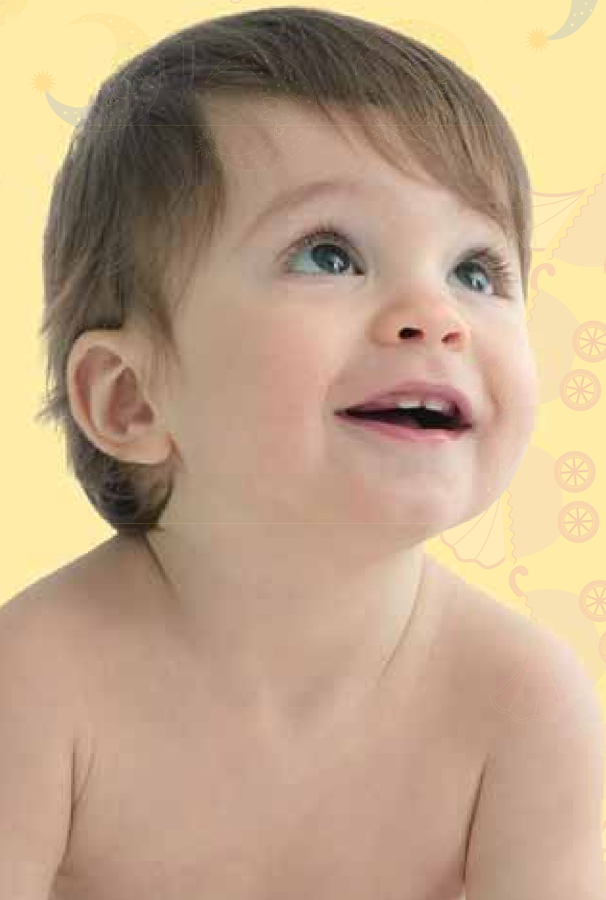
LERADO

LERADO GROUP
隆成集團

Lerado Group (Holding) Company Limited

Stock Code : 1225



2009 Interim Report

INTERIM RESULTS

The Board of Directors (the "Board") of Lerado Group (Holding) Company Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2009, along with the comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Notes	Six months ended 30 June 2009 HK$'000 (unaudited)	2008 HK$'000 (unaudited)
Revenue	3	642,500	726,296
Cost of sales		(475,460)	(576,661)
Gross profit		167,040	149,635
Investment income		970	2,134
Other income		3,121	7,682
Marketing and distribution costs		(58,108)	(50,202)
Research and development expenses		(17,751)	(20,303)
Administrative expenses		(52,375)	(51,482)
Other expenses		(1,400)	(1,433)
Share of loss of an associate		(486)	(31)
Finance costs		—	(59)
Profit before taxation		41,011	35,941
Income tax expense	4	(6,113)	(5,441)
Profit for the period	5	34,898	30,500
Other comprehensive income			
Exchange differences arising on translation of foreign operations		100	33,276
Total comprehensive income for the period		34,998	63,776

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the six months ended 30 June 2009

	Note	Six months ended 30 June 2009 HK$'000 (unaudited)	Six months ended 30 June 2008 HK$'000 (unaudited)
Profit for the period attributable to:			
Owners of the Company		34,927	31,881
Minority interests		(29)	(1,381)
		34,898	30,500
Total comprehensive income attributable to:			
Owners of the Company		35,027	65,157
Minority interests		(29)	(1,381)
		34,998	63,776
Earnings per share	7		
— Basic		HK4.81 cents	HK4.39 cents
— Diluted		HK4.81 cents	HK4.38 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	Notes	30 June 2009 HK$'000 (unaudited)	31 December 2008 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	8	318,149	325,144
Prepaid lease payments		64,894	65,644
Intellectual property rights		7,005	8,431
Investment in an associate		6,255	6,741
Available-for-sale-investments		4,664	4,664
Deferred tax assets		2,205	2,125
		403,172	412,749
Current assets			
Inventories		167,347	204,605
Trade and other receivables and prepayments	9	315,442	323,443
Prepaid lease payments		858	858
Derivative financial instruments		2,804	15,297
Taxation recoverable		852	852
Bank balances and cash		239,853	179,872
		727,156	724,927
Current liabilities			
Trade and other payables and accruals	10	216,373	223,926
Taxation payables		12,174	15,373
Derivative financial instruments		1,536	9,785
		230,083	249,084
Net current assets		497,073	475,843
Total assets less current liabilities		900,245	888,592

