



**Lerado Group (Holding) Company Limited**

Stock Code : 1225

2010  
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 2010, 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 2010

	Notes	Six months ended 30 June	
		2010	2009
		HK\$'000 (unaudited)	HK\$'000 (unaudited)
Revenue	3	811,031	642,500
Cost of sales		(607,820)	(475,460)
Gross profit		203,211	167,040
Other income		4,547	4,091
Other gains and losses		(2,068)	(4,284)
Marketing and distribution costs		(57,922)	(58,108)
Research and development expenses		(28,383)	(17,751)
Administrative expenses		(52,693)	(48,091)
Other expenses		(1,373)	(1,400)
Share of loss of an associate		(178)	(486)
Profit before taxation		65,141	41,011
Income tax expense	4	(6,048)	(6,113)
Profit for the period	5	59,093	34,898
<b>Other comprehensive income</b>			
Exchange differences arising on translation		4,816	100
Total comprehensive income for the period		63,909	34,998



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the six months ended 30 June 2010

		<b>Six months ended 30 June</b>	
		<b>2010</b>	2009
<i>Notes</i>		<i>HK\$'000</i> <i>(unaudited)</i>	<i>HK\$'000</i> <i>(unaudited)</i>
Profit for the period attributable to:			
	Owners of the Company	59,053	34,927
	Non-controlling interests	40	(29)
		<b>59,093</b>	<b>34,898</b>
Total comprehensive income for the period attributable to:			
	Owners of the Company	63,869	35,027
	Non-controlling interests	40	(29)
		<b>63,909</b>	<b>34,998</b>
Earnings per share		<i>7</i>	
	– Basic	<b>HK7.87 cents</b>	HK4.81 cents
	– Diluted	<b>HK7.86 cents</b>	HK4.81 cents



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

		30 June 2010	31 December 2009
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	336,071	344,627
Prepaid lease payments		83,122	83,295
Intellectual property rights		4,154	5,542
Interest in an associate		5,979	6,175
Available-for-sale-investments		4,721	4,672
Deferred tax assets		1,195	1,319
Deposits paid for lease premium of land		3,112	3,084
		<b>438,354</b>	<b>448,714</b>
<b>Current assets</b>			
Inventories		188,637	174,596
Trade and other receivables and prepayments	9	339,784	270,820
Prepaid lease payments		1,810	1,810
Derivative financial instruments		5,473	2,957
Taxation recoverable		1,017	1,580
Bank balances and cash		331,888	304,077
		<b>868,609</b>	<b>755,840</b>
<b>Current liabilities</b>			
Trade and other payables and accruals	10	300,800	233,374
Taxation payables		13,163	10,167
		<b>313,963</b>	<b>243,541</b>
<b>Net current assets</b>		<b>554,646</b>	<b>512,299</b>
<b>Total assets less current liabilities</b>		<b>993,000</b>	<b>961,013</b>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2010

		30 June 2010	31 December 2009
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
Capital and reserves			
Share capital	11	75,030	74,730
Reserves		890,187	858,638
Equity attributable to owners of the Company		965,217	933,368
Non-controlling interests		1,618	1,578
Total equity		966,835	934,946
Non-current liability			
Deferred tax liabilities		26,165	26,067
Total equity and non-current liability		993,000	961,013



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable				
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Statutory surplus reserve fund <i>HK\$'000</i>
At 1 January 2009 (audited)	72,681	93,085	38,510	61,254	29,185
Profit for the period	-	-	-	-	-
Exchange differences arising from translation	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-
Share options lapsed during the period	-	-	-	-	-
Employee share-based payments	-	-	-	-	-
Dividends recognised as distributions (note 6)	-	-	-	-	-
At 30 June 2009 (unaudited)	72,681	93,085	38,510	61,254	29,185
Profit for the period	-	-	-	-	-
Exchange differences arising from translation	-	-	-	-	-
Share of exchange difference of an associate	-	-	-	-	-
Gain on revaluation of land and buildings	-	-	-	22,041	-
Deferred tax liability arising on revaluation of land and buildings	-	-	-	(4,464)	-
Total comprehensive income for the period	-	-	-	17,577	-
Exercise of share options	2,049	13,314	-	-	-
Share options lapsed during the period	-	-	-	-	-
Employee share-based payments	-	-	-	-	-
Transfer of statutory reserves	-	-	-	-	3,742
Dividends recognised as distributions	-	-	-	-	-
At 31 December 2009 (audited)	74,730	106,399	38,510	78,831	32,927



