



# LERADO GROUP (HOLDING) COMPANY LIMITED

## (隆成集團(控股)有限公司)\*

(Incorporated in Bermuda with limited liability)

### Interim Results Announcement for the Six Months Ended 30th June, 2002

#### FINANCIAL RESULTS

The Board of Directors of Lerado Group (Holding) Company Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June, 2002 together with the comparative figures.

	Notes	Six months ended	
		30th June, 2002 HK\$'000 (unaudited)	30th June, 2001 HK\$'000 (unaudited)
Turnover	2	530,042	574,913
Cost of sales		(372,566)	(412,806)
Gross profit		157,476	162,107
Investment income		813	3,043
Other income		6,379	9,875
Marketing and distribution costs		(45,365)	(49,291)
Research and development expenses		(8,550)	(10,283)
Administrative expenses		(44,849)	(46,865)
Other operating expenses		(2,655)	(5,968)
Profit from operations	3	63,249	62,618
Interest on bank borrowings wholly repayable within five years		(12)	(348)
Share of results of associates		—	(1)
Profit from ordinary activities before taxation		63,237	62,269
Taxation	4	(4,693)	(3,388)
Profit before minority interests		58,544	58,881
Minority interests		(1,985)	493
Profit for the period		56,559	59,374
Dividends paid	5	43,347	57,977
Earnings per share	6		
— Basic		7.83 cents	8.19 cents
— Diluted		7.83 cents	8.19 cents

Notes:

#### 1. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 *Interim Financial Reporting* issued by the Hong Kong Society of Accountants and have been prepared under the historical cost convention, as modified for the revaluation of properties and certain investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2001, except that in the current period, the Group adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies:

SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

#### 2. SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to profit from operations by business segments is as follows:

	Six months ended 30/6/2002		Six months ended 30/6/2001	
	EXTERNAL SALES HK\$'000	SEGMENT RESULTS HK\$'000	EXTERNAL SALES HK\$'000	SEGMENT RESULTS HK\$'000
Strollers	335,013	40,353	337,941	34,410
Beds and playards	83,468	9,374	96,980	10,405
Soft goods	34,090	4,197	44,353	4,624
Others	77,471	8,512	95,639	10,136
	530,042	62,436	574,913	59,575
Investment income		813		3,043
Profit from operations		63,249		62,618

An analysis of the Group's turnover and contribution to profit from operations by geographical segments is as follows:

	Six months ended 30/6/2002		Six months ended 30/6/2001	
	EXTERNAL SALES HK\$'000	SEGMENT RESULTS HK\$'000	EXTERNAL SALES HK\$'000	SEGMENT RESULTS HK\$'000
United States	309,301	32,490	332,356	33,312
Europe	128,587	17,400	141,996	16,049
Australia	20,753	2,729	16,727	1,834
South America	11,383	1,529	20,253	2,280
Others	60,018	8,288	63,581	6,100
	530,042	62,436	574,913	59,575
Investment income		813		3,043
Profit from operations		63,249		62,618

#### 3. PROFIT FROM OPERATIONS

	Six months ended 30th June, 2002 HK\$'000	30th June, 2001 HK\$'000
Profit from operations has been arrived at after charging:		
Amortisation of intellectual property rights (included in other operating expenses)	2,655	2,990
Depreciation and amortisation of property, plant and equipment	13,995	11,609
Impairment loss recognised in respect of intellectual property rights (included in other operating expenses)	—	2,860
and after crediting:		
Release of negative goodwill to other income	135	—

#### 4. TAXATION

	Six months ended 30th June, 2002 HK\$'000	30th June, 2001 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	1,980	2,000
Overseas taxation	2,713	1,388
	4,693	3,388

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the period.

Overseas taxation is calculated at the rates prevailing in the relevant jurisdictions.

#### 5. DIVIDENDS

	Six months ended 30th June, 2002 HK\$'000	30th June, 2001 HK\$'000
2001 final dividend of HK6 cents (2000 final dividend: HK8 cents) per share	43,347	57,977
No interim dividends have been paid during the six months ended 30th June, 2002 and 30th June, 2001.		

The directors have determined that an interim dividend of HK2 cents (six months ended 30.6.2001: HK2 cents) per share will be paid to the shareholders of the Company whose names appear in the Register of Members on 11th October, 2002.

#### 6. EARNINGS PER SHARE

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

	Six months ended 30th June, 2002 HK\$'000	30th June, 2001 HK\$'000
Profit for the period	56,559	59,374
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	722,454,404	725,065,244
Effect of dilutive potential ordinary shares in respect of share options	13,135	108,931
Weighted average number of ordinary shares for the purpose of diluted earnings per share	722,467,539	725,174,175

#### 7. TRANSFER TO/FROM RESERVES

	Six months ended 30th June, 2002 HK\$'000	30th June, 2001 HK\$'000
Exchange differences arising on translation of operations outside Hong Kong	1,737	(2,345)

#### MANAGEMENT DISCUSSION AND ANALYSIS

##### Business review and prospects

While there was a moderate improvement in the overall economic environment following a difficult year, the global economy remained considerably soft in the first half of 2002. Under such condition, the Group registered a mild drop in turnover. For the six months ended 30th June, 2002, the Group reported a consolidated turnover of HK\$530.0 million, a modest decline of 7.8% as compared with HK\$574.9 million for the same period last year. Profit for the period decreased by a lesser extent of 4.7% to HK\$56.6 million. Basic earnings per share amounted to HK7.83 cents, compared with HK8.19 cents last year. Despite the slackened sales, the Group managed to improve its gross profit margin from 28.2% to 29.7%. Such an increase was a combined result of enhanced management efficiency and effective cost control by increasing sourcing of raw materials from the People's Republic of China (the "PRC").

