



# 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, 2003

#### 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, 2003 together with the comparative figures.

|  |       | Six months ended                           |   |
|--|-------|--|---|
|  | Notes | 30th June, 2003<br>HK\$'000<br>(unaudited) | 30th June, 2002<br>HK\$'000<br>(restated) |
| Turnover   | 2     | 576,955                                    | 530,042                                   |
| Cost of sales  |       | (416,516)                                  | (372,566)                                 |
| Gross profit   |       | 160,439                                    | 157,476                                   |
| Investment income  |       | 238  | 813                                       |
| Other operating income   |       | 10,241                                     | 6,379                                     |
| Marketing and distribution costs                               |       | (43,867)                                   | (45,365)                                  |
| Research and development expenses                              |       | (7,937)                                    | (8,550)                                   |
| Administrative expenses  |       | (49,251)                                   | (44,849)                                  |
| Other operating expenses                                       |       | (2,654)                                    | (2,655)                                   |
| Profit from operations   | 3     | 67,209                                     | 63,249                                    |
| Interest on bank borrowings wholly repayable within five years |       | (30)                                       | (12)                                      |
| Profit from ordinary activities before taxation                |       | 67,179                                     | 63,237                                    |
| Taxation   | 4     | (3,866)                                    | (4,701)                                   |
| Profit before minority interests                               |       | 63,313                                     | 58,536                                    |
| Minority interests   |       | (390)                                      | (1,250)                                   |
| Net profit for the period                                      |       | 62,923                                     | 57,286                                    |
| Dividends paid   | 5     | 43,042                                     | 43,347                                    |
| Earnings per share   | 6     |  |   |
| — Basic  |       | HK8.73 cents                               | HK7.93 cents                              |
| — Diluted  |       | HK8.73 cents                               | HK7.93 cents                              |

Notes:

#### 1. PRINCIPAL ACCOUNTING POLICIES

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

In the opinion of the directors, 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, 2002, except as described below.

#### Income Taxes

In the current period, the Group adopted SSAP 12 (Revised) *Income Taxes*. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. The effect of the change is an increase in profit in the current period, after minority interests, of HK\$1,273,000 (30.6.2002: HK\$727,000).

#### 2. TURNOVER AND SEGMENT INFORMATION

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

|                                | Six months ended<br>30th June, 2003 |                                | Six months ended<br>30th June, 2002 |                                |
|--------------------------------|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
|                                | EXTERNAL<br>SALES<br>HK\$'000       | SEGMENT<br>RESULTS<br>HK\$'000 | EXTERNAL<br>SALES<br>HK\$'000       | SEGMENT<br>RESULTS<br>HK\$'000 |
| Strollers                      | 345,744                             | 46,497                         | 335,013                             | 42,069                         |
| Beds and playards              | 73,144                              | 8,668                          | 83,468                              | 9,772                          |
| Miscellaneous infant products* | 109,478                             | 9,850                          | 87,607                              | 10,360                         |
| Others                         | 48,589                              | 4,610                          | 23,954                              | 2,890                          |
|                                | 576,955                             | 69,625                         | 530,042                             | 65,091                         |

|                          |         |         |
|--------------------------|---------|---------|
| Investment income        | 238     | 813     |
| Other operating expenses | (2,654) | (2,655) |
| Profit from operations   | 67,209  | 63,249  |

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

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

|                                     | Six months ended<br>30th June, 2003 |                                | Six months ended<br>30th June, 2002 |                                |
|-------------------------------------|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
|                                     | EXTERNAL<br>SALES<br>HK\$'000       | SEGMENT<br>RESULTS<br>HK\$'000 | EXTERNAL<br>SALES<br>HK\$'000       | SEGMENT<br>RESULTS<br>HK\$'000 |
| United States of America (the "US") | 301,612                             | 33,381                         | 309,301                             | 33,871                         |
| Europe                              | 151,583                             | 21,915                         | 128,587                             | 18,139                         |
| Australia                           | 26,055                              | 3,114                          | 20,753                              | 2,845                          |
| South America                       | 20,328                              | 2,929                          | 11,383                              | 1,594                          |
| Others                              | 77,377                              | 8,286                          | 60,018                              | 8,642                          |
|                                     | 576,955                             | 69,625                         | 530,042                             | 65,091                         |

|                          |         |         |
|--------------------------|---------|---------|
| Investment income        | 238     | 813     |
| Other operating expenses | (2,654) | (2,655) |
| Profit from operations   | 67,209  | 63,249  |