to owners of the Company	Attributable to non-controlling interests							
	Enterprise expansion fund	Translation reserve	Share option reserve	Capital redemption reserve	Accumulated profits	Sub total	Share of net assets of subsidiaries	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	3,091	79,004	2,375	1,208	489,286	869,679	1,495	871,174
	–	–	–	–	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
	–	–	–	–	35,321	35,321	112	35,433
	–	2,010	–	–	–	2,010	–	2,010
	–	18	–	–	–	18	–	18
	–	–	–	–	–	22,041	–	22,041
	–	–	–	–	–	(4,464)	–	(4,464)
	–	2,028	–	–	35,321	54,926	112	55,038
	–	–	(2,313)	–	–	13,050	–	13,050
	–	–	(68)	–	68	–	–	–
	–	–	302	–	–	302	–	302
	–	–	–	–	(3,742)	–	–	–
	–	–	–	–	(14,541)	(14,541)	–	(14,541)
	3,091	81,132	628	1,208	515,912	933,368	1,578	934,946





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

For the six months ended 30 June 2010

	Attributable				
	Share capital	Share premium	Special reserve	Property revaluation reserve	Statutory surplus reserve fund
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period	-	-	-	-	-
Exchange differences arising from translation	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	-	-	-
Exercise of share options	339	2,203	-	-	-
Share option lapsed during the period	-	-	-	-	-
Share repurchased and cancelled	(39)	(367)	-	-	-
Dividends recognised as distributions <i>(note 6)</i>	-	-	-	-	-
<b>At 30 June 2010 (unaudited)</b>	<b>75,030</b>	<b>108,235</b>	<b>38,510</b>	<b>78,831</b>	<b>32,927</b>





to owners of the Company						Attributable to non-controlling interests		
Enterprise expansion fund	Translation reserve	Share option reserve	Capital redemption reserve	Accumulated profits	Sub total	Share of net assets of subsidiaries	Total	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
–	–	–	–	59,053	59,053	40	59,093	
–	4,816	–	–	–	4,816	–	4,816	
–	4,816	–	–	59,053	63,869	40	63,909	
–	–	(375)	–	–	2,167	–	2,167	
–	–	(5)	–	5	–	–	–	
–	–	–	39	(39)	(406)	–	(406)	
–	–	–	–	(33,781)	(33,781)	–	(33,781)	
3,091	85,948	248	1,247	541,150	965,217	1,618	966,835	



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Net cash from operating activities:		
(Increase) decrease in inventories	(12,728)	37,292
(Increase) decrease in trade and other receivables and prepayments	(67,590)	4,901
Increase (decrease) in trade and other payables and accruals	66,195	(7,518)
Other operating cash flows	80,499	61,558
	66,376	96,233
Net cash (used in) from investing activities:		
Purchases of property, plant and equipment	(11,193)	(12,332)
Proceeds on disposal of property, plant and equipment	2,151	—
Other investing cash flows	1,785	1,509
	(7,257)	(10,823)
Net cash (used in) from financing activities:		
Dividends paid	(33,781)	(25,438)
Other financing cash flows	1,761	—
	(32,020)	(25,438)
Net increase in cash and cash equivalents	27,099	59,972
Cash and cash equivalents at 1 January	304,077	179,872
Effect of foreign exchange rate changes	712	9
Cash and cash equivalents at 30 June, represented by bank balances and cash	331,888	239,853



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 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 2009.

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”).

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

The Group applies HKFRS 3 (Revised) “Business Combinations” prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) “Consolidated and Separate Financial Statements” in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.



As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>2</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>3</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.



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's operating segments, based on information reported to the chief operating decision maker, i.e. the Group's Executive Directors, for the purposes of resource allocation and performance assessment are as follows:

- manufacture and distribution of juvenile and infant products – manufacture and distribution of strollers, car seats, boosters, beds and playards etc.;
- retail sales of juvenile and infant products – retailing of milk powder, diapers, nursery products, food, apparel and strollers etc.; and
- all others – manufacture and distribution of nursery and medical care products etc.

Information regarding the above segments is reported below.

