throughout the year ended 31 December 2006.

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 2007

Independent Auditor's Report

Deloitte.
德勤

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") set out on pages 28 to 77, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
13 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Revenue	6	**1,125,465**	1,047,328
Cost of sales		**(866,131)**	(847,264)
Gross profit		**259,334**	200,064
Investment income	7	**6,552**	2,894
Other income		**21,254**	14,842
Marketing and distribution costs		**(62,535)**	(66,868)
Research and development expenses		**(26,872)**	(24,777)
Administrative expenses		**(93,843)**	(93,792)
Other expenses		**(5,969)**	(18,365)
Share of result of an associate		**(159)**	—
Finance costs	8	**(4)**	(5)
Profit before tax	9	**97,758**	13,993
Income tax expense	12	**(9,410)**	(3,439)
Profit for the year		**88,348**	10,554
Attributable to:			
Equity holders of the Company		**86,219**	9,155
Minority interests		**2,129**	1,399
		88,348	10,554
Dividends	13	**39,707**	36,105
Earnings per share	14		
Basic		**HK11.94 cents**	HK1.27 cents
Diluted		**HK11.93 cents**	N/A

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	15	**333,330**	331,519
Investment properties	16	**17,900**	15,700
Prepaid lease payments	17	**34,588**	32,970
Intellectual property rights	18	**20,069**	25,677
Interest in an associate	19	**7,870**	—
Available-for-sale-investments	20	**4,225**	4,052
Deferred tax assets	21	**1,930**	4,107
		419,912	414,025
Current assets			
Inventories	22	**127,175**	121,793
Trade and other receivables	23	**170,174**	184,766
Prepaid lease payments	17	**717**	870
Loan to an associate	24	**—**	8,100
Derivative financial instruments	25	**1,550**	504
Tax recoverable		**53**	702
Bank balances and cash	26	**259,839**	178,423
		559,508	495,158
Current liabilities			
Trade and other payables	27	**182,514**	173,275
Tax liabilities		**5,589**	1,707
Loan from a minority shareholder	28	**780**	780
Derivative financial instruments	25	**1,330**	—
		190,213	175,762
Net current assets		**369,295**	319,396
Total assets less current liabilities		**789,207**	733,421
Capital and reserves			
Share capital	29	**72,194**	72,210
Reserves		**700,033**	636,199
Equity attributable to equity holders of the Company		**772,227**	708,409
Minority interests		**8,211**	16,921
Total equity		**780,438**	725,330
Non-current liability			
Deferred tax liabilities	21	**8,769**	8,091
		789,207	733,421

The consolidated financial statements on pages 28 to 77 were approved and authorised for issue by the Board of Directors on 13 April 2007 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 2006

	Attributable to equity holders of the Company												
	Share capital	Share premium	Special reserve	Property revaluation reserve	Statutory surplus reserve fund	Enterprise expansion fund	Translation reserve	Share option reserve	Capital redemption reserve	Accumulated profits	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	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 for the year	—	—	—	9,592	—	—	5,323	—	—	9,155	24,070	1,399	25,469
Transfer of statutory reserves	—	—	—	—	988	—	—	—	—	(988)	—	—	—
Dividends *(note 13)*	—	—	—	—	—	—	—	—	—	(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
Exchange differences arising from translation of the financial statements of operations outside Hong Kong	—	—	—	—	—	—	14,141	—	—	—	14,141	—	14,141
Share of changes in equity of associates that recognised directly in equity	—	—	—	—	—	—	(71)	—	—	—	(71)	—	(71)
Revaluation surplus on land and buildings	—	—	—	5,507	—	—	—	—	—	—	5,507	—	5,507
Deferred tax liability arising on revaluation of properties	—	—	—	(2,993)	—	—	—	—	—	—	(2,993)	—	(2,993)
Net income recognised directly in equity	—	—	—	2,514	—	—	14,070	—	—	—	16,584	—	16,584
Profit for the year	—	—	—	—	—	—	—	—	—	86,219	86,219	2,129	88,348
Total recognised income for the year	—	—	—	2,514	—	—	14,070	—	—	86,219	102,803	2,129	104,932
Shares repurchased during the year	(16)	—	—	—	—	—	—	—	—	—	(16)	—	(16)
Premium on shares repurchased	—	(72)	—	—	—	—	—	—	—	—	(72)	—	(72)
Transfer of reserve upon cancellation of shares	—	—	—	—	—	—	—	—	16	(16)	—	—	—
Employee share-based payments	—	—	—	—	—	—	—	810	—	—	810	—	810
Acquistion of additional interests in a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(10,839)	(10,839)
Transfer of statutory reserves	—	—	—	—	3,946	2,024	—	—	—	(5,970)	—	—	—
Dividends *(note 13)*	—	—	—	—	—	—	—	—	—	(39,707)	(39,707)	—	(39,707)
	(16)	(72)	—	—	3,946	2,024	—	810	16	(45,693)	(38,985)	(10,839)	(49,824)
At 31 December 2006	72,194	89,984	38,510	61,414	20,558	3,091	19,828	810	1,147	464,691	772,227	8,211	780,438

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 a 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 and Taiwan (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 2006

