LERADO GROUP 隆成集團

LERADO GROUP (HOLDING) COMPANY LIMITED

(隆成集團(控股)有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1225)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

Financial Highlights

Results	Six months ended 30 June		
	2008	2007	Change
	HK$'000	*HK$'000*	
	(Unaudited)	(Unaudited)	(%)
Revenue	**726,296**	600,590	20.9
Profit for the period	**30,500**	12,709	140.0
Profit attributable to equity shareholders	**31,881**	13,203	141.5
Basic earnings per share	**HK4.39 cents**	HK1.82 cents	141.2

* *For identification purposes only*

INTERIM RESULTS

The board of directors (the "Directors") of Lerdao Group (Holding) Company Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008, 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 INCOME STATEMENT

		Six months ended 30 June	
		2008	2007
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*2*	**726,296**	600,590
Cost of sales		**(576,661)**	(493,095)
Gross profit		**149,635**	107,495
Investment income		**2,134**	10,972
Other income		**7,682**	5,043
Marketing and distribution costs		**(50,202)**	(44,129)
Research and development expenses		**(20,303)**	(14,789)
Administrative expenses		**(51,482)**	(45,141)
Other expenses		**(1,433)**	(1,897)
Share of loss of an associate		**(31)**	(381)
Finance costs		**(59)**	(2)
Profit before taxation		**35,941**	17,171
Income tax expense	*3*	**(5,441)**	(4,462)
Profit for the period	*4*	**30,500**	12,709
Attributable to:			
— Equity holders of the Company		**31,881**	13,203
— Minority interests		**(1,381)**	(494)
		30,500	12,709
Dividends	*5*	**25,460**	39,891
Earnings per share	*6*		
— Basic		**HK4.39 cents**	HK1.82 cents
— Diluted		**HK4.38 cents**	HK1.81 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	NOTES	30 June 2008 HK$'000 (unaudited)	31 December 2007 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**327,512**	321,106
Prepaid lease payments		**66,533**	63,213
Intellectual property rights		**10,553**	11,232
Investment in an associate		**7,675**	7,487
Available-for-sale-investments		**4,679**	4,347
Deferred tax assets		**3,266**	1,703
		420,218	409,088
Current assets			
Inventories		**206,769**	179,903
Trade and other receivables and prepayments	*7*	**305,147**	210,653
Prepaid lease payments		**916**	849
Derivative financial instruments		**9,741**	21,676
Taxation recoverable		**854**	802
Bank balances and cash		**156,784**	159,280
		680,211	573,163
Asset classified as held for sale		**—**	88,036
		680,211	661,199
Current liabilities			
Trade and other payables and accruals	*8*	**215,025**	213,923
Taxation payables		**13,016**	6,064
Loan from a minority shareholder of a subsidiary		**780**	780
Derivative financial instruments		**7,210**	11,048
		236,031	231,815
Liabilities associated with an asset classified as held for sale		**—**	12,242
		236,031	244,057
Net current assets		**444,180**	417,142
Total assets less current liabilities		**864,398**	826,230
Capital and reserves			
Share capital		**72,742**	72,532
Reserves		**776,156**	734,115
Equity attributable to equity holders of the Company		**848,898**	806,647
Minority interests		**2,974**	7,128
Total equity		**851,872**	813,775
Non-current liability			
Deferred tax liabilities		**12,526**	12,455
		864,398	826,230

Notes:

1. **BASIS OF PREPARATION AND ACCOUNTING POLICIES**

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 (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). 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 principal accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007. In the current interim period, the Group has applied, for the first time a number of new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2008. The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised. The Group has not early applied any new and revised standards, amendments or interpretations that have been issued but are not yet effective. The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and financial position of the Group.

2. **SEGMENT INFORMATION**

The Group's primary format for reporting information is business segment. An analysis of the Group's segment revenue and segment result for the period by business segment is as follows:

	Six months ended 30 June 2008		Six months ended 30 June 2007	
	External sales	**Segment results**	External sales	Segment results
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Strollers	**286,114**	**13,215**	277,375	4,490
Car seats and boosters	**102,080**	**10,374**	74,163	1,329
Beds and playards	**54,566**	**2,162**	43,886	546
Miscellaneous infant products*	**187,924**	**5,266**	151,027	155
Others**	**95,612**	**4,039**	54,139	62
	726,296	**35,056**	600,590	6,582
Investment income		**2,134**		10,972
Unallocated corporate expenses		**(1,159)**		—
Share of loss of an associate		**(31)**		(381)
Finance costs		**(59)**		(2)
Profit before taxation		**35,941**		17,171
Income tax expense		**(5,441)**		(4,462)
Profit for the period		**30,500**		12,709

* Miscellaneous infant products mainly include soft goods, high chairs, bouncers, walkers and etc.