#### 3. PROFIT FROM OPERATIONS

|   | Six months ended            |                             |
|---|-----------------------------|-----------------------------|
|   | 30th June, 2003<br>HK\$'000 | 30th June, 2002<br>HK\$'000 |
| Profit from operations has been arrived at after charging:                          |                             |                             |
| Amortisation of intellectual property rights (included in other operating expenses) | 2,654                       | 2,655                       |
| Depreciation and amortisation of property, plant and equipment                      | 14,554                      | 13,995                      |
| and after crediting:  |                             |                             |
| Release of negative goodwill to other operating income                              | 135                         | 135                         |

#### 4. TAXATION

|  | Six months ended            |                             |
|--|-----------------------------|-----------------------------|
|  | 30th June, 2003<br>HK\$'000 | 30th June, 2002<br>HK\$'000 |
| The charge (credit) comprises:                             |                             |                             |
| Taxation of the Group                                      |                             |                             |
| — Hong Kong Profits Tax                                    |                             |                             |
| — current period   | 2,113                       | 1,980                       |
| — Income tax of the People's Republic of China (the "PRC") |                             |                             |
| — current period   | 3,181                       | 2,173                       |
| — overprovision in prior years                             | (381)                       | —                           |
| — Other jurisdictions                                      |                             |                             |
| — current period   | 349                         | 540                         |
| — underprovision in prior years                            | 75                          | —                           |
| — Deferred tax   |                             |                             |
| — current period   | (1,406)                     | 8                           |
| — attributable to a change in tax rate                     | (65)                        | —                           |
|  | 3,866                       | 4,701                       |

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30.6.2002: 16%) of the estimated assessable profit for the period.

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

#### 5. DIVIDENDS

|  | Six months ended            |                             |
|--|-----------------------------|-----------------------------|
|  | 30th June, 2003<br>HK\$'000 | 30th June, 2002<br>HK\$'000 |
| 2002 final dividend of HK6 cents (2001 final dividend: HK6 cents) per share                          | 43,042                      | 43,347                      |
| No interim dividends have been paid during the six months ended 30th June, 2003 and 30th June, 2002. |                             |                             |

The directors have determined that an interim dividend of HK2 cents (six months ended 30.6.2002: HK2 cents) per share would be paid to the shareholders of the Company whose names appear in the Register of Members on 17th October, 2003.

#### 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, 2003<br>HK\$'000 | 30th June, 2002<br>HK\$'000 |
| Net profit for the period  | 62,923                      | 57,286                      |
| Number of shares   |                             |                             |
| Weighted average number of ordinary shares for the purpose of basic earnings per share   | 720,518,846                 | 722,454,404                 |
| Effect of dilutive potential ordinary shares in respect of share options                 | 153,543                     | 13,135                      |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 720,672,389                 | 722,467,539                 |

#### 7. TRANSFER TO/(FROM) RESERVE

|   | Six months ended            |                             |
|---|-----------------------------|-----------------------------|
|   | 30th June, 2003<br>HK\$'000 | 30th June, 2002<br>HK\$'000 |
| Exchange differences arising on translation of operations outside Hong Kong | 169                         | 1,737                       |
| Premium on repurchase of shares   | (6,734)                     | (276)                       |

#### MANAGEMENT DISCUSSION & ANALYSIS

##### Results Review

The Group recorded a satisfactory performance for the first half of 2003 and a rebound against the previous years when business suffered from the global economic downturn. Though consumers remained spending cautiously, consumer confidence is reviving with the support of positive economic signs emerging.

During the period under review, the Group registered a growth in consolidated turnover of 8.9% over the same period last year to approximately HK\$577.0 million. Profit for the period increased by 9.8% to HK\$62.9 million. Basic earnings per share amounted to HK8.73 cents.

The Board of Directors declared an interim dividend of HK2 cents per share for the six months ended 30th June, 2003.

##### Segmental Analysis

The Group recorded growth in almost all product categories. Attributed to the more active outsourcing production activities in Europe, sales of strollers increased 3.2% to HK\$345.7 million and accounted for 59.9% of the Group's total turnover. However, the overall growth was partly restrained by the stagnant economic climate in the US. Sales of foldable beds and playards, which are desirable for traveling with children and mainly sold to the US, declined 12.4% under the sluggish economic condition, which discouraged travels.

Performance of miscellaneous infant products showed strong signs and posted satisfactory growth of 25.0%, generating HK\$109.5 million turnover. In addition, the Group has commenced its production of battery-operated ride-on cars on ODM basis during the period under review.

Geographically, affected by the uncertain economy, turnover from the US market decreased 2.5% against last year to HK\$301.6 million and represented 52.3% of total turnover. In Europe, the Group's second largest market, the outsourcing trend in Europe started to recover under the strong performance of Euro. Sales to Europe rose 17.9% to HK\$151.6 million and accounted for 26.3% of aggregate turnover. Meanwhile, the Group enjoyed a satisfactory growth in turnover from Australia, South America and the rest of the world.