	2006	2005
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before tax	**97,758**	13,993
Adjustments for:		
Share of result of an associate	**159**	—
Finance costs	**4**	5
Interest income	**(5,901)**	(1,962)
Fair value gain on derivative financial instruments	**(288)**	(504)
Dividend income from available-for-sale investments	**—**	(32)
Depreciation of property, plant and equipment	**32,477**	33,112
Amortisation of prepaid lease payments	**835**	870
Amortisation of intellectual property rights	**3,956**	5,250
Employee share-based payments	**810**	—
Impairment for bad and doubtful debts	**3,352**	6,958
Impairment loss on intellectual property rights	**1,862**	8,540
Impairment loss on loan to an associate	**—**	3,600
Loss on disposal of property, plant and equipment	**45**	78
Write-down (reversals of write-down) on inventories	**6,245**	(838)
Discount on acquisition of an additional interests in a subsidiary	**(6,523)**	—
Gain on disposal of prepaid lease payments	**(3,255)**	—
Fair value gain of investment properties	**(2,200)**	(3,700)
(Surplus) deficit arising on revaluation of land and buildings	**(797)**	975
Operating cash flows before movements in working capital	**128,539**	66,345
(Increase) decrease in inventories	**(10,806)**	24,213
Decrease (increase) in trade and other receivables	**12,059**	(1,854)
Increase (decrease) in trade and other payables	**10,057**	(31,819)
Cash generated from operations	**139,849**	56,885
Hong Kong Profits Tax paid	**(2,548)**	(5,059)
Taxation paid in other jurisdictions	**(2,606)**	(4,330)
NET CASH FROM OPERATING ACTIVITIES	**134,695**	47,496

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006	2005
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Proceeds on disposal of leasehold land	**10,189**	—
Interest received	**5,901**	1,962
Proceeds on disposal of property, plant and equipment	**928**	200
Proceeds on disposal of derivative financial instruments	**572**	—
Dividend income from available-for-sale investments	**—**	32
Purchase of property, plant and equipment	**(20,882)**	(9,528)
Payment of leasehold land	**(7,965)**	—
Acquisition of additional interests in a subsidiary	**(4,316)**	—
NET CASH USED IN INVESTING ACTIVITIES	**(15,573)**	(7,334)
FINANCING ACTIVITIES		
Dividends paid	**(39,707)**	(36,105)
Repurchase of shares	**(88)**	—
Interest paid	**(4)**	(5)
Dividend paid to a minority shareholder of a subsidiary	**—**	(1,290)
CASH USED IN FINANCING ACTIVITIES	**(39,799)**	(37,400)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**79,323**	2,762
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**178,423**	175,559
Effect of foreign exchange rate changes	**2,093**	102
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR represented bank balances and cash	**259,839**	178,423

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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 35.

The functional currency of the Company is United States dollars ("USD"). The consolidated financial statements are presented in Hong Kong dollars ("HKD") for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRS(s)")

In the current year, the Company has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRS(s)") *(continued)*

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 March 2006
[4] Effective for annual periods beginning on or after 1 May 2006
[5] Effective for annual periods beginning on or after 1 June 2006
[6] Effective for annual periods beginning on or after 1 November 2006
[7] Effective for annual periods beginning on or after 1 March 2007
[8] Effective for annual periods beginning on or after 1 January 2008

3. 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. 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 entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

3. Significant accounting policies *(continued)*

Basis of consolidation *(continued)*

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.

On acquisition of additional interest in subsidiaries, goodwill is calculated as the difference between the consideration paid for the additional interest and the carrying amount of the net assets of the subsidiaries attributable to the additional interest acquired. If the Group's additional interest in the net assets of the subsidiaries exceeds the consideration paid for the additional interest, the excess is recognised in the consolidated income statement.

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.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated 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 consolidated 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.

Depreciation is provided to write off the cost of other 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.

3. Significant accounting policies *(continued)*

Property, plant and equipment *(continued)*

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 consolidated income statement in the year in which the item is derecognised.

Investment properties

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 consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments which represent up-front payments to acquire leasehold land interests are stated at cost and amortised over the period of the lease on a straight-line basis.

Intellectual property rights

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

Gains or losses arising from derecognition of intellectual property rights are measured at the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the consolidated income statement when the assets are derecognised.

3. Significant accounting policies *(continued)*

Interests in associates

An associate is an entity, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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 net assets of the associate, less any identified impairment loss. 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.

Financial assets

The Group's financial assets are classified into available-for-sale financial assets and loans and receivables. 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.

3. Significant accounting policies *(continued)*

Financial instruments *(continued)*

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 be reversed in subsequent periods.

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, loan to an associate and bank balances 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 being reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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.

3. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial liabilities

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

Equity instruments

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

Upon repurchase of the Company's own shares, the respective shares are subsequently cancelled upon repurchase and accordingly, the issued share capital of the Company is diminished by the nominal value thereof. The premium payable on repurchase was charged against the Company's share premium account. An amount equal to the nominal value of the shares repurchased is transferred from accumulated profits to capital redemption reserve.

Derivative financial instruments

The 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.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

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

3. Significant accounting policies *(continued)*

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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 is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

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.

3. 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.

Retirement benefit scheme

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement schemes, which are defined contribution schemes, are charged as an expense when employees have rendered service entitling them to the contribution.