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

#### Six months ended 30 June 2010

	Manufacture and distribution of juvenile and infant products	Retail sales of juvenile and infant products	All others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE				
External sales	689,182	33,076	88,773	811,031
Segment profit (loss)	75,637	(12,404)	(2,338)	60,895
Interest income				1,785
Gain on fair value change on derivative financial instruments				4,574
Central administrative costs				(1,935)
Share of loss of an associate				(178)
Profit before taxation				65,141



Six months ended 30 June 2009

	Manufacture and distribution of juvenile and infant products <i>HK\$'000</i>	Retail sales of juvenile and infant products <i>HK\$'000</i>	All others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE				
External sales	543,384	32,006	67,110	642,500
Segment profit (loss)	59,431	(12,630)	(3,726)	43,075
Interest income				970
Loss on fair value change on derivative financial instruments				(1,380)
Central administrative costs				(1,168)
Share of loss of an associate				(486)
Profit before taxation				41,011

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of interest income, gain (loss) on fair value change on derivative financial instruments, central administrative costs, share of loss of an associate and income tax expense. This is the measure reported to the Group's Executive Directors for the purposes of resource allocation and performance assessment.

The Group's Executive Directors make decisions according to the operating results of each segment and reports on the aging analysis of inventories and trade receivables. No information of segment assets and liabilities is available for the assessable of performance of different business activities. Therefore, only segment results are presented.



#### 4. Income Tax Expense

	<b>Six months ended 30 June</b>	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Current tax:		
Hong Kong	837	669
The People's Republic of China ("the PRC")		
Enterprise Income Tax	4,359	3,469
Other jurisdictions	686	326
	<b>5,882</b>	<b>4,464</b>
Deferred tax:		
Current year	166	1,649
	<b>6,048</b>	<b>6,113</b>

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% (2009: 16.5%) and 25% (2009: 25%), respectively, for the periods under review.

A PRC subsidiary of the Company was regarded as "High-tech Enterprise" in November 2009. According, that PRC subsidiary was subject to a reduced PRC Enterprise Income Tax rate of 15% for the period.

As stated on the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, the Group's Macau subsidiary is exempted from Macao Complementary Tax.

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.





## 5. Profit for the Period

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	19,430	18,676
Amortisation of intellectual property rights (included in other expenses)	1,373	1,400
Amortisation of prepaid lease payments	937	757
Loss on disposal of property, plant and equipment	1	128
Exchange loss	6,641	2,776
Fair value (gain) loss on derivative financial instruments	(4,574)	1,380
Interest income on bank deposits	(1,785)	(970)

## 6. Dividends

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends paid or declared in the period:		
Final dividend declared and paid for the financial year ended 31 December 2009 of HK4.5 cents per share (2009: Final dividend declared and paid for the financial year ended 31 December 2008 of HK3.5 cents per share)	33,781	25,438

The directors have declared that an interim dividend of HK2.5 cents (six months ended 30 June 2009: HK2.0 cents) per share will be paid to the shareholders of the Company whose names appear in the Register of Members on 30 September 2010.



## 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:

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings for the purposes of basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	59,053	34,927
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	750,191,564	726,814,724
Effect of dilutive potential ordinary shares in respect of share options	1,035,863	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	751,227,427	726,814,724

For the period ended 30 June 2009, the computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price for shares for that period.

## 8. Movements in Property, Plant and Equipment

During the period, the Group spent approximately HK\$11 million (2009: HK\$12 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 2010	31 December 2009
	HK\$'000	HK\$'000
Within 30 days	152,944	101,572
31 to 90 days	92,823	81,971
Over 90 days	10,058	16,469
<b>Total</b>	<b>255,825</b>	<b>200,012</b>

## 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 2010	31 December 2009
	HK\$'000	HK\$'000
Within 30 days	90,902	66,218
31 to 90 days	105,029	63,981
Over 90 days	17,745	13,589
<b>Total</b>	<b>213,676</b>	<b>143,788</b>



## 11. Share Capital

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2009, 30 June 2009, 31 December 2009 and 30 June 2010	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2009 and 30 June 2009	726,814,724	72,681
Exercise of share options	20,488,000	2,049
At 31 December 2009	747,302,724	74,730
Exercise of share options	3,390,000	339
Share repurchased and cancelled	(390,000)	(39)
At 30 June 2010	750,302,724	75,030

