



**Lerado Group (Holding) Company Limited**

Stock Code : 1225



Interim Report  
2011

## 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 2011, 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 2011

	Notes	Six months ended 30 June	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Revenue	3	859,462	811,031
Cost of sales		(691,874)	(607,820)
Gross profit		167,588	203,211
Other income		12,351	4,547
Other gains and losses		(7,344)	(2,068)
Marketing and distribution costs		(59,660)	(57,922)
Research and development expenses		(30,405)	(28,383)
Administrative expenses		(61,534)	(52,693)
Other expenses		(673)	(1,373)
Share of result of an associate		612	(178)
Finance cost		(911)	—
Profit before taxation		20,024	65,141
Income tax expense	4	(7,211)	(6,048)
Profit for the period	5	12,813	59,093
<b>Other comprehensive income</b>			
Exchange differences arising on translation		16,038	4,816
Share of exchange difference of an associate		163	—
Total comprehensive income for the period		29,014	63,909

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

For the six months ended 30 June 2011

	Notes	Six months ended 30 June	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Profit for the period attributable to:			
Owners of the Company		12,813	59,053
Non-controlling interests		—	40
		12,813	59,093
Total comprehensive income for the period attributable to:			
Owners of the Company		29,014	63,869
Non-controlling interests		—	40
		29,014	63,909
Earnings per share	7		
— Basic		HK1.71 cents	HK7.87 cents
— Diluted		HK1.71 cents	HK7.86 cents

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Notes	30 June 2011 HK\$'000 (unaudited)	31 December 2010 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	425,769	416,432
Prepaid lease payments		101,553	100,690
Intellectual property rights		2,455	3,107
Investment in an associate		6,888	6,113
Available-for-sale-investments		5,000	4,879
Deferred tax assets		717	473
Deposits paid for lease premium of land		4,298	4,208
		<b>546,680</b>	<b>535,902</b>
<b>Current assets</b>			
Inventories		257,732	244,965
Trade and other receivables and prepayments	9	382,049	348,306
Prepaid lease payments		2,098	2,095
Derivative financial instruments		4,891	6,435
Taxation recoverable		801	887
Pledged bank deposit	10	78,276	—
Bank balances and cash		379,968	396,693
		<b>1,105,815</b>	<b>999,381</b>
<b>Current liabilities</b>			
Trade and other payables and accruals	11	331,835	342,969
Taxation payable		14,573	21,138
Unsecured bank borrowings	12	156,000	85,800
Secured bank borrowings	12	80,445	—
Derivative financial instruments		2,934	2,857
		<b>585,787</b>	<b>452,764</b>
<b>Net current assets</b>		<b>520,028</b>	<b>546,617</b>
<b>Total assets less current liabilities</b>		<b>1,066,708</b>	<b>1,082,519</b>

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

At 30 June 2011

		<b>30 June 2011</b>	31 December 2010
	<i>Notes</i>	<i>HK\$'000</i> <b>(unaudited)</b>	<i>HK\$'000</i> <b>(audited)</b>
Capital and reserves			
Share capital	13	75,057	75,057
Reserves		950,844	970,617
<b>Total equity</b>		<b>1,025,901</b>	<b>1,045,674</b>
Non-current liability			
Deferred tax liabilities		40,807	36,845
<b>Total equity and non-current liability</b>		<b>1,066,708</b>	<b>1,082,519</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

Attributable

	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 2010 (audited)	74,730	106,399	38,510	78,831	32,927
Profit for the period	-	-	-	-	-
Exchange differences arising from translation	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-
Exercise of share options	339	2,203	-	-	-
Share option lapsed during the period	-	-	-	-	-
Share repurchased and cancelled	(39)	(367)	-	-	-
Dividends recognised as distributions (note 6)	-	-	-	-	-
At 30 June 2010 (unaudited)	75,030	108,235	38,510	78,831	32,927
Profit for the period	-	-	-	-	-
Exchange differences arising from translation	-	-	-	-	-
Share of exchange difference of an associate	-	-	-	-	-
Gain on revaluation of land and buildings	-	-	-	37,835	-
Deferred tax liability arising on revaluation of land and buildings	-	-	-	(9,824)	-
Total comprehensive income for the period	-	-	-	28,011	-
Share repurchased and cancelled	(23)	(213)	-	-	-
Exercise of share options	50	321	-	-	-
Share options lapsed during the period	-	-	-	-	-
Transfer of statutory reserves	-	-	-	-	6,825
Acquisition of additional interests in a subsidiary	-	-	802	-	-
Dividends recognised as distributions	-	-	-	-	-
At 31 December 2010 (audited)	75,057	108,343	39,312	106,842	39,752