The Board of Directors declared an interim dividend of HK2 cents per share for the six months ended 30th June, 2002.

During the period under review, the global economy was shadowed with uncertainties. Whilst signs of recovery appear, consumer confidence remained weak in light of the unstable market condition and hampered demand for middle to high-end infant and pre-school products. In addition, due to the 11th September event, one of the largest worldwide infant product trade shows in Dallas was postponed from October 2001 to May 2002, upsetting the seasonal pattern of business and delaying the Group from securing new orders. The traditional industry pattern is that the Dallas show usually marks the beginning of the business season and brings in new momentum to the Group as it serves as an important marketplace where many of the Group's ODM and OEM clients introduce new products to their customers. As a result, though sales of strollers leveled at HK\$335.0 million which represents 63.2% of the aggregate turnover, the Group's other products, such as baby beds and playards, and soft goods recorded further decline in sales and contributed their shares of 15.8% and 6.4% to the total turnover respectively.

In response to the rising demand of more affordable products, the Group has adjusted its product strategy by shifting its focus from the middle-high-end segment to the middle-end segment while maintaining quality of the products. The Group's continuous emphasis on quality and safety does not only reaffirm its position as a leading manufacturer but also helps it in winning the full confidence from customers. In spite of the decreased turnover from strollers, the Group managed to expand its sales volume of strollers to 1.7 million units and maintained its leading position in the US market.

Geographically, sales to the US market accounted for 58.4% of the total turnover, dropped 6.9% to HK\$309.3 million as compared with HK\$332.3 million in the last corresponding period. While the Group believes that the Europe market is of good potential, however, affected by the slackening global economy, turnover from Europe market declined to HK\$128.6 million, a drop of 9.4% over the same period last year, representing approximately 24.3% of total turnover. Despite, the Group remains positive that Europe will still be a growth driver in the medium to long-term business outlook once the economic environment in the continent returns steady and stable. Meanwhile, the Group continued to enjoy stable incomes from Australia, South America and the PRC.

Towards the future, the Board is cautiously optimistic about the opportunities ahead. Although the global economic climate continues to stay soft and uncertain, the Group believes that by observing a strategy of diversification, both in terms of product portfolio and market penetration, its medium to long-term development is in good stead. Accordingly, as the PRC continues to enjoy a positively estimated annual GDP growth rate in the coming years, the Group is poised to benefit from such fertile conditions as it seeks to expand on its presence in this burgeoning market.

##### Liquidity and financial resources

The Group had a healthy balance sheet as at 30th June, 2002, with shareholders' funds and net current assets of HK\$637.3 million and HK\$192.8 million respectively. While maintaining cash and bank balances of HK\$144.0 million (a majority of which were in Hong Kong and US dollars), the Group kept its bank borrowings at a minimal level, resulting in a low level of gearing ratio (expressed as total bank borrowings to shareholders' funds) at 0.002. The bank borrowings of HK\$1.0 million as at the balance sheet date, secured by a leasehold property held by one of the Group's subsidiaries in the PRC, bears interest at prevailing market rate and is repayable within one year.

As at 30th June, 2002, the Group recorded an improved current ratio of 1.86 compared with 1.70 at 31st December, 2001. Inventory turnover period was shortened to 26.4 days from 30.6 days for the two corresponding dates while trade debtor turnover period remained stable at around 60.0 days.

The directors are in the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure.

##### Exchange risk exposure and contingent liabilities

The Group's sales are principally denominated in US dollars while the purchases are transacted mainly in HK dollars, Reminbi and New Taiwanese dollars. The Group believes that the exchange risk exposure to be minimal.

The Group has no material contingent liabilities as at 30th June, 2002.

##### Employees and remuneration policies

As at 30th June, 2002, the Group employed over 6,500 staff members, including approximately 6,300 in the PRC, 200 in Taiwan and 30 in Hong Kong. Amongst them, 140 staff worked in the research and development department.

Apart from basic salaries, discretionary bonus and contribution to the statutory retirement funds for staff in Hong Kong, Taiwan and the PRC. Share options may also be granted to staff with reference to the individual's performance.

##### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June, 2002, the Company repurchased 358,000 of its own shares at a price from HK\$0.87 to HK\$0.88 per share in January 2002 for an aggregate consideration of approximately HK\$312,000 on The Stock Exchange of Hong Kong Limited (the "SEHK"). The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Save as disclosed above, neither the company nor any of its subsidiaries has redeemed, purchased or sold any of the Company's shares during the period.

##### INTERIM DIVIDEND

The Board has declared an interim dividend of HK2 cents per share in cash for the six months ended 30th June, 2002 to shareholders whose names appear on the Register of Members of the Company on 11th October, 2002. It is expected that the dividend warrants will be sent to the Shareholders no later than 22nd October, 2002.

##### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 9th October, 2002 to 11th October, 2002, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar, Secretaries Limited, 5th Floor, Wing on Centre, 111 Connaught Road Central, Hong Kong, not later than 4:00 p.m. on 8th October, 2002.

##### REVIEW OF INTERIM FINANCIAL STATEMENTS

The Audit Committee has reviewed with management and the external auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements.

##### CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules").

##### PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All the information of the Company required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the Listing Rules will be published on the website of the SEHK at <http://www.hkex.com.hk> in due course.

By Order of the Board  
Huang Ying Yuan  
Chairman

Hong Kong, 5th September, 2002

website: <http://www.irasia.com/listco/hk/lerado>

\* for identification only