** Others mainly included medical care products and ride-on cars.

3. INCOME TAX EXPENSE

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Current tax charge:		
Hong Kong	**3,163**	2,698
The People's Republic of China ("the PRC")	**3,522**	779
Other jurisdictions	**248**	860
	6,933	4,337
Overprovision in prior years:		
The PRC	**—**	(779)
Deferred tax (credit) charge:		
Current year	**(1,492)**	152
Effect of change in tax rate	**—**	752
	(1,492)	904
	5,441	4,462

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 30 June 2008. The estimated average annual tax rate used is 16.5% (2007: 17.5%) for the six months ended 30 June 2008.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 33% to 25% for the Group's subsidiaries from 1 January 2008.

Taxation arising in other jurisdictions is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full final year. The estimated annual tax rate used is 25% (2007: 25%) for the six months ended 30 June 2008.

4. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	**19,651**	16,728
Amortisation of intellectual property rights	**1,433**	1,897
Amortisation of prepaid lease payments	**737**	419
Fair value loss (gain) on derivative financial instruments	**1,159**	(6,080)
Interest income on bank deposits	**(2,134)**	(4,891)

5. DIVIDENDS

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Dividends paid or declared in current period:		
Final dividend declared and paid for 2007 of HK3.5 cents (2007: Final dividend declared and paid for 2006 of HK5.5 cents) per share	**25,460**	39,891

The directors have proposed that an interim dividend of HK1.5 cents (six months ended 30 June 2007: HK1.5 cents) per share for the period will be paid to the shareholders of the Company whose names appear in the Register of Members of the Company on 15 October 2008.

6. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Profit for the period attributable to equity holders of the Company	**31,881**	13,203
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**726,494,724**	724,253,531
Effect of dilutive potential ordinary shares in respect of share options	**1,199,423**	3,510,827
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**727,694,147**	727,764,358

7. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days to its customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30 June 2008	31 December 2007
	HK$'000	*HK$'000*
Within 30 days	**115,124**	104,168
31 to 90 days	**75,274**	78,477
Over 90 days	**4,275**	1,719
Total	**194,673**	184,364

8. TRADE AND OTHER PAYABLES AND ACCRUALS

The following is an aged analysis of trade payables at the balance sheet date:

	30 June 2008	31 December 2007
	HK$'000	*HK$'000*
Within 30 days	**61,578**	70,428
31 to 90 days	**85,090**	61,703
Over 90 days	**6,955**	6,369
Total	**153,623**	138,500

INTERIM DIVIDEND

The Board has declared an interim dividend of HK1.5 cents per share in cash for the six months ended 30 June 2008 to shareholders whose names appear on the Register of Members of the Company on 15 October 2008. It is expected that the dividend warrants will be sent to the Shareholders no later than 29 October 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 13 to 15 October 2008, 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 10 October 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

For the six months ended 30 June 2008, the Group recorded a consolidated revenue of HK$726.3 million (2007: HK$600.6 million), representing an increase of 20.9% as compared to the same period last year. Profit attributable to equity holders amounted to HK$31.9 million (2007: HK$13.2 million), representing a growth of 1.4 times from the same period last year, while earnings per share increased to HK4.39 cents from HK1.82 cents of the same period last year.

In terms of revenue, the Group recorded an increase of 20.9% as compared to the same period last year, which was attributable to the sales of new models. Among which, the sales of "car seats and boosters" increased by 37.6%, and represented 14.1% of the total revenue of the Group. Revenue from the Group's "other products" segment also generated a remarkable increase of 76.6%, which was mainly contributed by the encouraging sales performance of medical care products.

During the reporting period, the Group was subject to operating pressure mainly from significant inflation of raw material and energy prices. Through the implementation of strategic storage of raw material, stricter cost control and adjusted product mix, the Group successfully increased the overall gross profit margin to 20.6% from 17.9% of the same period last year. The Group achieved a gross profit of HK$149.6 million for the period, representing a year-on-year growth of 39.2%.

During the period, marketing and distribution costs were HK$50.2 million, representing an increase of approximately HK$6.1 million from the same period last year. The increase was mainly due to increased sales commissions and transportation costs during the period. However, the weight of marketing and distribution costs to revenue decreased by 0.4 percentage points from approximately 7.3% of the same period last year to approximately 6.9%.

In addition, research and development expenses increased to HK$20.3 million from HK$14.8 million of the same period last year. The increase was mainly caused by the increased amount of resources allocated to product development by the Group during the reporting period, with an emphasis on the product lines of car seats and boosters and medical care products.

The Group's administrative expenses during the period was HK$51.5 million, representing an increase of HK$6.3 million from the same period last year. The main reasons for the increase were the overall increase in the cost of human resources, as well as the amortization costs of the grant of employees' share options in November 2007.