to owners of the Company

Enterprise expansion fund HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated profits HK\$'000	Sub total HK\$'000	Attributable to non-controlling interests HK\$'000	Total HK\$'000
3,091	81,132	628	1,208	515,912	933,368	1,578	934,946
–	–	–	–	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
–	–	–	–	45,869	45,869	15	45,884
–	24,625	–	–	–	24,625	–	24,625
–	(181)	–	–	–	(181)	–	(181)
–	–	–	–	–	37,835	–	37,835
–	–	–	–	–	(9,824)	–	(9,824)
–	24,444	–	–	45,869	98,324	15	98,339
–	–	–	23	(23)	(236)	–	(236)
–	–	(52)	–	–	319	–	319
–	–	(19)	–	19	–	–	–
–	–	–	–	(6,825)	–	–	–
–	–	–	–	–	802	(1,633)	(831)
–	–	–	–	(18,752)	(18,752)	–	(18,752)
3,091	110,392	177	1,270	561,438	1,045,674	–	1,045,674



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

For the six months ended 30 June 2011

Attributable

	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	-	-	-	-	-
Share of exchange difference of an associate	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-
Share option lapsed during the period	-	-	-	-	-
Dividends recognised as distributions (note 6)	-	-	-	-	-
At 30 June 2011 (unaudited)	75,057	108,343	39,312	106,842	39,752

to owners of the Company

Enterprise expansion fund <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Sub total <i>HK\$'000</i>	Attributable to non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
–	–	–	–	12,813	12,813	–	12,813
–	16,038	–	–	–	16,038	–	16,038
–	163	–	–	–	163	–	163
–	16,201	–	–	12,813	29,014	–	29,014
–	–	(9)	–	9	–	–	–
–	–	–	–	(48,787)	(48,787)	–	(48,787)
3,091	126,593	168	1,270	525,473	1,025,901	–	1,025,901

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Net cash (used in) from operating activities:		
Increase in inventories	(8,812)	(12,728)
Increase in trade and other receivables and prepayments	(28,572)	(67,590)
(Decrease) increase in trade and other payables and accruals	(15,427)	66,195
Other operating cash flows	38,577	80,499
	<b>(14,234)</b>	<b>66,376</b>
Net cash used in investing activities:		
Proceeds on disposal of property, plant and equipment	619	2,151
Pledged bank deposits made	(77,396)	—
Purchases of property, plant and equipment	(29,463)	(11,193)
Other investing cash flows	(2,829)	1,785
	<b>(109,069)</b>	<b>(7,257)</b>
Net cash from (used in) financing activities:		
New bank loans raised	150,645	—
Dividends paid	(48,787)	(33,781)
Other financing cash flows	—	1,761
	<b>101,858</b>	<b>(32,020)</b>
Net (decrease) increase in cash and cash equivalents	(21,445)	27,099
Cash and cash equivalents at 1 January	396,693	304,077
Effect of foreign exchange rate changes	4,720	712
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>379,968</b>	<b>331,888</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

## 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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised 2009)	Related Party Disclosure
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>4</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>3</sup>
HKAS 19 (Revised 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (Revised 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures <sup>2</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012

The directors of the Company anticipate that the application of these new and revised standards and amendments 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.

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 2011

	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	710,871	37,571	111,020	859,462
Segment profit (loss)	37,149	(7,628)	(7,214)	22,307
Interest income				2,829
Loss on fair value change on derivative financial instruments				(3,514)
Central administrative costs				(1,299)
Finance cost				(911)
Share of result of an associate				612
Profit before taxation				20,024

### 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 result of an associate				(178)
Profit before taxation				65,141

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of interest income, (loss) gain on fair value change on derivative financial instruments, central administrative costs, share of result of an associate, finance cost 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>	
	<b>2011</b>	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong	777	837
The People's Republic of China ("the PRC")		
Enterprise Income Tax	2,920	4,359
Other jurisdictions	2	686
	<b>3,699</b>	<b>5,882</b>
Deferred taxation:		
Current year	3,512	166
	<b>7,211</b>	<b>6,048</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% (2010: 16.5%) and 25% (2010: 25%), respectively, for the periods under review.

Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary of the Company is entitled to 50% relief in the PRC Enterprise Income Tax rate starting from the year ended 31 December 2009 for three years.

