



LERADO GROUP (HOLDING) COMPANY LIMITED

(隆成集團(控股)有限公司)*

(incorporated in Bermuda with limited liability)

Stock code: 1225

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

FINANCIAL RESULTS

The Board of Directors (the "Board") of Lerado Group (Holding) Company Limited (the "Company") presents the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005, together with the comparative figures, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

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

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	2005 HK\$'000	2004 HK\$'000 (Restated)
Non-current assets		
Property, plant and equipment	331,519	343,729
Investment properties	15,700	12,000
Prepaid lease payments	32,970	33,308
Negative goodwill	—	(2,818)
Intellectual property rights	25,677	40,775
Interests in associates	—	—
Other investments	—	3,963
Available-for-sale-investments	4,052	—
Deferred tax assets	4,107	841
	414,025	431,798
Current assets		
Inventories	121,793	144,122
Trade and other receivables	184,766	188,823
Prepaid lease payments	870	849
Loan to an associate	8,100	11,700
Derivative financial instruments	504	—
Tax recoverable	702	—
Bank balances and cash	178,423	175,559
	495,158	521,053
Current liabilities		
Trade and other payables	173,275	206,177
Tax liabilities	1,707	3,997
Loan from a minority shareholder	780	780
	175,762	210,954
Net current assets	319,396	310,099
Total assets less current liabilities	733,421	741,897
Capital and reserves		
Share capital	72,210	72,210
Reserves	636,199	645,416
Equity attributable to equity holders of the Company	708,409	717,626
Minority interests	16,921	16,812
Total equity	725,330	734,438
Non-current liability		
Deferred tax liabilities	8,091	7,459
	733,421	741,897

Notes:

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

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas:

(i) Business Combinations

The Group has applied the relevant transitional provisions in HKFRS 3 "Business Combinations". In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. Goodwill previously recognised in reserves of HK\$88,000 has been transferred to the Group's retained profits on 1 January 2005. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2005 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005. A corresponding adjustment to the Group's retained profits of HK\$2,818,000 has been made.

(ii) Financial Instruments

The Group has applied the relevant transitional provisions in HKAS 39 "Financial Instruments: Recognition and Measurement" with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39. On 1 January 2005, the Group classified and measured its equity securities in accordance with the transitional provisions of HKAS 39. As a result, "other investments" amounted to HK\$3,963,000 has been classified as available-for-sale investments on 1 January 2005. There was no material effect on the results of current and prior years. For the year ended 31 December 2005, as the Group's derivatives do not meet the requirements of hedge accounting in accordance with HKAS 39, it has deemed such derivative as held for trading. The Group measured its derivative at fair value with the change in fair values recognised in profit or loss for the period in which they arise.

(iii) Owner-occupied Leasehold Interest in Land

The Group has applied HKAS 17 "Leases". Land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease and continue to be accounted for as property, plant and equipment. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis.

(iv) Investment Properties

The Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise.

The changes of accounting policies resulted in an increase in profit for the year of HK\$938,000 (2004: HK\$542,000)

2. REVENUE AND BUSINESS SEGMENTS

An analysis of the Group's revenue and segment results by business segments is as follows:

	Sales revenue		Segment results	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Strollers	516,259	636,005	9,605	48,691
Beds & playards	115,408	113,155	(2,457)	4,652
Miscellaneous infant products#	307,603	317,706	3,113	15,064
Others	108,058	204,169	1,718	10,422
	1,047,328	1,271,035	11,979	78,829
Unallocated corporate expenses			(4,580)	(10,442)
Investment income			2,894	833
Surplus arising on revaluation of investment properties			3,700	4,500
Surplus arising on revaluation of land and buildings			—	6,674
Profit before tax			13,993	80,394
Income tax expenses			(3,439)	(6,017)
Profit for the year			10,554	74,377