Equity-settled share-based payment transactions

The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005.

Share options granted on or before 7 November 2002 and vested prior to 1 January 2005

Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised.

Upon the exercise of the share options, the resulting shares issued will be 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 will be recorded by the Company in the share premium account. Options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

3. Significant accounting policies *(continued)*

Equity-settled share-based payment transactions *(continued)*

Share options granted and vested on or after 1 January 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Borrowing costs

All borrowing costs are recognised and included in finance costs in the consolidated income statement in the period in which they are 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 consolidated 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.

3. Significant accounting policies *(continued)*

Taxation *(continued)*

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

Operating leasing

The Group as lessor

Rental income from operating leases is recognised in the consolidated 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.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lease by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

3. Significant accounting policies *(continued)*

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 the respective 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. 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.

4. Key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as following:

Impairment on intellectual property rights

The Group's net book value of intellectual property rights as at 31 December 2006 was approximately HK$20,069,000. The Group amortises the intellectual property rights on a straight-line basis over their estimated 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 intellectual property rights. During the year ended 31 December 2006, as sales and manufacturing of certain models of strollers declined substantially, the carrying amount of the respective intellectual property rights of HK$1,862,000 was fully impaired. For the remaining intellectual property rights, if the related sales are to deteriorate in the future, resulting in the recoverable amount of the intellectual property rights being less than their carrying amount, an impairment loss will be recognised as an expense to reduce the carrying amount of the intellectual property rights to their recoverable amount.

5. Financial instruments

a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and trade and other payables. Details of these financial instruments are disclosed in 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

As at 31 December 2006, the Group's maximum exposure to credit risk represents financial loss to the Group due to failure to discharge an obligation by the counterparties. The Group is exposed to concentration of credit risk as a substantial portion of its sales is generated from a limited number of customers. At the balance sheet date, the top five customers of the Group accounted for about 42.8% (2005: 40.3%) of the Group's trade receivables in respect of customers located in the United States of America, Europe and Asia. In order to minimise the credit risk, the management has implemented internal control procedures 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 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 high credit standing.

Currency risk

Several subsidiaries of the Group have foreign currency sales/purchases which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy as the directors consider that the risk is minimal to the Group. However, the management will monitor foreign exchange exposure closely and consider the use of hedging instruments when the need arises.

The Group has entered into various forward exchange contracts of USD and Renminbi ("RMB") for arbitrage purpose (disclosed in note 25).

5. Financial instruments *(continued)*

b. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The fair value of derivative instruments are calculated using quoted prices.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. Revenue

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

7. Investment income

	2006	2005
	HK$'000	*HK$'000*
Bank interest income	**5,901**	1,962
Fair value gain on derivative financial instruments	**288**	504
Property rental income net of negligible outgoing expense	**363**	396
Dividend income from available-for-sale investments	**—**	32
	6,552	2,894

8. Finance costs

	2006	2005
	HK$'000	*HK$'000*
Interest on bank overdrafts	**4**	5

9. Profit before tax

	2006 HK$'000	2005 HK$'000
Profit before tax has been arrived at after charging (crediting):		
Salaries, allowances and bonuses including those of directors	**156,672**	136,310
Contributions to retirement benefit schemes, including those of directors	**6,733**	5,011
Total employee benefits expense including those of directors	**163,405**	141,321
Depreciation of property, plant and equipment	**32,477**	33,112
Amortisation of prepaid lease payments (included in cost of sales)	**835**	870
Amortisation of intellectual property rights (included in other expenses)	**3,956**	5,250
Total depreciation and amortisation	**37,268**	39,232
Auditors' remuneration	**1,896**	1,915
Cost of inventories recognised as an expense	**859,886**	848,102
Employee share-based payments	**810**	—
Impairment for bad and doubtful debts	**3,352**	6,958
Impairment loss on intellectual property rights (included in other expenses)	**1,862**	8,540
Impairment loss on loan to an associate	**—**	3,600
Loss on disposal of property, plant and equipment	**45**	78
Write-down (reversals of write-down) of inventories	**6,245**	(838)
Discount on acquisition of additional interests in a subsidiary (included in other income)	**(6,523)**	—
Gain on disposal of prepaid lease payment	**(3,255)**	—
Fair value gain of investment properties	**(2,200)**	(3,700)
(Surplus) deficit arising on revaluation of land and buildings	**(797)**	975

10. Directors' emoluments

The emoluments paid or payable to each of the eight (2005: eight) directors are as follows:

2006

	Huang Ying Yuan *HK$'000*	Chen Hsing Shin *HK$'000*	Huang Chen Li Chu *HK$'000*	Leung Man Fai *HK$'000*	Lim Pat Wah Patrick *HK$'000*	Huang Zhi Wei *HK$'000*	Yang Yu Fu *(Note i)* *HK$'000*	Tyrone Lin *(Note ii)* *HK$'000*	Total *HK$'000*
Fees	—	—	—	—	160	150	130	30	470
Other emoluments									
Salaries and allowances	2,053	1,615	1,382	1,014	—	—	—	—	6,064
Bonuses	2,368	2,368	2,368	396	—	—	—	—	7,500
Contributions to retirement benefits schemes	—	—	—	52	—	—	—	—	52
Total emoluments	4,421	3,983	3,750	1,462	160	150	130	30	14,086

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 i)* *HK$'000*	Lim Pat Wah Patrick *HK$'000*	Huang Zhi Wei *HK$'000*	Yang Yu Fu *(Note i)* *HK$'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
Bonuses	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

Notes:

(i) Mr. Chen An Hsin and Mr. Yang Yu Fu resigned on 1 March 2005 and 1 November 2006, respectively.

