



**Lerado Group (Holding) Company Limited**

Stock Code : 1225



Interim  
Report  
2012

## 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 2012, 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 2012

	Notes	Six months ended 30 June	
		2012	2011
		HK\$'000 (unaudited)	HK\$'000 (unaudited)
Revenue	3	832,511	859,462
Cost of sales		(651,709)	(691,874)
Gross profit		180,802	167,588
Other income		11,168	12,351
Other gains and losses		(1,096)	(7,344)
Marketing and distribution costs		(57,369)	(59,660)
Research and development expenses		(32,028)	(30,405)
Administrative expenses		(60,860)	(61,534)
Other expenses		(531)	(673)
Share of result of an associate		(367)	612
Finance costs		(3,645)	(911)
Profit before taxation		36,074	20,024
Income tax expense	4	(7,188)	(7,211)

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

For the six months ended 30 June 2012

		<b>Six months ended 30 June</b>	
		<b>2012</b>	2011
<i>Notes</i>		<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (unaudited)
Profit for the period	5	28,886	12,813
<b>Other comprehensive (expense) income</b>			
Exchange differences arising on translation		(6,417)	16,038
Share of exchange difference of an associate		42	163
Total comprehensive income for the period		22,511	29,014
Earnings per share	7		
– basic		HK3.85 cents	HK1.71 cents
– diluted		HK3.85 cents	HK1.71 cents

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

		30 June 2012	31 December 2011
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	461,768	478,283
Prepaid lease payments		100,207	102,505
Intellectual property rights		1,316	1,820
Interest in an associate		6,997	7,322
Available-for-sale-investments		3,993	5,130
Deferred tax assets		62	639
Deposits paid for lease premium of land		4,355	4,394
		<b>578,698</b>	<b>600,093</b>
<b>Current assets</b>			
Inventories		272,598	259,044
Trade and other receivables and prepayments	9	356,651	359,187
Prepaid lease payments		2,100	2,101
Derivative financial instruments		2,261	—
Taxation recoverable		917	926
Pledged bank deposits	10	411,163	128,777
Bank balances and cash		388,075	371,993
		<b>1,433,765</b>	<b>1,122,028</b>

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

At 30 June 2012

		30 June 2012	31 December 2011
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
<b>Current liabilities</b>			
Trade and other payables and accruals	11	291,738	291,522
Taxation payable		11,458	14,125
Bank borrowings	12	569,902	286,133
Derivative financial instruments		517	1,495
		873,615	593,275
Net current assets		560,150	528,753
Total assets less current liabilities		1,138,848	1,128,846
<b>Capital and reserves</b>			
Share capital	13	75,057	75,057
Reserves		1,014,258	1,006,171
Total equity		1,089,315	1,081,228
<b>Non-current liability</b>			
Deferred tax liabilities		49,533	47,618
Total equity and non-current liability		1,138,848	1,128,846

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Property revaluation reserve HK\$'000
At 1 January 2011 (audited)	75,057	108,343	39,312	106,842
Profit for the period	—	—	—	—
Exchange differences arising from translation	—	—	—	—
Share of exchange difference of an associate	—	—	—	—
Total comprehensive income for the period	—	—	—	—
Share options lapsed during the period	—	—	—	—
Dividends recognised as distribution (note 6)	—	—	—	—
At 30 June 2011 (unaudited)	75,057	108,343	39,312	106,842
Profit for the period	—	—	—	—
Exchange differences arising from translation	—	—	—	—
Share of exchange difference of an associate	—	—	—	—
Gain on revaluation of land and buildings	—	—	—	34,881
Deferred tax liability arising on revaluation of land and buildings	—	—	—	(7,755)
Total comprehensive income for the period	—	—	—	27,126
Share options lapsed during the period	—	—	—	—
Transfer of statutory reserves	—	—	—	—
At 31 December 2011 (audited)	75,057	108,343	39,312	133,968
Profit for the period	—	—	—	—
Exchange differences arising from translation	—	—	—	—
Share of exchange difference of an associate	—	—	—	—
Total comprehensive (expense) income for the period	—	—	—	—
Recognition of equity-settled share-based payments	—	—	—	—
Share options lapsed during the period (note 14)	—	—	—	—
Dividends recognised as distribution (note 6)	—	—	—	—
At 30 June 2012 (unaudited)	75,057	108,343	39,312	133,968