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2009

	30 June 2009	31 December 2008
	HK$'000 (unaudited)	*HK$'000* (audited)
Capital and reserves		
Share capital	72,681	72,681
Reserves	806,950	796,998
Equity attributable to owners of the Company	879,631	869,679
Minority interests	1,466	1,495
Total equity	881,097	871,174
Non-current liability		
Deferred tax liabilities	19,148	17,418
Total equity and non-current liability	900,245	888,592

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Property revaluation reserve HK$'000	Statutory surplus reserve fund HK$'000
At 1 January 2008 (audited)	72,532	91,994	38,510	65,505	27,290
Profit for the period	–	–	–	–	–
Exchange differences arising from translation of the foreign operations	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–
Exercise of share options	210	1,276	–	–	–
Share options lapsed during the period	–	–	–	–	–
Employee share-based payments	–	–	–	–	–
Acquisition of additional interests in a subsidiary	–	–	–	–	–
Capital contribution from a minority shareholder	–	–	–	–	–
Transfer on disposal of relevant property	–	–	–	(15,043)	–
Transfer to statutory reserves	–	–	–	–	(6)
Dividends recognised as distributions	–	–	–	–	–
At 30 June 2008 (unaudited)	72,742	93,270	38,510	50,462	27,284
Profit for the period	–	–	–	–	–
Exchange differences arising from translation of the foreign operations	–	–	–	–	–
Share of exchange reserve of an associate	–	–	–	–	–
Gain on revaluation of land and buildings	–	–	–	13,864	–
Deferred tax liability arising from gain on revaluation of land and buildings	–	–	–	(3,072)	–
Total comprehensive income for the period	–	–	–	10,792	–
Shares repurchased and cancelled	(61)	(185)	–	–	–
Share options lapsed during the period	–	–	–	–	–
Employee share-based payments	–	–	–	–	–
Acquisition of additional interests in a subsidiary	–	–	–	–	–
Transfer of statutory reserves	–	–	–	–	1,901
Dividends recognised as distributions	–	–	–	–	–
At 31 December 2008 (audited)	72,681	93,085	38,510	61,254	29,185

Enterprise expansion fund HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Accumulated profits HK$'000	Attributable to owners of the Company HK$'000	Minority interests HK$'000	Total HK$'000
3,091	50,671	619	1,147	455,288	806,647	7,128	813,775
–	–	–	–	31,881	31,881	(1,381)	30,500
–	33,276	–	–	–	33,276	–	33,276
–	33,276	–	–	31,881	65,157	(1,381)	63,776
–	–	(350)	–	–	1,136	–	1,136
–	–	(16)	–	16	–	–	–
–	–	1,418	–	–	1,418	–	1,418
–	–	–	–	–	–	(6,122)	(6,122)
–	–	–	–	–	–	3,349	3,349
–	–	–	–	15,043	–	–	–
–	–	–	–	6	–	–	–
–	–	–	–	(25,460)	(25,460)	–	(25,460)
3,091	83,947	1,671	1,147	476,774	848,898	2,974	851,872
–	–	–	–	25,062	25,062	1,870	26,932
–	(4,778)	–	–	–	(4,778)	–	(4,778)
–	(165)	–	–	–	(165)	–	(165)
–	–	–	–	–	13,864	–	13,864
–	–	–	–	–	(3,072)	–	(3,072)
–	(4,943)	–	–	25,062	30,911	1,870	32,781
–	–	–	61	(61)	(246)	–	(246)
–	–	(323)	–	323	–	–	–
–	–	1,027	–	–	1,027	–	1,027
–	–	–	–	–	–	(3,349)	(3,349)
–	–	–	–	(1,901)	–	–	–
–	–	–	–	(10,911)	(10,911)	–	(10,911)
3,091	79,004	2,375	1,208	489,286	869,679	1,495	871,174

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30 June 2009

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Property revaluation reserve HK$'000	Statutory surplus reserve fund HK$'000
Profit for the period	–	–	–	–	–
Exchange differences arising from translation of the foreign operations	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–
Share options lapsed during the period	–	–	–	–	–
Employee share-based payments	–	–	–	–	–
Dividends recognised as distributions	–	–	–	–	–
At 30 June 2009 (unaudited)	72,681	93,085	38,510	61,254	29,185