## 12. 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 parties	Interested directors	Nature of transactions	Six months ended 30 June	
			2010 HK\$'000	2009 HK\$'000
Yojin Industrial Corporation	Mr. Huang Ying Yuan Mrs. Huang Chen Li Chu (note i)	Rental expenses paid by the Group (note ii)	296	283
Mr. Chen Hung Jung	Mrs. Huang Chen Li Chu (note iii)	Rental expenses paid by the Group (note ii)	49	49



**(b) Transactions with directors**

Name of director	Nature of transactions	Six months ended 30 June	
		2010 HK\$'000	2009 HK\$'000
Mr. Huang Ying Yuan	Rental expenses paid by the Group to director (note ii)	122	122

**(c) Compensation of key management personnel**

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

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Short-term employee benefits	3,235	3,510

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

Notes:

- i. Both Mr. Huang Ying Yuan and Mrs. Huang Chen Li Chu have beneficial interests in Yojin Industrial Corporation.
- ii. The rentals charged in accordance with the terms of the relevant tenancy agreement agreed by other parties.
- iii. 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 21, which comprises the condensed consolidated statement of financial position of Lerado Group (Holding) Company Limited (the “Company”) and its subsidiaries as of 30 June 2010 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

27 August 2010



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Group reported consolidated turnover of HK\$811.0 million (2009: HK\$642.5 million) for the six months ended 30 June 2010 representing an increase of 26.2% over the corresponding period last year as well as the record high of the Group. The gross profit was HK\$203.2 million (2009: HK\$167.0 million) representing an increase of 21.7% over the corresponding period last year and it also reached the record high of the Group. The profit attributable to equity holders of the Company increased by 69.1 % to HK\$59.1 million (2009: HK\$34.9 million) over the corresponding period last year. Basic earnings per share increased from HK4.81 cents to HK 7.87 cents.

Due to the increased demand led by the global economy stabilization as well as the continuous product mix enhancement of the Group during the period under review, the revenue of the Group increased by 26.2% to HK\$811.0 million. Compared with the corresponding period last year, the Group's gross profit ratio slightly dropped from 26.0% to 25.1%. However, the gross profit in amount was increased significantly by 21.7% to HK\$203.2 million. The revenue growth was mainly due to the contributions of the strong research and development ("R&D") team, the successful product mix enhancement and keep on launching new models, which enabled the Group to satisfy the market demands.

Compared with the corresponding period last year, the Group's R&D costs increased by approximately HK\$ 10.6 million. The weight of R&D costs to the six months revenues increased from 2.8% in 2009 to 3.5% in 2010. Recognizing the importance of the development of advanced products in order to meet the market needs, the Group invested more resources in product innovation and enhancement. During the period under review, the Group accelerated the product development and has launched several product development projects to respond to the increasing customer needs.





The performance and result of the Group's main business are encouraging, and also proved that the Group has a firm foundation. The Group keeps review and strengthening at its business and aim at the shareholders' long-term returns. During the period under review, the Group devoted to the efficiency and profitability of the retail shops rather than the expansion of the retail network in China. Despite of the close down of underperformed shops, the Group is able to maintain the retail turnover as the corresponding period last year by improving the efficiency.

## **Prospects**

Looking ahead, through the innovative and excellent product mix as well as the recovery of the global economy, the Group is prudently optimistic about the prospects of the business. Since our establishment, the Group has deeply believed that the R&D is one of our core competitiveness. We will keep on maintain the close partnership with the customers and actively involve in product development projects as well as product promotion schemes with customers. In addition, the management will continue to enforce rigorous cost control and lower operating costs is expected. For the future development, the Group will expand it plants in PRC in order to raise the production capacity. The Group will also perform feasibility studies in respect of the move inward and to overseas of its PRC production lines, which the Group expects that it will help to control the cost more efficiently.

In respect of the PRC market, the Group will closely monitor the market movements and adopt appropriate strategy to cater to the consumer needs with an aim to raise the profitability and ensure a healthy growth in turnover. The Group will go on develop its new business model through our retail shops and the strategic cooperation with wholesalers to increase the Group's market share in PRC.

## **Termination of the Proposed Offering of Taiwan Depository Receipts**

In light of the current uncertain market conditions and in order to protect the rights of the shareholders of the Company, the Company has decided not to proceed with the proposed TDR Issue on 9 August 2010. The termination of the proposed TDR Issue will not have any adverse effect on the Company's financial position. The Company will review the position in considering whether and when to relaunch the TDR Issue and further announcement(s) will be made once a decision to relaunch is reached.