(ii) Mr. Tyrone Lin was appointed on 6 November 2006.

No directors waived any emoluments in the year ended 31 December 2006 (2005: nil).

11. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2005: four) were directors of the Company whose emoluments are included in the disclosure in note 10 above. The emoluments of the remaining one (2005: one) individual are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and allowances	**662**	486
Bonus	**369**	411
Total emoluments	**1,031**	897

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.

12. Income tax expense

	2006	2005
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**4,623**	3,567
The PRC	**2,521**	1,816
Other jurisdictions	**888**	894
	8,032	6,277
Under(over) provision in prior years:		
Hong Kong	**—**	(41)
The PRC	**1,411**	—
Other jurisdictions	**128**	117
	1,539	76
Deferred tax *(note 21)*:		
Current year	**(161)**	(2,914)
	9,410	3,439

12. Income tax expense *(continued)*

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit.

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, all PRC subsidiaries were qualified as export enterprise.

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

The income tax expense can be reconciled to the profit before tax per the consolidated income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before tax	**97,758**	13,993
Tax at Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	**17,108**	2,449
Tax effect of expenses not deductible for tax purpose	**2,342**	5,628
Tax effect of income not taxable for tax purpose	**(9,120)**	(273)
Tax effect of tax losses not recognised	**—**	596
Tax effect of other deferred tax assets not recognised	**—**	1,625
Utilisation of tax losses previously not recognised	**(1,983)**	(4,893)
Recognition of deferred tax assets previously not recognised	**—**	(2,129)
Effect of tax exemption granted to PRC subsidiaries	**(2,242)**	(810)
Effect of different tax rates of subsidiaries operate in other jurisdictions	**1,766**	1,170
Underprovision in respect of prior years	**1,539**	76
Income tax expense	**9,410**	3,439

Details of deferred tax are set out in note 21.

13. Dividends

	2006	2005
	HK$'000	*HK$'000*
2005 final dividend of HK3 cents (2004 final dividend: HK3.5 cents) per share	**21,658**	25,273
2006 interim dividend of HK2.5 cents (2005 interim dividend: HK1.5 cents) per share	**18,049**	10,832
	39,707	36,105

A final dividend for the year ended 31 December 2006 of HK5.5 cents (2005: HK3 cents) per share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. 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:

	2006	2005
Profit for the year attributable to equity holders of the Company	**HK$86,219,000**	HK$9,155,000

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**721,993,294**	722,096,724
Effect of dilutive potential ordinary shares in respect of share options	**815,189**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**722,808,483**	722,096,724

For the year ended 31 December 2005, no diluted earnings per share was presented because the exercise price of the Company's share options was higher than the average market price for shares for that year.

15. 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 2005	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
Exchange realignment	5,958	1	5,779	1,832	364	156	14,090
Additions	1,335	—	13,370	2,536	2	3,639	20,882
Disposals	—	(735)	(6,635)	(1,173)	(168)	—	(8,711)
Transfer	2,191	—	—	—	—	(2,191)	—
Adjustment on valuation	(8,323)	—	—	—	—	—	(8,323)
At 31 December 2006	225,987	5,369	167,888	72,896	10,528	4,844	487,512
Comprising:							
At cost	—	5,369	167,888	72,896	10,528	4,844	261,525
At valuation — 2006	225,987	—	—	—	—	—	225,987
	225,987	5,369	167,888	72,896	10,528	4,844	487,512
DEPRECIATION							
At 1 January 2005	—	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
Exchange realignment	1,563	1	3,020	1,143	288	—	6,015
Provided for the year	13,064	49	12,201	6,573	590	—	32,477
Eliminated on disposals	—	(735)	(5,770)	(1,086)	(147)	—	(7,738)
Adjustment on valuation	(14,627)	—	—	—	—	—	(14,627)
At 31 December 2006	—	3,817	90,286	51,956	8,123	—	154,182
CARRYING VALUES							
At 31 December 2006	225,987	1,552	77,602	20,940	2,405	4,844	333,330
At 31 December 2005	224,826	1,601	74,539	24,375	2,938	3,240	331,519

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.

15. 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 2006, the net book value of buildings in the PRC for which the Group had not been granted formal title amounted to HK$67,280,000 (2005: HK$69,436,000). 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 on a straight-line basis at the following rates per annum:

Freehold land	Nil
Leasehold 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-$33^1/_3$%
Motor vehicles	20-50%

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

	2006	2005
	HK$'000	*HK$'000*
Held in Hong Kong under medium-term leases	**51,300**	46,200
Held in the PRC under medium term land use rights	**136,867**	141,326
Held in Taiwan, freehold	**37,820**	37,300
	225,987	224,826

Certain leasehold land and buildings of the Group with a carrying value of HK$297,000 (2005: HK$340,000) as at 31 December 2006 were valued by the directors, who estimated that their fair value was not materially different from their carrying amount.