Enterprise expansion fund *HK$'000*	Translation reserve *HK$'000*	Share option reserve *HK$'000*	Capital redemption reserve *HK$'000*	Accumulated profits *HK$'000*	Attributable to owners of the Company *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
–	–	–	–	34,927	34,927	(29)	34,898
–	100	–	–	–	100	–	100
–	100	–	–	34,927	35,027	(29)	34,998
–	–	(31)	–	31	–	–	–
–	–	363	–	–	363	–	363
–	–	–	–	(25,438)	(25,438)	–	(25,438)
3,091	79,104	2,707	1,208	498,806	879,631	1,466	881,097

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash from (used in) operating activities:		
Decrease (increase) in inventories	**37,292**	(25,561)
Decrease (increase) in trade and other receivables and prepayments	**4,901**	(92,735)
Other operating cash flows	**54,040**	61,766
	96,233	(56,530)
Net cash (used in) from investing activities:		
Purchase of property, plant and equipment	**(12,332)**	(8,662)
Proceeds on disposal of asset classified as held for sale	**–**	79,156
Other investing cash flows	**1,509**	1,355
	(10,823)	71,849
Net cash used in financing activities:		
Dividends paid	**(25,438)**	(25,460)
Other financing cash flows	**–**	1,136
	(25,438)	(24,324)
Net increase (decrease) in cash and cash equivalents	**59,972**	(9,005)
Cash and cash equivalents at 1 January	**179,872**	159,280
Effect of foreign exchange rate changes	**9**	6,509
Cash and cash equivalents at 30 June, represented by bank balances and cash	**239,853**	156,784

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting".

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation tothe amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments.

The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3). The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior year adjustment has been recognised.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adoptions[3]
HKAS 27 (Revised in 2008)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised in 2008)	Business Combinations[1]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[4]

[1] Effective for annual periods beginning on or after 1 July 2009.
[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.
[3] Effective for annual periods beginning on or after 1 January 2010.
[4] Effective for transfers on or after 1 July 2009.

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Segment Information

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the Group's Executive Directors, in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard (HKAS 14, "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior years, primary segment information was analysed on the basis of the types of goods sold by the Group's operating divisions (i.e. strollers, car seats and boosters, beds and playards, miscellaneous infant products and others). However, information reported to the Group's Executive Directors for the purposes of resource allocation and performance assessment focuses more specifically on the principal activities of the Group. The principal activities of the Group included manufacture and distribution of juvenile and infant products, retail of juvenile and infant products and others. Accordingly, the Group's reportable segments are redesignated under HKFRS 8.

The Group's reportable segments under HKFRS 8 are therefore as follows:

— manufacture and distribution of juvenile and infant products — manufacture and distribution of strollers, car seats, boosters, beds and playards

— retail of juvenile and infant products — retailing of milk powder, diapers, nursery products, food, apparel, strollers and etc.

In addition to the above reportable segments, manufacture and distribution of nursery and other medical care products are reported as "all other segments".

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

An analysis of the Group's revenue and results by operating segment for the period under review is as follows:

Six months ended 30 June 2009

	Manufacture and distribution of juvenile and infant products	Retail of juvenile and infant products	All others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	543,384	32,006	67,110	642,500
Segment profit (loss)	58,051	(12,630)	(3,726)	41,695
Investment income				970
Central administrative costs				(1,168)
Share of loss of an associate				(486)
Profit before taxation				41,011
Income tax expense				(6,113)
Profit for the period				34,898

Six months ended 30 June 2008

	Manufacture and distribution of juvenile and infant products *HK$'000*	Retail of juvenile and infant products *HK$'000*	All others *HK$'000*	Consolidated *HK$'000*
Revenue from external customers	651,669	1,044	73,583	726,296
Segment profit (loss)	47,366	(5,996)	(4,710)	36,660
Investment income				2,134
Central administrative costs				(2,763)
Share of loss of an associate				(31)
Finance costs				(59)
Profit before taxation				35,941
Income tax expense				(5,441)
Profit for the period				30,500

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of investment income, central administrative costs, share of loss of an associate and finance costs. This is the measure reported to the Group's Executive Directors for the purpose of resources allocation and segment performance assessment.