Statutory surplus reserve fund HK\$'000	Enterprise expansion fund HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
39,752	3,091	110,392	177	1,270	561,438	1,045,674
—	—	—	—	—	12,813	12,813
—	—	16,038	—	—	—	16,038
—	—	163	—	—	—	163
—	—	16,201	—	—	12,813	29,014
—	—	—	(9)	—	9	—
—	—	—	—	—	(48,787)	(48,787)
39,752	3,091	126,593	168	1,270	525,473	1,025,901
—	—	—	—	—	14,613	14,613
—	—	13,790	—	—	—	13,790
—	—	(202)	—	—	—	(202)
—	—	—	—	—	—	34,881
—	—	—	—	—	—	(7,755)
—	—	13,588	—	—	14,613	55,327
—	—	—	(41)	—	41	—
4,245	—	—	—	—	(4,245)	—
43,997	3,091	140,181	127	1,270	535,882	1,081,228
—	—	—	—	—	28,886	28,886
—	—	(6,417)	—	—	—	(6,417)
—	—	42	—	—	—	42
—	—	(6,375)	—	—	28,886	22,511
—	—	—	587	—	—	587
—	—	—	(37)	—	37	—
—	—	—	—	—	(15,011)	(15,011)
43,997	3,091	133,806	677	1,270	549,794	1,089,315



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Net cash from (used in) operating activities:		
Increase in inventories	(15,429)	(8,812)
Decrease (increase) in trade and other receivables and prepayments	1,123	(28,572)
Increase (decrease) in trade and other payables and accruals	2,216	(15,427)
Other operating cash flows	49,834	38,577
	<u>37,744</u>	<u>(14,234)</u>
Net cash used in investing activities:		
Placement of pledged bank deposits	(364,457)	(77,396)
Purchases of property, plant and equipment	(13,779)	(29,463)
Withdrawal of pledged bank deposits	79,842	—
Proceeds on disposal of property, plant and equipment	1,065	619
Other investing cash flows	6,546	(2,829)
	<u>(290,783)</u>	<u>(109,069)</u>
Net cash from financing activities:		
New bank borrowings raised	592,133	150,645
Repayment of bank borrowings	(306,645)	—
Dividends paid	(15,011)	(48,787)
	<u>270,477</u>	<u>101,858</u>
Net increase (decrease) in cash and cash equivalents	17,438	(21,445)
Cash and cash equivalents at 1 January	371,993	396,693
Effect of foreign exchange rate changes	(1,356)	4,720
Cash and cash equivalents at 30 June, represented by bank balances and cash	<u>388,075</u>	<u>379,968</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## 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 value, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

The application of the above amendments to 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 and revised standards and interpretation that have been issued but not yet effective.

### 3. Segment Information

For management purposes, the Group is currently organised into three operating decisions — manufacture and distribution of juvenile and infant products, retail sales of juvenile and infant products and others. These divisions are the basis upon which the internal reports are prepared about components of the Group that are regularly reviewed by the chief operating decision makers, the Group's Executive Directors, for the purposes of resource allocation and performance assessment.

Specifically, the Group's reportable and operating segments under HKFRS 8 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
- 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 segment revenue and segment results by reportable and operating segments for the period under review:

**Six months ended 30 June 2012**

	Manufacture and distribution of juvenile and infant products	Retail sales of juvenile and infant products	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE				
Segment revenue – external sales	699,354	25,342	107,815	832,511
Segment profit (loss)	48,026	(11,178)	(4,041)	32,807
Interest income				6,546
Fair value gain on derivative financial instruments				3,073
Central administrative costs				(2,340)
Finance cost				(3,645)
Share of result of an associate				(367)
Profit before taxation				36,074

Six months ended 30 June 2011

	Manufacture and distribution of juvenile and infant products HK\$'000	Retail sales of juvenile and infant products HK\$'000	Others HK\$'000	Consolidated HK\$'000
REVENUE				
Segment 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
Fair value loss 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

Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of interest income, fair value gain (loss) 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 other information about segment assets and liabilities is available for the assessment of performance of different business activities.