The remaining land and buildings of the Group were revalued at 31 December 2006 by Grant Sherman Appraisal Limited, a firm of independent property valuers not connected with the Group. The land and buildings in Hong Kong and in the PRC of an aggregate carrying value of HK$57,170,000 were valued on an open market value basis. The remaining land and buildings in the PRC amounting to HK$130,700,000 and the land and buildings in Taiwan amounting to HK$37,820,000 were valued on depreciated replacement cost basis.

15. Property, plant and equipment *(continued)*

The Group revalued its land and buildings at the year end date. The revaluation resulted in a surplus over book values amounting to HK$6,304,000 (2005: HK$8,897,000), of which HK$5,507,000 (2005: HK$9,872,000) has been credited directly to the property revaluation reserve and HK$797,000 (2005: HK$975,000 charged to consolidated income statement) has been credited to consolidated income statement, respectively.

If the land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation at HK$146,287,000 (2005: HK$146,444,000).

16. Investment properties

	HK$'000
FAIR VALUE	
At 1 January 2005	12,000
Net increase in fair value recognised in the income statement	3,700
At 31 December 2005	15,700
Net increase in fair value recognised in the income statement	2,200
At 31 December 2006	17,900

The fair value of the Group's investment properties at 31 December 2006 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 was arrived at by reference to market transaction prices for similar properties.

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

17. Prepaid lease payments

The Group's prepared lease payments of HK$35,305,000 (2005: HK$33,840,000) represent leasehold land in the PRC held under medium-term lease. An amount of HK$717,000 (2005: HK$870,000) is classified under current assets for reporting purpose.

18. Intellectual property rights

	HK$'000
COST	
At 1 January 2005	88,982
Exchange realignment	(3,091)
At 31 December 2005	85,891
Exchange realignment	687
At 31 December 2006	86,578
AMORTISATION AND IMPAIRMENT	
At 1 January 2005	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
Exchange realignment	477
Provided for the year	3,956
Impairment loss recognised in the year	1,862
At 31 December 2006	66,509
CARRYING VALUES	
At 31 December 2006	20,069
At 31 December 2005	25,677

The amount represents the carrying amount of the Group's intellectual property rights acquired in 1998. 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.

Review on the carrying amount of intellectual property rights was performed by the directors and specialists of the Group. Impairment loss was recognised as an expense when considered necessary.

19. Interest in an associate

	2006	2005
	HK$'000	*HK$'000*
Cost of unlisted investment	**11,700**	—
Prior year Impairment loss	**(3,600)**	—
	8,100	—
Share of post-acquisition reserve	**(71)**	—
Share of post-acquisition losses	**(159)**	—
	7,870	—

During the year, the Group converted a loan to Weblink Technology Limited ("Weblink"), the Group's associate incorporated in the British Virgin Islands ("BVI"), of gross amount approximating HK$11,700,000 (against which an impairment loss of HK$3,600,000 was made in the prior year), into equity interest in Weblink. Since all shareholders of the associate also converted their loans in proportion to their respective shareholdings, the Group remains 30% equity interest in Weblink.

Details of the Group's associates at 31 December 2006 are as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Effective interest in the issued share capital/ registered capital held	Principal activity
Weblink	Incorporated	BVI	US$100	30%	Investment holding
FLT Hong Kong Technology Limited*	Incorporated	BVI	US$1	30%	Trading of optical fibre peripheral products
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

* wholly-owned subsidiaries of Weblink

19. Interest in an associate *(continued)*

The summarised consolidated financial information of Weblink is set out below:

	2006	2005
	HK$'000	*HK$'000*
Total assets	**29,347**	33,788
Total liabilities	**(3,115)**	(45,862)
Net assets (liabilities)	**26,232**	(12,074)
Group's share of net assets of an associate	**7,870**	—
Revenue	**22,924**	24,758
(Loss) profit for the year	**(530)**	278
Group's share of result of an associate for the year	**(159)**	—

20. Available-for-sale investments

The Group's available-for-sale investments at 31 December 2006 represent non-current investments in unlisted equity securities issued by private entities incorporated in the PRC and Taiwan. They do not have a quoted market price in an active market and as the range of reasonable fair value estimates is so significant, the corresponding fair values cannot be measured reliably. Accordingly, the investments are measured at cost less impairment at the balance sheet date.

21. 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 *HK$'000*	Revaluation of properties *HK$'000*	Others *HK$'000*	Total *HK$'000*
At 1 January 2005	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 1 January 2006	234	4,903	(1,153)	3,984
Charge (credit) to the income statement for the year	(91)	199	(269)	(161)
Charge to equity for the year	—	2,993	—	2,993
Exchange difference	—	—	23	23
At 31 December 2006	143	8,095	(1,399)	6,839

The following is an analysis of the deferred tax balances for financial reporting purposes:

	2006 *HK$'000*	2005 *HK$'000*
Deferred tax assets	**(1,930)**	(4,107)
Deferred tax liabilities	**8,769**	8,091
	6,839	3,984

At 31 December 2006, the Group had unused tax losses of HK$37,319,000 (2005: HK$48,648,000). Deferred tax assets thereon have not been recognised because of the unpredictability of future profit streams. The unused tax losses will expire in five year's time from their initial recognition.