The following is an analysis of the Group's assets by operating segments:

	30 June 2009 ***HK$'000***	31 December 2008 *HK$'000*
Manufacture and distribution of juvenile and infant products	**682,279**	743,939
Retail of juvenile and infant products	**57,112**	48,392
All others	**137,108**	151,091
Total segment assets	**876,499**	943,422

4. Income Tax Expense

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	669	3,163
The People's Republic of China ("the PRC") Enterprise Income Tax	3,469	3,522
Other jurisdictions	326	248
	4,464	6,933
Deferred tax:		
Current year	1,649	(1,492)
	6,113	5,441

Hong Kong Profits Tax and the PRC Enterprise Income Tax are recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate of Hong Kong Profits Tax and PRC Enterprise income tax used are 16.5% (2008: 16.5%) and 25% (2008: 25%), respectively, for the periods under review.

Taxation arising in other jurisdictions is recognised based on management's best estimate of the weighted average annual income tax rates prevailing in the relevant jurisdiction.

Starting from 1 January 2008, the Tax Law of the PRC requires withholding tax upon the distribution of undistributed retained profits earned by the PRC subsidiaries to the shareholders. Deferred tax of HK$1,501,000 (2008: nil) for the period has been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to such profits.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, Macau subsidiaries are exempted from Macao Complementary Tax.

5. Profit for the Period

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	**18,676**	19,651
Amortisation of intellectual property rights (included in other expenses)	**1,400**	1,433
Amortisation of prepaid lease payments	**757**	737
Fair value loss on derivative financial instruments	**1,380**	1,159
Interest income on bank deposits	**(970)**	(2,134)

6. Dividends

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Dividends paid or declared in the period:		
Final dividend declared and paid for 2008 of HK3.5 cents per share (2008: Final dividend declared and paid for 2007 of HK3.5 cents per share)	**25,438**	25,460

The directors have proposed that an interim dividend of HK2.0 cents (six months ended 30 June 2008: HK1.5 cents) per share will be paid to the shareholders of the Company whose names appear in the Register of Members on 15 October 2009.

7. Earnings Per Share

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

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	**34,927**	31,881

	Number of shares	*Number of shares*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**726,814,724**	726,494,724
Effect of dilutive potential ordinary shares in respect of share options	**–**	1,199,423
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**726,814,724**	727,694,147

No diluted earnings per share has been presented for the period ended 30 June 2009 because the exercise price of the Company's share options outstanding for the period was higher than the average market price of the Company's shares.

8. Movements in Property, Plant and Equipment

The Group incurred approximately HK$12 million (2008: HK$9 million) on the acquisition of property, plant and equipment.

9. Trade and Other Receivables and Prepayments

The Group allows an average credit period of 60 days to its customers. The following is an analysis of trade receivables by age, presented based on the invoice date net of allowance for doubtful debts at the end of the reporting date:

	30 June 2009 HK$'000	31 December 2008 HK$'000
Within 30 days	115,268	118,539
31 to 90 days	83,034	91,431
Over 90 days	28,910	12,614
	227,212	222,584

10. Trade and Other Payables and Accruals

The following is an analysis of trade payables by age, presented based on invoice date at the end of the reporting date:

	30 June 2009 HK$'000	31 December 2008 HK$'000
Within 30 days	68,320	69,753
31 to 90 days	57,410	58,306
Over 90 days	7,718	8,184
Total	133,448	136,243

11. Related Party Disclosures

During the period, the Group had transactions with the directors or related parties. The transactions during the period are as follows:

(a) Transactions with related parties:

Name of party	Interested directors	Nature of transactions	Six months ended 30 June 2009 HK$'000	2008 HK$'000
Yojin Industrial Corporation	Mr. Huang Ying Yuan Mrs. Huang Chen Li Chu *(note i)*	Rental expenses paid by the Group	283	305
Mr. Chen Hung Jung	Mrs. Huang Chen Li Chu *(note ii)*	Rental expenses paid by the Group	49	47

(b) *Transactions with directors*

Name of party	Nature of transactions	Six months ended 30 June 2009 HK$'000	2008 HK$'000
Mr. Huang Ying Yuan	Rental expenses paid by the Group	122	119
Mr. Chen Hsing Shin	Rental expenses paid by the Group	–	30

(c) *Compensation of key management personnel*

The remuneration of directors, who are the key management of the Group, during the period are as following:

	Six months ended 30 June 2009 HK$'000	2008 HK$'000
Short-term employee benefits	3,510	3,576

The remuneration of each director is decided by the board of directors, which is reviewed by the Remuneration Committees having regard to the performance of the individuals and market trends.