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

3. PROFIT BEFORE TAX

	2005 HK\$'000	2004 HK\$'000 (Restated)
Profit before tax has been arrived at after charging:		
Depreciation and amortisation for property, plant and equipment	33,112	31,544
Amortisation of intellectual property rights (included in other expenses)	5,250	5,309
Amortisation of prepaid lease payments (included in cost of sales)	870	924
Total depreciation and amortisation	39,232	37,777
Allowance for bad and doubtful debts	6,958	2,618
Deficit arising on revaluation of land and building	975	—
Loss on dissolution of subsidiaries	—	198
Loss on disposal of property, plant and equipment	78	—
Unrealised holding loss on other investments	—	9,700
Impairment loss on intellectual property rights (included in other expenses)	8,540	—
Impairment loss on loan to an associate	3,600	—
and after crediting:		
Gain on disposal of property, plant and equipment	—	169
Negative goodwill released to income	—	420
Surplus arising on revaluation of investment properties	3,700	4,500
Surplus arising on revaluation of land and buildings	—	6,674

4. INCOME TAX EXPENSE

	2005 HK\$'000	2004 HK\$'000
Current tax:		
Hong Kong	3,526	5,172
Others	2,827	3,497
Deferred tax	6,353 (2,914)	8,669 (2,652)
	3,439	6,017

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

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

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

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

5. DIVIDENDS

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

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

6. EARNINGS PER SHARE

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

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

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

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

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

7. TRADE AND OTHER RECEIVABLES

The Group has defined credit terms which are agreed with its trade customers. Included in trade and other receivables are trade receivables of HK\$164,456,000 (2004: HK\$167,147,000) and their aged analysis is as follows:

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

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

8. TRADE AND OTHER PAYABLES

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

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

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

DIVIDENDS

The Board recommends a final dividend of HK3 cents per share. Together with an interim dividend of HK1.5 cents per share, the total dividend of the year under review will amount to HK4.5 cents per share. The final dividend will be payable to the shareholders whose names appear in the register of members of the Company on 15 June 2006. Dividend warrants are expected to be sent out on or before 29 June 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 13 to 15 June 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 12 June 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

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

The prices of plastics and metal tubes kept surged and the Company's production cost had been under great pressure, resulting in squeeze in gross margin. In response to such, the Group has reviewed with customers for price adjustments and has phased out orders with extremely thin margins, which are usually related to lower end products. As a result, gross margin for the second half of 2005 showed a pick up from 16.9% of the first half of the year to 21.5%.

Apart from the impact of rising material costs on the Group's profit, impairment losses of HK\$8.5 million on the value of intellectual property rights relating to certain models of strollers and playards were made, in view that the sales and manufacturing of such models had declined substantially. On the other hand, the Group strived to control its marketing and distribution costs and administrative expenses at a comparatively low level, with an exception that more resources on research and development had been employed to initiate new designs and to develop innovative products in the coming year.

In terms of revenue, sales to the United States of America (the "US") recorded the greatest decline of 26.9%, compared with other regions, as the US sales comprised of a higher portion of lower end products, mostly strollers, which were phased out substantially due to their thin margins. The slow down of sales of battery-operated ride-on cars to the US also contributed to the drop in the US sales. Nevertheless, amongst the drop of sales in most regions, we are pleased to see a 6.8% increase in sales to Europe, our second largest market, which accounts for 28.8% of our total revenue.

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

Employees and remuneration policies

As at 31 December 2005, the Group employed a total workforce of around 5,500 staff members, of which above 5,300 worked in the PRC offices and production sites, 112 in Taiwan and 13 in Hong Kong.

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.

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

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

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 2005, the Group had no significant contingent liabilities.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year, the Company has complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and the external auditors, Deloitte Touche Tohmatsu, the audited financial statements, the accounting principles and practices adopted by the Group.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE WEBSITE

The Company's annual report containing all the relevant information required by the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board
Huang Ying Yuan
Chairman

Hong Kong, 13 April 2006

As at the date of this announcement, the Board of Directors of the Company comprises of Mr. Huang Ying Yuan, Mr. Chen Hsing Shin, Madam Huang Chen Li Chu and Mr. Leung Man Fai being the Executive Directors, and Mr. Lim Pat Wah Patrick, Mr. Huang Zhi Wei and Mr. Yang Yu Fu being the Independent Non-Executive Directors.

* for identification purposes only