#### Operation Analysis

Gross profit margin was under pressure and decreased 1.9% to 27.8% as a result of the price increase in raw materials, metal tube and plastic in particular, due to the geopolitical tension in the Middle East region at the beginning of this year. Despite, net profit for the period recorded 9.8% growth over the same period last year, with net profit margin maintained at 10.9%, as a result of the Group's continuous effort in controlling its operating costs.

As to the PRC market, the Group has undergone a restructuring plan for its distribution network to enhance efficiency while maintaining nationwide presence. The Group has decided to close some of its sales counters and appointed agents to perform the sales and marketing functions, releasing resources to focus on research and development, and production. During the period under review, the Group also closed its retail outlet, "Peek-a-boo", in Shenzhen due to an undesirable revamp on the tenant mix at the shopping mall. While the management continues to reassess the Group's strategy responsively, our intention to develop the Group's own brand "Angel" remains unchanged.

In response to the market trend for higher confidentiality and to provide tailor-made services to foster closer relationship with its long-term clients, the Group continued the plant expansion plan and allocated part of the extended plant for its major clients for customized production purpose. Such an exclusive environment can help protect confidentiality during the production process, strengthen the mutually trustful relationship with clients and raise the Group's management efficiency in light of a more focused production scope.

#### Prospects

With positive economic signs and the global recovery of consumer confidence, the Group believes that the operating environment in the rest of the year would be more stable, though remains challenging. In this connection, the Group will continue to focus on middle-end products to meet the majority market demand, while at the same time, continue its research and development on new and advanced product features so as to capture opportunities when the market revives.

In the area of new initiatives, the Group will commence the production of detachable infant car seats, which have a patented 'click-in' mechanism, in the fourth quarter this year for its existing clients. With the great potential of this new product, the satisfactory performance of battery-operated ride-on cars, together with the improving business environment, the Group is positive in the year to come.

#### Liquidity and financial resources

As at 30th June, 2003, shareholders' funds and net current assets of the Group amounted to HK\$677.6 million and HK\$222.3 million respectively. On the same date, the Group had cash and bank balances of HK\$106.1 million, maintained mainly in US dollars and Renminbi. During the period under review, the Group repaid all its bank borrowings, resulting in a further drop of gearing ratio (expressed as total bank borrowings to shareholders' funds) from 0.001 to zero.

As at 30th June, 2003, the Group had its current ratio healthily maintained at 1.86. Trade debtor turnover period and inventory turnover period for the six months ended 30th June, 2003 were 52.0 days and 30.2 days (compared with 59.9 days and 26.4 days for the same period last year) respectively.

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

#### Contingent liabilities and exchange risk exposure

The Group's sales are principally denominated in US dollars while the purchases are transacted mainly in HK dollars, Renminbi and New Taiwanese dollars. The Group does not expect a significant exchange risk exposure.

The Group had no material contingent liabilities as at 30th June, 2003.

#### Employees and remuneration policies

As at 30th June, 2003, the group employed a total workforce of over 6,900 staff members, of which 6,700 worked in the PRC production sites. The remaining worked in the marketing, R & D and other administrative departments in our Hong Kong and Taiwan offices.

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

#### INTERIM DIVIDEND

The Board has declared an interim dividend of HK2 cents per share in cash for the six months ended 30th June, 2003 to shareholders whose names appear on the Register of Members of the Company on 17th October, 2003. It is expected that the dividend warrants will be sent to the Shareholders no later than 28th October, 2003.

#### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15th October, 2003 to 17th October, 2003, 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 Branch Share Registrar, Secretaries Limited, 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00p.m. on 14th October, 2003.

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

During the six months ended 30th June, 2003, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited (the "SEHK") as follows:

| Month of repurchase | Number of shares | Price per share |                | Aggregate Consideration paid<br>HK\$'000 |
|---------------------|------------------|-----------------|----------------|--|
|                     |                  | Highest<br>HK\$ | Lowest<br>HK\$ |  |
| April 2003          | 2,750,000        | 1.18            | 1.13           | 3,178                                    |
| May 2003            | 3,360,000        | 1.29            | 1.18           | 4,167                                    |
|                     |                  | 6,110,000       |                | 7,345                                    |

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.

#### 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, 2003, 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").

#### 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.

#### 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 Stock Exchange at <http://www.hkex.com.hk> in due course.

By Order of the Board  
Huang Ying Yuan  
Chairman

Hong Kong, 9th September, 2003  
website: <http://www.irasia.com/listco/hk/lerado>  
\* for identification only