Notes:

i. Mr. Huang Ying Yuan and Mrs. Huang Chen Li Chu have beneficial interests in Yojin Industrial Corporation.

ii. Mr. Chen Hung Jung is a brother of Mrs. Huang Chen Li Chu.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF LERADO GROUP (HOLDING) COMPANY LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 2 to 20, which comprises the condensed consolidated statement of financial position of Lerado Group (Holding) Company Limited (the "Company") and its subsidiaries as of 30 June 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

17 September 2009

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

The Group recorded consolidated revenue of HK$642.5 million (2008: HK$726.3 million) for the six months ended 30 June 2009, representing a decrease of 11.5% over the corresponding period last year. The profit attributable to equity holders was HK$34.9 million (2008: HK$31.9 million), representing a growth of 9.6% as compared to the corresponding period last year. Earnings per share increased to HK4.81 cents from HK4.39 cents of the corresponding period last year.

During the period under review, due to the sharp contraction in demand led by the global financial crisis, the revenue of the Group for the six months ended 30 June 2009 decreased by 11.5% to HK$642.5 million. Sales to US came down by 14.3% and Europe dropped by 15.4%. The Group's retail business in the PRC recorded substantial growth with the sales amounting to HK$32.0 million. Compared to the corresponding period last year, the overall gross profit margin improved from 20.6% to 26.0%. The improvement was mainly attributable to the enhancement in the product mix and a significant decrease in the production cost. During the period under review, the Group has successfully launched a series of new models which carried higher margins. This achievement was mainly due to great contribution brought from the Group's R&D and sales team. The Group also achieved considerable production cost cut-off with the implementation of numerous contingent cost control and streamlined manufacturing measures.

Due to expansion of the Group's retail business in the PRC, both its marketing and distribution costs and administrative expenses increased during the period under review. Meanwhile, research and development costs of the Group decreased by 12.6%, contributed by the implementation of numerous contingent cost control measures.

Revenue from retail business of the Group amounted to approximately HK$32.0 million, whereas operating loss was approximately HK$12.6 million. The Group has proactively explored the PRC market during the period, and the number of shops under direct operation has increased to 50. The operation loss was mainly attributable to a number of proactive investments made by the Group during the period under review, which included increase in manpower and enhancement of operating facilities. The Group has already implemented various policies with the aim to promote operating efficiency and effectiveness. Starting from the second quarter of 2009, the overall performance of the retail segment has reflected distinct improvement.

Prospects

As the global economy was devastated by the global financial crisis, the manufacturing industry found itself in face of a very challenging operating environment amidst weakened market demand. On the other hand, the financial crisis has accelerated the pace of industry integration, providing more expansion opportunities to strong industry players by forcing those weak industry players out of market gradually. The Group will capitalize on the opportunity to increase its market share and further consolidate its leading position in the industry. Given that more orders for new models have been received, the Group is cautiously optimistic towards the turnaround of the sales for the second half of the year. In addition, the management will continue to uphold stringent cost control that is expected to help lower the Group's operating cost and enhance its profit margin for the rest of 2009 and the years beyond.

The PRC still recorded economic growth despite the global financial crisis in the face. It is undeniably one of the emerging economies enjoying the fastest growth around the world. We maintain to be cautiously optimistic towards the future development of the retail market in the Mainland. While striving to source supply with competitiveness, the management will at the same time continue to improve the merchandise design and adjust its product mix according to the needs of individual shop so as to enhance the margin of the Group's retail operation. Moreover, given the swiftly changing market environment in the moment, the Group will adopt a cautious approach to opening retail stores at a suitable pace.

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 meets its foreseeable capital expenditure.

As at 30 June 2009, the Group had cash and bank balances, mainly in US dollars and RMB, of HK$239.9 million (31 December 2008: HK$179.9 million). Net cash inflow from operating activities during the period amounted to HK$96.2 million, which compared with an outflow of HK$56.5 million for the corresponding period last year. Supported by its strong cash flows, the Group was free of bank borrowings as at 30 June 2009 (31 December 2008: nil).