In addition, another PRC subsidiary of the Company was regarded as "High-tech Enterprise" since 2009. Accordingly, 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>2011</b>	2010
	<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	22,866	19,430
Amortisation of intellectual property rights (included in other expenses)	673	1,373
Amortisation of prepaid lease payments	1,322	937
Loss on disposal of property, plant and equipment	318	1
Exchange loss	1,017	6,641
Write-down of inventories	352	78
Impairment loss recognised in respect of property, plant and equipment (included in other gains and losses)	2,496	—
Impairment loss reversed in respect of trade receivables	(2,852)	—
Fair value loss (gain) on derivative financial instruments	3,514	(4,574)
Interest income on bank deposits	(2,829)	(1,785)

## 6. Dividends

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<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 2010 of HK6.5 cents per share (2010: Final dividend declared and paid for the financial year ended 31 December 2009 of HK4.5 cents per share)	48,787	33,781

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: HK2.5 cents per share).



## 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	
	2011	2010
	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)	12,813	59,053
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	750,570,724	750,191,564
Effect of dilutive potential ordinary shares in respect of share options	574,833	1,035,863
Weighted average number of ordinary shares for the purpose of diluted earnings per share	751,145,557	751,227,427

## 8. Movements in Property, Plant and Equipment

During the period, the Group disposed of certain plant and machinery with an aggregate carrying amount of HK\$937,000 (2010: HK\$2,152,000) for cash proceeds of HK\$619,000 (2010: HK\$2,151,000), resulting in a loss on disposal of HK\$318,000 (2010: HK\$1,000).

In addition, during the period, the Group spent approximately HK\$29,000,000 (2010: HK\$11,000,000) on the acquisition of property, plant and equipment. An impairment loss of approximately HK\$2,496,000 (2010: Nil) was recognised during the period in respect of obsolete production machinery.

## 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:

	30 June 2011	31 December 2010
	HK\$'000	HK\$'000
Within 30 days	133,171	136,135
31 to 90 days	110,975	95,179
Over 90 days	8,020	9,614
Total	252,166	240,928

## 10. Pledged Bank Deposit

The amount represents deposit pledged to a bank to secure short-term banking loans granted to the Group and therefore classified as current assets.

## 11. Trade and Other Payables and Accruals

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

	30 June 2011	31 December 2010
	HK\$'000	HK\$'000
Within 30 days	79,624	86,310
31 to 90 days	129,591	90,939
Over 90 days	19,631	35,008
Total	228,846	212,257

## 12. Bank Borrowings

The Group has the following bank loans at the end of the reporting period:

During the period, the Group obtained new bank loans amounting to HK\$150,645,000 (2010: Nil). The loans carry interest at a fixed market rate ranging from 1.1% to 1.63% and are repayable within one year. The proceeds were used to finance the acquisition of property, plant and equipment and operations.

The bank borrowings include an amount of HK\$80,445,000 which is secured by a pledged bank deposit as detailed in note 10. The remaining balance is unsecured.

### 13. Share Capital

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2010, 30 June 2010, 31 December 2010 and 30 June 2011	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2010	747,302,724	74,730
Exercise of share options	3,390,000	339
Shares repurchased and cancelled	(390,000)	(39)
At 30 June 2010	750,302,724	75,030
Exercise of share options	496,000	50
Shares repurchased and cancelled	(228,000)	(23)
At 31 December 2010 and 30 June 2011	750,570,724	75,057

### 14. Capital Commitments

As at 30 June 2011, the Group has contracted to acquire land use right in the PRC of HK\$7,666,000 (31 December 2010: HK\$7,505,000) and property, plant and equipment of HK\$12,077,000 (31 December 2010: HK\$26,090,000).

### 15. 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 transaction	Six months ended 30 June	
			2011 HK\$'000	2010 HK\$'000
Yojin Industrial Corporation	Mr. Huang Ying Yuan Mrs. Huang Chen Li Chu (note i)	Rental expenses paid by the Group (note ii)	325	296
Mr. Chen Hung Jung	Mrs. Huang Chen Li Chu (note iii)	Rental expenses paid by the Group (note ii)	51	49

**(b) Transactions with a director**

Name of director	Nature of transaction	Six months ended 30 June	
		2011 HK\$'000	2010 HK\$'000
Mr. Huang Ying Yuan	Rental expenses paid by the Group to director (note ii)	128	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	
	2011 HK\$'000	2010 HK\$'000
Short-term employee benefits	3,357	3,235

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 were charged in accordance with the terms of the relevant tenancy agreement agreed by both 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 19, which comprises the condensed consolidated statement of financial position of Lerado Group (Holding) Company Limited (the “Company”) and its subsidiaries as of 30 June 2011 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

29 August 2011

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review and Prospects

During the period under review, the Company continues to engage in manufacture and distribution of juvenile and infant durables and retail sales of juvenile and infant products in China.