4. **Income Tax Expense**

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong	474	777
The People's Republic of China (the "PRC")		
Enterprise Income Tax	3,646	2,920
Other jurisdictions	463	2
	<hr/>	<hr/>
	4,583	3,699
Deferred tax:		
Current year	2,605	3,512
	<hr/>	<hr/>
	7,188	7,211
	<hr/>	<hr/>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary of the Company is entitled to an exemption from PRC Enterprise Income Tax for two years starting from its first profit making year, followed by a 50% relief in PRC Enterprise Income Tax rate for the next three years. 2007 is the first year of tax exemption granted to that subsidiary. Under the EIT Law, the relief was ended in 2011 and that subsidiary is subjected to the PRC Enterprise Income Tax rate of 25% in 2012 onwards.

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 both periods.

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 calculated at the rates prevailing in the relevant jurisdiction.

## 5. Profit for the period

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<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	25,736	22,866
Amortisation of intellectual property rights (included in other expenses)	531	673
Amortisation of prepaid lease payments	1,363	1,322
Loss on disposal of property, plant and equipment	1,347	318
Exchange loss (included in other gains and losses)	1,740	1,016
(Reversal) write-down of inventories to net realisable value	(383)	352
Impairment loss recognised in respect of property, plant and equipment (included in other gains and losses)	—	2,496
Impairment loss recognised in respect of available-for-sale investments (included in other gains and losses)	1,082	—
Recovery of trade receivables impaired in prior periods	(44)	(2,852)
Fair value (gain) loss on derivative financial instruments	(3,073)	3,514
Interest income on bank deposits	(6,546)	(2,829)

## 6. Dividends

	Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000
Dividends paid or declared in the period:		
Final dividend declared and paid in respect of the financial year ended 31 December 2011 of HK2.0 cents per share (2011: Final dividend declared and paid in respect of the financial year ended 31 December 2010 of HK6.5 cents per share)	15,011	48,787

Subsequent to the end of the current interim period, the directors have determined that an interim dividend of HK2.0 cents per share (2011: nil) will be paid to the owners of the Company whose names appear in the Register of Members on 26 September 2012.

## 7. Earnings per Share

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

	Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000
Earnings:		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	28,886	12,813
Number of shares:		
Number of ordinary shares for the purpose of basic earnings per share	750,570,724	750,570,724
Effect of dilutive potential ordinary shares in respect of share options	47,136	574,833
Number of ordinary shares for the purpose of diluted earnings per share	750,617,860	751,145,557



## 8. Movements in Property, Plant and Equipment

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of approximately HK\$2,412,000 (2011: HK\$937,000) for cash proceeds of HK\$1,065,000 (2011: HK\$619,000), resulting in a loss on disposal of approximately HK\$1,347,000 (2011: HK\$318,000).

In addition, during the current period, the Group paid approximately HK\$14 million (2011: HK\$29 million) on the acquisition of property, plant and equipment. An impairment loss of approximately HK\$2,496,000 in respect of obsolete production machinery was recognised during the six months ended 30 June 2011 (six months ended 30 June 2012: nil).

## 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 2012 <i>HK\$'000</i>	31 December 2011 <i>HK\$'000</i>
Within 30 days	129,070	147,913
31 to 90 days	95,911	93,980
Over 90 days	17,060	12,287
Total	242,041	254,180

## 10. Pledged Bank Deposits

The amount represents deposits pledged to banks to secure short-term bank 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 2012 HK\$'000	31 December 2011 HK\$'000
Within 30 days	83,305	89,390
31 to 90 days	102,186	100,006
Over 90 days	18,487	15,583
<b>Total</b>	<b>203,978</b>	<b>204,979</b>

### 12. Bank Borrowings

During the current interim period, the Group obtained new bank loans amounting to HK\$592,133,000 (2011: HK\$150,645,000). The loans carry interest at fixed and variable market rate ranging from 1.43% to 4.57% and 1% to 3.7% over London Interbank Offered Rate or Singapore Interbank Offered Rate per annum (2011: fixed market rate ranging from 1.1% to 1.63%), respectively. All loans 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\$413,902,000 (2011: HK\$80,455,000) which is secured by pledged bank deposits 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 2011, 30 June 2011, 31 December 2011 and 30 June 2012	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2011, 30 June 2011, 31 December 2011 and 30 June 2012	750,570,724	75,057

#### 14. Share Options

The following table discloses movements in the Company's share options to employees during the six months ended 30 June 2012:

Date of grant	Number of shares subject to share options				Outstanding at 30 June 2012
	Outstanding at 1 January 2012	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	
26 November 2007 (Batch I)	334,000	–	–	(4,000)	330,000
26 November 2007 (Batch II)	366,000	–	–	(4,000)	362,000
18 January 2012 (Batch I)	–	7,500,000	–	(464,000)	7,036,000
18 January 2012 (Batch II)	–	7,500,000	–	(464,000)	7,036,000
<b>Total</b>	<b>700,000</b>	<b>15,000,000</b>	<b>–</b>	<b>(936,000)</b>	<b>14,764,000</b>
Exercisable at the end of period:					
– 26 November 2007 (Batch I)					330,000
– 26 November 2007 (Batch II)					362,000
					<b>692,000</b>

Details of specific categories of options are as follows:

Date of grant	Vesting period	Exercise period	Exercise price HK\$
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
18 January 2012 (Batch I)	12 months	18 January 2013 – 17 January 2017	0.77
18 January 2012 (Batch II)	24 months	18 January 2014 – 17 January 2017	0.77

Share option expense of approximately HK\$587,000 (2011: nil) was recognised in administrative expenses in condensed consolidated statement of comprehensive income during the period, calculated with reference to the vesting period.

In the current interim period, 7,500,000 share options of Batch I and 7,500,000 share options of Batch II were granted on 18 January 2012. The fair values of the options determined at the date of grant using the Black-Scholes option pricing model ("Black-Scholes Model") were HK\$874,000 and HK\$850,000 respectively.

The following assumptions were used to calculate the fair values of share options:

	<b>18 January 2012 (Batch I)</b>	<b>18 January 2012 (Batch II)</b>
Fair value per option	HK\$0.1165	HK\$0.1133
Exercise price	HK\$0.77	HK\$0.77
Expected life	3 years	3.5 years
Expected volatility	48.26%	47.60 %
Dividend yield	11.69%	11.69%
Risk-free interest rate	0.38%	0.48%

The Black-Scholes Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

#### 15. Capital Commitments

As at 30 June 2012, the Group has contracted to acquire land use right in the PRC of HK\$7,767,000 (31 December 2011: HK\$7,838,000) and property, plant and equipment of HK\$46,362,000 (31 December 2011: HK\$13,298,000).

#### 16. Related Party Disclosures

During the period, the Group had transactions with the directors of the Company 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	
			2012 HK\$'000	2011 HK\$'000
Yojin Industrial Corporation	Mr. Huang Ying Yuan Mrs. Huang Chen Li Chu (note i)	Rental expenses paid by the Group (note ii)	319	325

**(b) Transactions with a director**

Name of director	Nature of transaction	Six months ended 30 June	
		2012 HK\$'000	2011 HK\$'000
Mr. Huang Ying Yuan	Rental expenses paid by the Group to a director (note ii)	79	128

**(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	
	2012 HK\$'000	2011 HK\$'000
Short-term employee benefits	2,737	3,357

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 are the controlling shareholders of Yojin Industrial Corporation and have beneficial interests with significant influence in the Company.
- ii. The rentals were charged in accordance with the terms of the relevant tenancy agreement agreed by both parties.

The above related party transactions constitutes exempted connected transactions or continuing connected transactions as defined under Chapter 14A of the Listing Rules.

**REPORT ON REVIEW OF CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS****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 condensed consolidated financial statements of Lerado Group (Holding) Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 2 to 20, which comprise the condensed consolidated statement of financial position as of 30 June 2012 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 these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

30 August 2012

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Prospects

During the period under review, the Group was principally engaged in the manufacture of juvenile and infant durables and retail sales of juvenile and infant products in China.

For the six months ended 30 June 2012, the Group recorded consolidated revenue of HK\$832.5 million (2011: HK\$859.5 million), representing a decrease of 3.1% over the corresponding period last year. The gross profit was HK\$180.8 million (2011: HK\$167.6 million), representing an increase of 7.9% over the corresponding period last year. Profit attributable to equity holders was approximately HK\$28.9 million (2011: HK\$12.8 million), representing an increase of 125.4% over the corresponding period last year; earnings per share was HK3.85 cents.

During the reporting period, revenue from export to the US was HK\$395.3 million, representing an increase of 3.3% over the corresponding period last year, and accounting for approximately 47.5% of the Group's revenue; export sales to Europe was HK\$232.5 million, representing a decrease of 15.2% over the corresponding period last year, and accounting for approximately 27.9% of the Group's revenue. The major reason for the decrease in consolidated revenue of the Group is the declining orders from European clients under the threat of the European sovereign debt crisis.

