



## LERADO GROUP (HOLDING) COMPANY LIMITED

(隆成集團(控股)有限公司)\*

(incorporated in Bermuda with limited liability)

(Stock Code: 1225)

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

#### 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, 2004 together with the comparative figures.

		<b>Six months ended</b>	
		<b>30th June, 2004</b>	<b>30th June, 2003</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
Turnover	2	<b>704,334</b>	576,955
Cost of sales		<b>(536,172)</b>	(416,516)
Gross profit		<b>168,162</b>	160,439
Investment income		<b>216</b>	238
Other operating income		<b>7,515</b>	10,241
Marketing and distribution costs		<b>(43,770)</b>	(43,867)
Research and development expenses		<b>(7,616)</b>	(7,937)
Administrative expenses		<b>(51,892)</b>	(49,251)
Other operating expenses		<b>(2,654)</b>	(2,654)
Profit from operations	3	<b>69,961</b>	67,209
Interest on bank borrowings wholly repayable within five years		<b>(663)</b>	(30)
Profit from ordinary activities before taxation		<b>69,298</b>	67,179
Taxation	4	<b>(1,685)</b>	(3,866)
Profit before minority interests		<b>67,613</b>	63,313
Minority interests		<b>(3,388)</b>	(390)
Net profit for the period		<b>64,225</b>	62,923
Dividends paid	5	<b>36,142</b>	43,042
Earnings per share	6		
— Basic		<b>8.89 cents</b>	8.73 cents
— Diluted		<b>8.86 cents</b>	8.73 cents

## 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, 2003.

## 2. TURNOVER AND SEGMENT INFORMATION

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

	Six months ended 30th June, 2004		Six months ended 30th June, 2003	
	External sales <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	External sales <i>HK\$'000</i>	Segment results <i>HK\$'000</i>
Strollers	362,420	43,428	345,744	46,497
Beds and playards	52,654	4,783	73,144	8,668
Miscellaneous infant products*	188,519	17,231	109,478	9,850
Others	100,741	6,957	48,589	4,610
	<u>704,334</u>	<u>72,399</u>	<u>576,955</u>	<u>69,625</u>
Investment income		216		238
Other operating expenses		(2,654)		(2,654)
Profit from operations		<u>69,961</u>		<u>67,209</u>

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

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

	Six months ended 30th June, 2004		Six months ended 30th June, 2003	
	External sales <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	External sales <i>HK\$'000</i>	Segment results <i>HK\$'000</i>
United States of America	391,625	38,527	301,612	33,381
Europe	142,943	16,567	151,583	21,915
Australia	39,009	4,024	26,055	3,114
South America	35,626	4,129	20,328	2,929
Others	95,131	9,152	77,377	8,286
	<u>704,334</u>	<u>72,399</u>	<u>576,955</u>	<u>69,625</u>
Investment income		216		238
Other operating expenses		(2,654)		(2,654)
Profit from operations		<u>69,961</u>		<u>67,209</u>

### 3. PROFIT FROM OPERATIONS

<b>Six months ended</b>	
<b>30th June,</b>	<b>30th June,</b>
<b>2004</b>	<b>2003</b>
<b>HK\$'000</b>	<b>HK\$'000</b>

Profit from operations has been arrived at after charging:

Amortisation of intellectual property rights (included in other operating expenses)	<b>2,654</b>	2,654
Depreciation and amortisation of property, plant and equipment	<b>14,995</b>	14,554

and after crediting:

Release of negative goodwill to other operating income	<b>210</b>	135
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### 4. TAXATION

<b>Six months ended</b>	
<b>30th June,</b>	<b>30th June,</b>
<b>2004</b>	<b>2003</b>
<b>HK\$'000</b>	<b>HK\$'000</b>

Profits tax:

— Hong Kong	<b>2,217</b>	2,113
— Other jurisdictions	<b>3,388</b>	3,224

**5,605**                      5,337

Deferred tax	<b>(3,920)</b>	(1,471)
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**1,685**                      3,866

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30.6.2003: 17.5%) of the estimated assessable profit for the period.

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

During the period, a PRC subsidiary is qualified as an export enterprise and therefore the tax rate of the subsidiary has been reduced from 27% to 12%.

### 5. DIVIDENDS

<b>Six months ended</b>	
<b>30th June,</b>	<b>30th June,</b>
<b>2004</b>	<b>2003</b>
<b>HK\$'000</b>	<b>HK\$'000</b>

2003 final dividend of HK5 cents (2002 final dividend: HK6 cents) per share	<b>36,142</b>	43,042
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No interim dividends have been paid during the six months ended 30th June, 2004 and 30th June, 2003.

The directors have determined that an interim dividend of HK2 cents (six months ended 30.6.2003: HK2 cents) per share would be paid to the shareholders of the Company whose names appear in the Register of Members on 15th October, 2004.