In respect of other revenues, investment income decreased to HK$2.1 million from HK$11.0 million of the same period last year. The drop was mainly due to gain on fair value changes of derivative financial instruments amounting to HK$6.1 million for the same period last year, while the Group did not record a gain on fair value changes in this respect for the reporting period. The Group has always maintained a prudent approach for its foreign currency risk management. The Group entered into foreign currency forward contract of US dollars against Renminbi, mainly with the objective to minimize the risk exposure to significant appreciation of Renminbi that would increase the operating costs of the Group.

Prospects

The Group's operation is exposed to significant challenges against the backdrop of global inflation and retarded economic growth, coupled with continuous fluctuations in raw material prices, persistent increases in labour, transportation and other operating costs in Mainland China. Facing the unfavourable factors influence in macro-economic environment, the Group is committed on delivering value to customers, improving the product mix and enlarging its market share, with the hope to become one of the few winners in the industry. Equipped with outstanding quality and product specifications, self-developed core technologies and efficient production scale, the Group is better positioned than its counterparts in creating higher values and maintaining satisfactory profit margin under the current environment. The Group will uphold a positive attitude in meeting existing challenges, and is well prepared for the market recovery in the future.

The Group will persist in its existing operating strategies in reinforcing its sales and marketing activities to further increase its market share. On the other hand, the Group will continue to devote its resources in product research and development in an effort to continuously expand its product mix. The Group is committed to fulfill the different needs of its customers and therefore maintain its leadership position within an intensively competitive environment.

Rapid urbanization in the PRC has forcefully accelerated the local economic growth in the past few years, which in turn has created enormous demand in the investment and consumer markets. The Group will continue its expansion through sales carried out under the brand "Angel" which is developed specifically for the PRC market. Moreover, the Group will continuously explore suitable opportunities for business development and investments, in order to increase its market share in the PRC infant product market.

Material capital investments

During the reporting period, the Group increased its shareholdings in Glory Time Investment Limited ("Glory Time") from 76.6% to 96.6% for a consideration of approximately HK$7.7 million. Glory Time and its subsidiaries ("Glory Time Group") engage in the production of stroller wheels, which are mainly sold to the Group.

As the consumer market for infant products in china is growing, the Group has established a joint venture and two wholly-owned subsidiaries in the PRC during the reporting period. The group owns 70% equity interest of the joint venture for a total consideration of HK$7.8 million. The amounts of share capital of the two wholly-owned subsidiaies are HK$10.7 million and HK$1.6 million respectively. All companies are located in cities in Southern China and engage in sales of infant products. The Group will establish pilot points of sales network through these three companies and develop the retail business of infant products with practical and active operating strategies.

Liquidity and financial resources

As at 30 June 2008, the Group had total cash and bank balances of HK$156.8 million (31 December 2007: 159.3 million), mainly in Renminbi and US dollars, and was free of bank borrowings. Accordingly, the Group' gearing ratio, expressed as total bank borrowing to shareholders fund, is zero (31 December 2007: zero).

As at 30 June 2008, the Group had net current assets of HK$444.2 million and its current ratio increased from 2.7 to 2.9 compared with the same period last year. For the six months ended 30 June 2008, the Group's trade receivable turnover maintained at 47 days and its trade payable turnover were shortened from 47 days to 46 days compared with the same period last year, while its inventory turnover increased from 47 days to 61 days.

The directors believe that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure.

As at 30 June 2008, no asset of the Group was under charge.

Exchange risk exposure and contingent liabilities

The Group maintains a level of cash sufficient to finance its daily operation and future growth and development.

Under the macro-environment of Renminbi appreciation, the Group will continue to closely monitor the changes in the exchange rates and will adopt the measures to minimize the exchange risk exposures.

As at 30 June 2008, the Group had no significant contingent liabilities.

Employees and remuneration policies

As at 30 June 2008, the Group employed a total workforce of around 5,600 staff members, of which above 5,400 worked in the PRC offices and production sites, around 100 in Taiwan for marketing, sales support and research and development, 29 in the US office for marketing, sales support and research and development and 10 in HK for finance and administration.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY' LISTED SECURITIES

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

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.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The Audit Committee has reviewed with management and the external auditors, Deloitte Touche Tohmatsu, the unaudited interim financial statements, the accounting principles and practices adopted by the Group.

PUBLICATION OF INTERIM REPORT

The Company' interim report containing all the relevant information required by the Listing Rules will be published in due course on the website of The Hong Kong Exchange and Clearing Limited at www.hkex.com.hk and the website of the Company at www.irasia.com/listco/hk/lerado/index.htm.

By order of the Board
Huang Ying Yuan
Chairman

16 September 2008

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Huang Ying Yuan, Mr. Yang Yu Fu, Madam Huang Chen Li Chu and Mr. Chen Chun Chieh being the Executive Directors, and Mr. Lim Pat Wah Patrick, Mr. Huang Zhi Wei and Mr. Tyrone Lin being the Independent Non-executive Directors.