As at 30 June 2009, the Group had net current assets of HK$497.1 million (31 December 2008: HK$475.8 million) and a current ratio of 3.2 (31 December 2008: 2.9).

Exchange risk exposure and contingent liabilities

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollar, Renminbi, US dollar, Euro and New Taiwan dollar. The management believes the Group's working capital is not exposed to any significant foreign exchange risk. Foreign exchange risk arising from transactions denominated in foreign currencies are managed whenever necessary by the Group, using foreign exchange forward contracts with major and reputable financial institutions.

As at 30 June 2009, the Group had no significant contingent liabilities.

Employees and remuneration policies

As at 30 June 2009, the Group employed a total workforce of around 5,300 staff members, of which around 5,200 worked in the PRC offices, production sites and retail shops, 97 in Taiwan mainly for marketing, sales support and research and development, 28 in the US office for marketing, sales support and research and development and 11 in HK and Macau for finance and administration.

Apart from basic salaries, discretionary bonus and contribution to retirement benefits scheme, share options may also be granted to staff with reference fo the individual's performance.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK2.0 cents per share in cash for the six months ended 30 June 2009 to shareholders whose names appear on the Register of Members of the Company on 15 October 2009. It is expected that the dividend warrants will be sent to the shareholders no later than 29 October 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 13 to 15 October 2009, 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, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 12 October 2009.

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.

DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2009, 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 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	Corporate interests	Total	Approximate % of the issued share capital	Share options
Mr. Huang Ying Yuan	104,153,360	48,400,180 *(Note 1)*	–	152,553,540	21.0	7,000,000 *(Note 2)*
Mr. Chen Chun Chieh	318,000	–	96,805,800 *(Notes 3)*	97,123,800	13.4	700,000
Mrs. Huang Chen Li Chu	48,400,180	104,153,360 *(Note 1)*	–	152,553,540	21.0	7,000,000 *(Note 4)*
Mr. Yang Yu Fu	4,524,000	–	–	4,524,000	0.6	7,000,000

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 wife 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 the spouse of him.

3. The corporate interest represents the shares held by Hwa Foo Investment Limited which is controlled by Mr. Chen Chun Chieh.

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

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations, which were recorded in the register as required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

The following table discloses movements in the Company's share options during the six months ended 30 June 2009:

	Date of grant	Outstanding at 1 January 2009	Granted during the period	Exercised during the period	Lapsed during at the period	Outstanding at 30 June 2009
		Number of shares subject to share options				
Category 1: Directors						
Mr. Huang Ying Yuan	18 August 1999	4,000,000	–	–	–	4,000,000
Mrs. Huang Chen Li Chu	18 August 1999	3,000,000	–	–	–	3,000,000
Mr. Yang Yu Fu	26 November 2007	7,000,000	–	–	–	7,000,000
Mr. Chen Chun Chieh	26 November 2007	700,000	–	–	–	700,000
Total for directors		14,700,000	–	–	–	14,700,000
Category 2: Employees						
	14 February 2006	1,436,000	–	–	(8,000)	1,428,000
	26 November 2007	17,478,000	–	–	(270,000)	17,208,000
		18,914,000	–	–	(278,000)	18,636,000
Total for all categories		33,614,000	–	–	(278,000)	33,336,000

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
26 November 2007 (Batch I)	12 months	8 November 2008 — 7 November 2012	0.64
26 November 2007 (Batch II)	24 months	8 November 2009 — 7 November 2012	0.64

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the period 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

As at 30 June 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that 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 shareholder	Capacity	Number of shares	Approximate % of the issued share capital
Commerzbank AG	Corporate interest	43,595,000	6.0%
Franklin Templeton Investments Corp.	Investment manager	50,206,032	6.9%
Mr. Chen An-Hsin	Corporate interest *(Note)*	36,689,675	5.0%
Gold Field Business Ltd.	Beneficial owner *(Note)*	36,689,675	5.0%

Note:

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 30 June 2009.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period, the Company has complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The Audit Committee of the Company comprising the three Independent Non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and has discussed the auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's unaudited financial statements for the six months ended 30 June 2009.

COMPLIANCE WITH THE MODEL CODE

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. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard as set out in the Model Code throughout the period.

By order of the Board
Huang Ying Yuan
Chairman

17 September 2009