In terms of products, the Group recorded revenue from strollers of HK\$343.9 million during the reporting period, accounting for approximately 41.3% of the Group's total sales, and representing a decrease of 15.8% over the corresponding period last year, mainly attributable to the declining orders from Europe and South America. During the period, revenue from safety car seats continued to growth and recorded sales of HK\$107.3 million, representing an increase of 12.9% over the corresponding period last year, mainly attributable to the increase in revenue from export to the US. The Group's safety car seat crash test center in Zhongshan, through which the Group's products can be ensured to meet the highest international standards, is also close to completion. During the period under review, sales of beds and playards and other infant products was HK\$235.3 million, representing an increase of 20.8%, which is mainly attributable to the increase in orders from the US and Europe.



Plastic and metal pipes are the major raw materials used in the Group's production of juvenile and infant durables. During the period under review, the prices of such major raw materials dropped. In addition, with the implementation of stringent cost control, profit from manufacturing operation recorded a growth of 29.3% or HK\$10.9 million over the corresponding period last year.

In respect of retail sales, segment revenue decreased 32.5% over the corresponding period last year to HK\$25.3 million due to slowdown in the PRC economy, weak consumption and intense industry competition, and segment loss was HK\$11.2 million. Currently, the Group has 34 retail shops for maternity and infant products due to the closure of three shops since last year.

The US and Europe continue to be the major markets of the Group in the future. We will also explore the PRC market and other emerging markets. Leveraging on our outstanding R&D talents and flexible production capacity, we will continue to provide quality products to our clients for mutual value creation.

In view of the uncertainties regarding the possible implementation of Quantitative Easing 3 in the US and the effectiveness of solutions for the European sovereign debt crisis, we will be cautious and optimistic in facing the challenges ahead to deliver higher returns to the shareholders.

### **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.

During the period, the Group had net cash inflow of HK\$37.7 million (2011: net cash outflow of HK\$14.2 million) from its operating activities. Net interest receipt for the period amounted to HK\$2.9 million (2011: HK\$1.9 million).

As at 30 June 2012, the Group's pledged bank deposit and bank balances and cash, mainly denominated in US dollar and Renminbi, was HK\$799.2 million. After deducting bank borrowings of HK\$569.9 million, the Group recorded a net pledged bank deposits and bank balances and cash of HK\$229.3 million as compared to HK\$214.6 million as at 31 December 2011. The borrowings, mainly US dollars bearing interest at fixed and variable market rate, was loans due within one year. At 30 June 2012, the Group's gearing ratio, expressing as total bank borrowings to equity attributable to owners of the Company was 0.52.

As at 30 June 2012, the Group had net current assets of HK\$560.1 million (31 December 2011: HK\$528.8 million) and a current ratio of 1.6 (31 December 2011: 1.9).

### **Pledge of Assets**

As at 30 June 2012, the Group pledged deposits to banks to secured bank borrowings. The deposits carry interest rates ranging from 2.93% to 5.56% per annum.

### **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 2012, the Group had no significant contingent liabilities.

### **Employees and Remuneration Policies**

As at 30 June 2012, the Group employed a total workforce of around 5,700 staff members, of which above 5,500 worked in the PRC offices and production sites, 137 in Taiwan mainly for marketing, sales support and research and development, 10 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 DIVIDENDS

The Board has declared an interim dividend of HK2.0 cents per share in cash for the six months ended 30 June 2012 to shareholders whose names appear on the Register of Members of the Company on 26 September 2012. It is expected that the dividend warrants will be sent to the shareholders no later than 5 October 2012.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 24 to 26 September 2012, 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 21 September 2012.

## 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 2012, 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:

- 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.
- 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.
- 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 2012.

## 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 2012, 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 2012.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors consider that the Company has complied with Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the period ended 30 June 2012, save for deviations as stated hereof:

Code Provision A.2.1 — The roles of the chairman and the CEO of the Company were not separated and were performed by the same individual, Mr. Huang Ying Yuan throughout the period ended 30 June 2012.

The Directors meet regularly to consider major matters affecting the operations of the Group. As such, the Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of Group and believes that this structure will enable the Group to make and implement decisions promptly and efficiently.

Code Provision A.6.7 — An Executive Director was unable to attend the annual general meeting of the Company held on 28 May 2012 due to his unavoidable business engagement.

## 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 condensed consolidated financial statements for the six months ended 30 June 2012.

## 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*

30 August 2012