22. Inventories

	2006	2005
	HK$'000	*HK$'000*
Raw materials	**59,170**	69,719
Work in progress	**23,271**	19,418
Finished goods	**44,734**	32,656
	127,175	121,793

During the year, an allowance of HK$8,646,000 (2005: Nil) was made on obsolete and slow-moving inventory items identified. An allowance against finished goods of HK$2,401,000 (2005: HK$838,000) made in previous years was reversed and credited to cost of sales as there is a significant increase in the net realisable value.

23. 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$147,918,000, net of provision of HK$8,546,000 (2005: HK$164,456,000, net of provision of HK$6,879,000) and their aged analysis is as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**84,295**	88,899
31 to 90 days	**59,303**	47,292
Over 90 days	**4,320**	28,265
	147,918	164,456

24. Loan to an associate

	2006	2005
	HK$'000	*HK$'000*
Loan to an associate	—	11,700
Less: impairment loss	—	(3,600)
	—	8,100

The amount as at 31 December 2005 was unsecured, interest-free and repayable on demand.

During the year, the Group converted the loan to the associate into equity interest of that associate. Details of this conversion are set out in note 19.

25. Derivative financial instruments

At 31 December 2006, major terms of the outstanding foreign currency forward contracts are as follows:

Notional amount	**Forward Contract Rates**
29 contracts to buy in total of USD25,000,000	USD1 to RMB7.4500 — 7.7433
29 contracts to sell in total of USD25,000,000	USD1 to RMB7.6314 — 7.7787

All the above contracts will be matured within 3 months to 12 months.

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

26. Bank balances and cash

Bank balances and cash of the Group comprise bank balances and short-term bank deposits that are interest bearing at market interest rates and are with maturity of three months or less. The bank deposits carry interest at rates ranged from 0.7% to 5.0% (2005: 0.7% to 4.1%) per annum.

27. Trade and other payables

Included in trade and other payables are trade payables of HK$120,436,000 (2005: HK$128,384,000) and their aged analysis is as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**49,477**	53,892
31 to 90 days	**65,517**	51,010
Over 90 days	**5,442**	23,482
	120,436	128,384

28. Related party disclosures

During the year, the Group had transactions and/or balances with the directors and/or related parties. The transactions during the year and balances with them at the balance sheet date, are as follows:

(a) Transactions with related parties:

Name of parties	**Interested directors**	**Nature of transactions**	**2006**	2005
			HK$'000	*HK$'000*
好萊兒嬰兒用品有限公司	*(note i)*	Sales made by the Group	**3,169**	4,537
Yojin Industrial Corporation	Huang Ying Yuan Huang Chen Li Chu *(note ii)*	Rental expenses paid by the Group *(note v)*	**581**	636
		Sales of fixed assets by the Group	**7**	—
Chen Chin Yuan	*(note iii)*	Rental expenses paid by the Group *(note v)*	**90**	88
Chen Hung Jung	*(note iv)*	Rental expenses paid by the Group *(note v)*	**83**	87

28. Related party disclosures *(continued)*

(b) Transactions with directors:

Name of director	Nature of transactions	**2006** **HK$'000**	2005 HK$'000
Huang Ying Yuan	Rental expenses paid by the Group *(note v)*	**209**	219
Chen Hsing Shin	Rental expenses paid by the Group *(note v)*	**209**	219
Huang Chen Li Chu	Rental expenses paid by the Group *(note v)*	**—**	15

(c) Other than the above, at 31 December 2006, the Group also had a loan from a minority shareholder of HK$780,000 (2005: HK$780,000). The loan is made by the minority shareholder to a subsidiary in proportion to its interests in that subsidiary. The loan is unsecured, interest-free and repayable on demand.

(d) Compensation of key management personnel

The remunerations of directors, who are the key management of the Group, during the year are as follows:

	2006 **HK$'000**	2005 HK$'000
Short-term benefits	**13,564**	7,290
Post-employment benefits	**52**	64
	13,616	7,354

The remunerations of directors were decided by the board of directors, which is authorised by the shareholders, having regard to the performance of the individuals and market trends.

28. Related party disclosures *(continued)*

Notes:

i. 好萊兒嬰兒用品有限公司 is controlled by Huang Tien Cheng, who is a brother of Huang Ying Yuan, a director of the Company.

ii. Huang Ying Yuan and Huang Chen Li Chu have beneficial interests in Yojin Industrial Corporation.

iii. Chen Chin Yuan is a brother of Chen Hsing Shin, a director of the Company.

iv. Chen Hung Jung is a brother of Huang Chen Li Chu, a director of the Company.

v. The rentals were charged in accordance with the terms of the relevant tenancy agreements agreed by both parties.

29. Share capital

	Number of ordinary shares	**Amount**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 31 December 2006	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2005 and 31 December 2005	722,096,724	72,210
Shares repurchased and cancelled	(156,000)	(16)
At 31 December 2006	721,940,724	72,194

29. Share capital *(continued)*

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

Month of repurchase	Number of ordinary shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$*
May 2006	156,000	0.56	0.55	86,955

Save as described above, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year.

30. 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. Under the 1998 Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. 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.

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the 1998 Scheme was 13,000,000 (2005: 13,000,000), representing 1.8% (2005: 1.8%) of the shares of the Company in issue at that date.