## Liquidity and Financial Resources

The Group's 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 2010, the Group had cash and bank balances, mainly in US dollars and RMB, of HK\$331.9 million (31 December 2009: HK\$304.1 million). During the period, the Group generated HK\$66.4 million (2009: HK\$96.2 million) net cash inflow from its operating activities. This is represented by the profit before tax of HK\$65.1 million, plus adjustments for non-cash items such as depreciation and amortization of HK\$21.7 million and deducted the net increase in working capital of HK\$14.1 million and other adjustments of HK\$6.3 million. Supported by its strong cash flows, the Group was free of bank borrowings as at 30 June 2010 (31 December 2009: nil).

As at 30 June 2010, the Group had net current assets of HK\$554.6 million (31 December 2009: HK\$512.3 million) and a current ratio of 2.8 (31 December 2009: 3.1).

## 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 2010, the Group had no significant contingent liabilities.

## Employees and Remuneration Policies

As at 30 June 2010, the Group employed a total workforce of above 5,800 staff members, of which above 5,700 worked in the PRC offices and production sites, 106 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 Hong Kong 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 to the individual's performance.

## INTERIM DIVIDEND

The Board has declared an interim dividend of HK2.5 cents per share in cash for the six months ended 30 June 2010 to shareholders whose names appear on the Register of Members of the Company on 30 September 2010. It is expected that the dividend warrants will be sent to the shareholders no later than 12 October 2010.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 28 to 30 September 2010, 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 27 September 2010.

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

During the period, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate
		Highest	Lowest	consideration
		HK\$	HK\$	Paid HK\$'000
June 2010	390,000	1.06	1.03	406

Save as disclosed above, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the six months ended 30 June 2010.





## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2010, 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”) were as follows:

### Long positions in shares and underlying shares of the Company

Name of director	Number of shares held as			Total interests	Approximate percentage of the issued share capital of the Company
	Beneficial owner	Spouse interest	Corporate interest		
Mr. Huang Ying Yuan	2,966,000	1,234,000 <i>(note 1)</i>	148,353,540 <i>(note 2)</i>	152,553,540	20.3%
Mrs. Huang Chen Li Chu	1,234,000	2,966,000 <i>(note 1)</i>	148,353,540 <i>(note 2)</i>	152,553,540	20.3%
Mr. Chen Chun Chieh	1,018,000	–	96,805,800 <i>(note 3)</i>	97,823,800	13.0%
Mr. Yang Yu Fu	11,524,000	–	–	11,524,000	1.5%

#### 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. The corporate interest represents the shares held by Intelligence Hong Kong Group Limited, which is controlled by Mr. Huang Ying Yuan and Mrs. Huang Chen Li Chu.
3. The corporate interest represents the shares held by Hwa Foo Investment Limited, which is controlled by Mr. Chen Chun Chieh.



Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, which were recorded in the register maintained by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code, as at 30 June 2010.

## SHARE OPTIONS

The following table discloses movements in the Company’s share options during the six months ended 30 June 2010:

Date of grant	Number of shares subject to share options				
	Outstanding at 1 January 2010	Exercised during the period	Lapsed during the period	Outstanding at 30 June 2010	
<b>Category 1: Directors</b>					
Mr. Yang Yu Fu	26 November 2007	3,000,000	(3,000,000)	–	–
<b>Category 2: Employees</b>					
	14 February 2006	176,000	(120,000)	–	56,000
	26 November 2007	2,064,000	(270,000)	(50,000)	1,744,000
		2,240,000	(390,000)	(50,000)	1,800,000
Total for all categories		5,240,000	(3,390,000)	(50,000)	1,800,000

Details of specific categories of options are as follows:

Date of grant	Vesting period	Exercise period	Exercise price HK\$
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 2010, 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
Franklin Templeton Investments Corp.	Investment manager	50,206,032	6.7%
Mr. David Michael Webb	Beneficial owner ( <i>Note</i> )	38,162,000	5.1%

*Note:*

Mr. David Michael Webb beneficially owns 7,516,000 shares, and in addition he holds 30,646,000 shares through Preferable Situation Assets Limited, which is 100% directly owned by him.

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 2010.



## 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 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 2010.

## 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*

27 August 2010