The Group recorded consolidated turnover of HK\$859.5 million (2010: HK811.0 million) for the six months ended 30 June 2011, representing an increase of 6.0% over the corresponding period last year. The gross profit was HK\$167.6 million (2010: HK203.2 million) representing a decrease of 17.5% over the corresponding period last year. Profit attributable to equity holders of the Company was approximately HK\$12.8 million (2010: HK59.1 million) representing a decrease of 78.3% over the corresponding period last year; earnings per share was HK1.71 cents.

During the period under review, export sales to the US increased 3.2% over the corresponding period last year, export sales to Europe also recorded an increase of 4.9%, reached HK\$382.5 million and HK\$274.2 million, respectively. In terms of products, apart from the 8.5% increase in sales revenue of strollers to HK\$408.6 million, safety car seats also achieved a satisfying increase of 36.6% amounted to HK\$95.0 million.

Impacted by negative factors such as significant increase in raw material price of plastic and metal pipe, increase in labor cost and continuous appreciation of RMB during the period, the Group's gross profit margin decreased to 19.5% (2010: 25.1%). The Group had undergone review on price adjustment with its customers and suppliers and reduced the production of less profitable products. It is expected that earnings for the coming year will be improved.

The reorganization of retail business conducted during beginning of the year is now bearing fruits, operating costs has been significantly reduced. Revenue generated by retail sales during first half of the year increased 13.6% from the corresponding period of last year to HK\$37.6 million, and the segment loss also narrowed to HK\$7.6 million. The Group will continue to strictly control operating costs, adjust and streamline products profile to cause the retail business to contribute to the Group's earnings in the nearest future.

## 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.

During the period, the Group had net cash outflow HK14.2 million (2010: net cash inflow of HK\$66.4 million) from its operating activities. This is represented by the profit before tax of HK\$20.0 million, plus adjustments for non-cash items such as depreciation and amortization of HK\$24.9 million and deducted the net increase in working capital of HK\$52.8 million and other adjustments of HK\$6.3 million.

As at 30 June 2011, the Group's bank balances and cash, mainly denominated in US dollar and Renminbi, was HK\$458.2 million. After deducting bank borrowings of HK\$236.4 million, the Group recorded a net bank balances and cash of HK\$221.8 million as compared to HK\$310.9 million as at 31 December 2010. The borrowings, in US dollars and bearing interest at fixed market rate, was due within one year. At 30 June 2011, the Group's gearing ratio, expressing as total bank borrowings to equity attributable to owners of the Company was 0.23.

As at 30 June 2011, the Group had net current assets of HK\$520.0 million (31 December 2010: HK\$546.6 million) and a current ratio of 1.9 (31 December 2010: 2.2).

### Pledge of Assets

As at 30 June 2011, the Group pledged deposits to banks to secured bank borrowings by Group. The deposits carry an average interest rate of 3.25%.

### 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 2011, the Group had no significant contingent liabilities.



## **Employees and Remuneration Policies**

As at 30 June 2011, the Group employed a total workforce of around 6,300 staff members, of which above 6,100 worked in the PRC offices and production sites, 112 in Taiwan mainly for marketing, sales support and research and development, 25 in the US office for marketing, sales support and research and development and 8 in Hong Kong 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 directors do not recommend the payment of an interim dividend.

## **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 SHARES AND UNDERLYING SHARES

At 30 June 2011, 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%

#### 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 2011.

## SHARE OPTIONS

The following table discloses movements in the Company’s share options to employee during the six months ended 30 June 2011:

Date of grant	Number of shares subject to share options			
	Outstanding at 1 January 2011	Exercised during the period	Lapsed during at the period	Outstanding at 30 June 2011
14 February 2006	56,000	—	(56,000)	—
26 November 2007	1,076,000	—	—	1,076,000
	1,132,000	—	(56,000)	1,076,000

Details of specific categories of options are as follows:

Date of grant	Vesting period	Exercise period	Exercise price HK\$
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 2011, 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
Mr. David Michael Webb	Beneficial owner (Note)	60,230,000	8.0%

Note:

Mr. David Michael Webb beneficially owns 12,072,000 shares, and in addition he holds 48,158,000 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 2011.

## 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 2011.

### 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*

29 August 2011