30. Share options *(continued)*

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 at the Company's annual general meeting held 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.

The directors may at its absolute discretion determine the period during which an option may be exercised, such period to expire not later than 10 years from the date of grant of the option. No option may be granted more than 10 years after the date of approval of the 2002 Scheme. Subject to earlier termination by the Company in general meeting or by the Board'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.

On 14 February 2006, the Company granted share options to certain eligible employees to subscribe for a total of 8,000,000 shares in 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.

30. Share options *(continued)*

The eligible employees have rights to exercise their respective share options at any time during the period from the date after the share options have been vested to the expiry date.

The following table discloses movements in the Company's share options during the year ended 31 December 2006:

		Number of shares subject to share options			
	Date of grant	**Outstanding at 1 January 2005 and 31 December 2005**	**Granted during the year**	**Lapsed during the year**	**Outstanding at 31 December 2006**
Category 1: Directors					
Mr. Huang Ying Yuan	18 August 1999	4,000,000	—	—	4,000,000
Mr. Chen Hsing Shin	18 August 1999	3,500,000	—	—	3,500,000
Mrs. Huang Chen Li Chu	18 August 1999	3,000,000	—	—	3,000,000
Mr. Leung Man Fai	18 August 1999	2,500,000	—	—	2,500,000
Total for directors		13,000,000	—	—	13,000,000
Category 2: Employees					
Total for employees	14 February 2006	—	8,000,000	(386,000)	7,614,000
Total for all categories		13,000,000	8,000,000	(386,000)	20,614,000

Details of specific categories of options are as follows:

Date of grant	**Vesting period**	**Exercise period**	**Exercise price** *HK$*
18 August 1999	4.5 months	1 January 2000 — 17 August 2009	1.26
14 February 2006 (Batch I)	11 months	17 January 2007 — 16 January 2011	0.54
14 February 2006 (Batch II)	23 months	17 January 2008 — 16 January 2011	0.54

The estimated fair values of the options granted on 14 February 2006 of Batch I and Batch II are HK$0.15 and HK$0.17 respectively.

30. Share options *(continued)*

The fair value of the share options granted during the year under the 2002 scheme was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2006
Weighted average share price	**HK$0.65**
Exercise price	**HK$0.54**
Expected volatility	**45.15%**
Expected life	**3 to 4 years**
Hong Kong Monetary Authority Exchange Fund Notes	**3.77%**
Expected dividend yield	**7.69%**

Expected volatility was determined by using the historical volatility of the Company's share price over the past year. The expected life used in the model has been estimated, taking into account of the effects of non transferability, exercise restrictions and behavioral considerations.

The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

In accordance with the above model, the Group recognised the total expense of HK$810,000 for the year ended 31 December 2006 (2005: nil) in relation to share options granted by the Company.

31. Operating lease arrangements

The Group as lessee

	2006 ***HK$'000***	2005 *HK$'000*
Minimum lease payments paid under operating leases in respect of rented premises during the year	**2,832**	2,213

31. Operating lease arrangements *(continued)*

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

	2006	2005
	HK$'000	*HK$'000*
Within one year	**70**	100
In the second to fifth year inclusive	**—**	67
	70	167

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters.

The Group as lessor

Property rental income earned during the year was HK$363,000 (2005: HK$396,000).

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

	2006	2005
	HK$'000	*HK$'000*
Within one year	**—**	363

32. Capital commitments

	2006	2005
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**—**	106

33. Retirement benefit scheme

The Group operates an 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 respectively. 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.

34. Balance sheet of the company

The balance sheet of the Company as at 31 December 2006 is as follows:

	Notes	2006 HK$'000	2005 HK$'000
Non-current asset			
Interest in subsidiaries		**244,660**	244,660
Current assets			
Other receivables		**73**	73
Amount due from a subsidiary	*(a)*	**166,578**	168,312
Bank balances		**76**	70
		166,727	168,455
Current liabilities			
Other payables		**135**	505
Amounts due to subsidiaries	*(a)*	**200**	1,552
		335	2,057
Net current assets		**166,392**	166,398
Total assets less current liabilities		**411,052**	411,058
Capital and reserves			
Share capital		**72,194**	72,210
Reserves	*(b)*	**338,858**	338,848
		411,052	411,058

34. Balance sheet of the company *(continued)*

Notes:

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

The amounts are unsecured, interest-free and repayable on demand.

(b) Reserves

	Share premium	Contributed surplus	Capital redemption reserve	Share option reserve	Accumulated (losses) profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	90,056	244,461	1,131	—	(726)	334,922
Profit for the year	—	—	—	—	40,031	40,031
Dividends *(note 13)*	—	—	—	—	(36,105)	(36,105)
At 1 January 2006	90,056	244,461	1,131	—	3,200	338,848
Profit for the year	—	—	—	—	38,979	38,979
Premium on repurchase of shares	(72)	—	—	—	—	(72)
Transfer of reserve upon cancellation of shares	—	—	16	—	(16)	—
Employee share-based payments	—	—	—	810	—	810
Dividends *(note 13)*	—	—	—	—	(39,707)	(39,707)
At 31 December 2006	89,984	244,461	1,147	810	2,456	338,858

35. Particulars of principal subsidiaries

Details of the Company's principal subsidiaries at 31 December 2006 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	76.6%	Investment holding
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
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
中山市隆成日用制品有限公司	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	76.6%	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

35. Particulars of principal subsidiaries *(continued)*

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 of the subsidiaries are carried out in the place of incorporation/establishment except as otherwise stated under principal activities above.