## 6. EARNINGS PER SHARE

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

	<b>Six months ended</b>	
	<b>30th June, 2004 HK\$'000</b>	30th June, 2003 HK\$'000
Net profit for the period	<u>64,225</u>	<u>62,923</u>
	<b>Number of shares</b>	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>722,838,724</b>	720,518,846
Effect of dilutive potential ordinary shares in respect of share options	<u>1,912,783</u>	<u>153,543</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><b>724,751,507</b></u>	<u>720,672,389</u>

## 7. TRANSFER TO/(FROM) RESERVE

	<b>Six months ended</b>	
	<b>30th June, 2004 HK\$'000</b>	30th June, 2003 HK\$'000
Deferred tax liability arising on change in tax rate	<b>75</b>	—
Exchange differences arising on translation of operations outside Hong Kong	<b>1,614</b>	169
Premium on repurchase of shares	<u>—</u>	<u>(6,734)</u>

## REVIEW AND PROSPECTS

With the US setting the pace, the global economy has witnessed a growth in the first half of 2004. However, the rise in oil price has hindered growth to some extent. Despite, Lerado has continued to achieve satisfactory results for the first six months of 2004.

## **Financial Performance**

For the six months ended 30th June, 2004, Lerado recorded a 22.1% turnover growth to HK\$704.3 million over the corresponding period last year. Net profit for the period rose 2.1% to HK\$64.2 million which translates to a HK8.89 cents earnings per share. The board of directors has declared an interim dividend of HK2 cents per share.

The Group's overall results performance was impeded by the sharp rise in raw material prices, such as plastics and metal tubes. As a result, the Group's gross profit margin was affected and declined to 23.9%.

## **Segmental Analysis**

### *Markets*

Geographical performance has been driven by new products launched with satisfactory growth reported in their respective markets. Attributing to our extensive product mix, the scaled production and affirmed orders of battery-operated ride-on car, coupled with the official launch of infant car seat under US brands, turnover of the US market increased 29.8% to HK\$391.6 million as compared to the same period last year. It remained as the Group's core market and accounted for 55.6% of the total turnover.

On the other hand, the European economy remained flat resulting in cautious spending pattern. In this regards, sales to Europe decreased 5.7% over the last corresponding period to HK\$142.9 million.

Nonetheless, the Group enjoyed encouraging growth in revenue from the rest of the world. The expansion in markets enabled the Group to better position itself for long-term development. Turnover contribution from Australia grew 49.7%, South America surged 75.3% and other markets rose 22.9%, contributing 5.5%, 5.1% and 13.5% to the consolidated turnover respectively.

### *Products*

The Group achieved a more diversified product portfolio with successful launch of new products.

Sales of the Group's core product, strollers, recorded a mild increase of 4.8% over the same period in 2003 to HK\$362.4 million and accounted for 51.5% of the Group's total turnover. As mentioned above, due to the reduced household travel under stagnant economic conditions, sales of beds and playards decreased 28.0% to HK\$52.7 million.

With encouraging market responses received from infant car seat, as well as satisfactory growth in the sales of other peripheral products, performance of miscellaneous infant products and others products reported robust growth.

Sales of miscellaneous infant products, including soft goods, infant car seat, high chair and walker, etc, rose 72.2% and accounted for 26.8% of total turnover. Riding on the Group's strong design capability and best endeavor to tap new markets, the Group has successfully expanded into the infant car seat segment and commenced production for US brands during the period under review. In the meantime, performance of battery-operated ride-on car, categorized under "others", has demonstrated satisfactory growth, with sales almost tripled.

## **Prospects**

The unfavorable operating environment in the first half of the year left uncertainties for the general development for the rest of the year. Raw material costs stay at high level and remain volatile. In light of this, the Group has been in discussion with suppliers and customers to share the related impact. The Group will also continue to implement stringent cost control measures to maintain profitability and undertake other necessary corrective measures to protect our shareholders' best interests.

While maintaining its leadership in the stroller market, the Group will continue to develop new product segments, such as battery-operated ride-on car and infant car seat for future growth. In addition to existing production, the Group will launch a new model of battery-operated ride-on car later this year to encourage sales and to tap the festive season. The Group is also investing in research and development to enhance features of the infant car seat in a view to further explore the market for a broader age group. We believe that this product will be one of the growth drivers for the Group in the next few years.

## **Liquidity and financial resources**

The Group had a total cash and bank balance of HK\$95.2 million as at 30th June, 2004, with the majority of which in Hong Kong and US currencies. After deducting total borrowings of HK\$14.8 million, the Group recorded a net cash balance of HK\$80.4 million as compared to HK\$79.8 million as at 31st December, 2003. The borrowings, bearing interest at prevailing market rates, were unsecured short term bank loans due within one year. At 30th June, 2004, the Group's gearing ratio, expressing as total bank borrowings to shareholders' fund, was 0.02 (31st December, 2003: 0.02).

As at 30th June, 2004, the Group had an improved current ratio of 2.2, compared with 1.8 at 31st December, 2003. Trade debtor turnover period for the six months ended 30th June, 2004 was 62 days (corresponding period in 2003: 52 days).

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, 2004.

## **Employees and remuneration policies**

As at 30th June, 2004, the group employed a total workforce of over 7,600 staff members, of which 7,400 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, 2004 to shareholders whose names appear on the Register of Members of the Company on 15th October, 2004. It is expected that the dividend warrants will be sent to the Shareholders no later than 28th October, 2004.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 13th October, 2004 to 15th October, 2004, 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, Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 12th October, 2004.

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

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

## **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, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "SEHK").

## **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 SEHK**

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, 17th September, 2004

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

*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, Mr. Chen An-Hsin and Mr. Leung Man Fai being the Executive Directors, and Mr. Lim Pat Wah Patrick and Mr. Ng Kwun Wan being the Independent Non-Executive Directors.*

\* *For identification purposes only*