(c) These PRC subsidiaries are foreign investment enterprises.

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results, 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.

36. 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 bases 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, walkers and etc.
Others	—	manufacture and distribution of battery-operated ride-on cars and other products

36. Segment information *(continued)*

Business segments *(continued)*

Segment information about these businesses is presented below:

2006

	Strollers	Beds and playards	Miscellaneous infant products	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	505,842	107,270	390,911	121,442	1,125,465
RESULTS					
Segment results	38,644	6,306	33,828	9,594	88,372
Investment income					6,552
Fair value gain of investment properties					2,200
Surplus arising on revaluation of property, plant and equipment					797
Share of result of an associate					(159)
Finance cost					(4)
Profit before tax					97,758
Income tax expense					(9,410)
Profit for the year					88,348

36. Segment information *(continued)*

Business segments *(continued)*

2006

BALANCE SHEET

	Strollers HK$'000	Beds and playards HK$'000	Miscellaneous infant products HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	326,817	57,347	230,722	71,168	686,054
Interest in an associate					7,870
Unallocated corporate assets					285,496
Consolidated total assets					979,420
LIABILITIES					
Segment liabilities	85,080	17,340	63,110	16,976	182,506
Unallocated corporate liabilities					16,476
Consolidated total liabilities					198,982

OTHER INFORMATION

	Strollers HK$'000	Beds and playards HK$'000	Miscellaneous infant products HK$'000	Others HK$'000	Consolidated HK$'000
Capital additions	9,510	2,025	7,366	1,981	20,882
Depreciation of property, plant and equipment	14,555	2,637	10,570	4,715	32,477
Amortisation of intellectual property rights and prepaid lease payments	2,161	265	2,125	240	4,791
Impairment loss on intellectual property rights	1,862	—	—	—	1,862
Impairment for bad and doubtful debts	1,342	286	1,169	555	3,352
Loss on disposal of property, plant and equipment	—	—	—	45	45
Net write down of inventories	2,845	607	2,206	587	6,245

36. Segment information *(continued)*

Business segments *(continued)*

2005

	Strollers	Beds and playards	Miscellaneous infant products	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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					(3,600)
Deficit arising on revaluation of property, plant and equipment					(975)
Investment income					2,894
Fair value gain of investment properties					3,700
Finance costs					(5)
Profit before tax					13,993
Income tax expense					(3,439)
Profit for the year					10,554

36. Segment information *(continued)*

Business segments *(continued)*

2005

BALANCE SHEET

	Strollers HK$'000	Beds and playards HK$'000	Miscellaneous infant products HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	347,907	66,237	203,798	79,653	697,595
Unallocated corporate assets					211,588
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 of 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
Imapirment 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 property, plant and equipment	78	—	—	—	—	78

36. Segment information *(continued)*

Geographical segments

The Group's manufacturing function is carried out in the PRC and the marketing function, sales support and research and development are carried out in Taiwan. The operations in Hong Kong include mainly finance and corporate administrations.

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:

	2006	2005
	HK$'000	*HK$'000*
United States of America	**512,651**	480,984
Europe	**291,098**	301,296
Australia	**40,060**	47,565
South America	**105,709**	67,242
Others	**175,947**	150,241
	1,125,465	1,047,328

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

	Carrying amount		**Additions to property, plant and equipment**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets				
PRC	**386,094**	383,768	**19,606**	9,002
Taiwan	**191,918**	198,342	**1,186**	524
Hong Kong	**108,042**	115,485	**90**	2
	686,054	697,595	**20,882**	9,528

Financial Summary

RESULTS

	Year ended 31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
			(Restated)		
TURNOVER	1,024,302	1,149,893	1,271,035	1,047,328	**1,125,465**
PROFIT BEFORE TAX	103,273	97,017	80,394	13,993	**97,758**
INCOME TAX EXPENSE	(10,970)	(16,421)	(6,017)	(3,439)	**(9,410)**
PROFIT FOR THE YEAR	92,303	80,596	74,377	10,554	**88,348**
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	92,357	81,170	69,677	9,155	**86,219**
MINORITY INTEREST	(54)	(574)	4,700	1,399	**2,129**
	92,303	80,596	74,377	10,554	**88,348**

ASSETS AND LIABILITIES

	At 31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
			(Restated)		
TOTAL ASSETS	922,743	1,006,219	952,851	909,183	**979,420**
TOTAL LIABILITIES	(241,919)	(299,819)	(218,413)	(183,853)	**(198,982)**
	680,824	706,400	734,438	725,330	**780,438**
EQUITY ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	664,920	687,936	717,626	708,409	**772,227**
MINORITY INTERESTS	15,904	18,464	16,812	16,921	**8,211**
	680,824	706,400	734,438	725,330	**780,438**

The above financial summary as at 31 December 2004 has been adjusted to take into account the effect on the adoption of Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Publics Accountants, which were effective for accounting periods beginning on or after 1 January 2005.