Lerado Group (Holding) Company Limited

05

interim report

Financial Results

The Board of Directors of Lerado Group (Holding) Company Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June, 2005 together with the comparative figures.

Condensed Consolidated Income Statement

For the six months ended 30th June, 2005

		Six months ended	
	Notes	30th June, 2005 *HK$'000* (Unaudited)	30th June, 2004 *HK$'000* (Unaudited, restated)
Turnover		536,113	704,334
Cost of sales		(445,712)	(536,172)
Gross profit		90,401	168,162
Investment income		1,102	216
Other operating income		5,185	7,515
Marketing and distribution costs		(35,678)	(43,770)
Research and development expenses		(11,860)	(7,616)
Administrative expenses		(42,476)	(51,749)
Other operating expenses		(2,852)	(2,654)
Finance costs		(7)	(663)
Profit before tax	*5*	3,815	69,441
Income tax expense	*6*	(1,830)	(1,685)
Profit for the period		1,985	67,756
Attributable to:			
Equity holders of the parent		2,358	64,368
Minority interests		(373)	3,388
		1,985	67,756
Dividends	*7*	25,273	36,142
Earnings per share	*8*		
— Basic		HK0.33 cent	HK8.90 cents
— Diluted		HK0.33 cent	HK8.88 cents

Condensed Consolidated Balance Sheet

At 30th June, 2005

	Notes	30th June, 2005 HK$'000 (Unaudited)	31st December, 2004 HK$'000 (Audited, restated)
Non-Current Assets			
Property, plant and equipment	9	334,123	343,729
Investment properties	9	12,000	12,000
Prepaid lease payments		32,862	33,308
Negative goodwill		—	(2,818)
Intellectual property rights		38,001	40,775
Interest in associates	10	—	—
Other investments		—	3,963
Available-for-sale investments		3,948	—
Deferred tax assets		2,499	841
		423,433	431,798
Current Assets			
Inventories		127,936	144,122
Trade and other receivables	11	218,894	188,823
Prepaid lease payments		849	849
Loan to an associate		11,700	11,700
Derivative financial instruments		297	—
Bank balances and cash		128,877	175,559
		488,553	521,053

Condensed Consolidated Balance Sheet *(continued)*

At 30th June, 2005

	Notes	30th June, 2005 HK$'000 (Unaudited)	31st December, 2004 HK$'000 (Audited, restated)
Current Liabilities			
Trade and other payables	12	186,182	206,177
Taxation		4,094	3,997
Loan from minority shareholders		780	780
Derivative financial instruments		167	—
		191,223	210,954
Net Current Assets		297,330	310,099
		720,763	741,897
Capital and Reserves			
Share capital		72,210	72,210
Reserves		625,701	645,416
Equity attributable to equity holders of the parent		697,911	717,626
Minority interests		15,149	16,812
Total equity		713,060	734,438
Non-Current Liabilities			
Deferred tax liabilities		7,703	7,459
		720,763	741,897

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2005

	Attributable to equity holders of the parent				
	Share capital *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000*	Property revaluation reserve *HK$'000*	Statutory surplus reserve fund *HK$'000*
At 1st January, 2004 as original stated	72,284	90,916	38,510	45,819	12,622
Effects of changes in accounting policies	—	—	—	(13,952)	—
As restated	72,284	90,916	38,510	31,867	12,622
Exchange differences arising from translation of the financial statements of operations outside Hong Kong and income recognised directly in equity	—	—	—	—	—
Profit for the period	—	—	—	—	—
Total recognised income and expense for the period	—	—	—	—	—
Transfer of statutory reserves	—	—	—	—	1,438
Dividends	—	—	—	—	—
At 30th June, 2004	72,284	90,916	38,510	31,867	14,060
Exchange differences arising from translation of the financial statements of operations outside Hong Kong	—	—	—	—	—
Revaluation surplus on buildings	—	—	—	19,071	—
Deferred tax liability arising on revaluation of properties	—	—	—	(1,630)	—
Net income recognised directly in equity	—	—	—	17,441	—
Profit for the period	—	—	—	—	—
Total recognised income and expense for the period	—	—	—	17,441	—
Shares repurchased and cancelled	(74)	—	—	—	—
Premium on repurchase of shares	—	(860)	—	—	—
Transfer of reserves for cancellation of shares	—	—	—	—	—
Disposal of a subsidiary	—	—	—	—	—
Transfer of statutory reserves	—	—	—	—	1,564
Dividends	—	—	—	—	—
At 31st December, 2004	72,210	90,056	38,510	49,308	15,624

Attributable to equity holders of the parent							
Enterprise expansion fund HK$'000	Translation reserve HK$'000	Goodwill reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
929	(3,348)	(88)	1,057	429,235	687,936	—	687,936
—	—	—	—	4,274	(9,678)	18,464	8,786
929	(3,348)	(88)	1,057	433,509	678,258	18,464	696,722
—	1,614	—	—	—	1,614	—	1,614
—	—	—	—	64,368	64,368	3,388	67,756
—	1,614	—	—	64,368	65,982	3,388	69,370
143	—	—	—	(1,581)	—	—	—
—	—	—	—	(36,142)	(36,142)	(3,840)	(39,982)
1,072	(1,734)	(88)	1,057	460,154	708,098	18,012	726,110
—	2,169	—	—	—	2,169	—	2,169
—	—	—	—	—	19,071	—	19,071
—	—	—	—	—	(1,630)	—	(1,630)
—	2,169	—	—	—	19,610	—	19,610
—	—	—	—	5,309	5,309	1,312	6,621
—	2,169	—	—	5,309	24,919	1,312	26,231
—	—	—	—	—	(74)	—	(74)
—	—	—	—	—	(860)	—	(860)
—	—	—	74	(74)	—	—	—
—	—	—	—	—	—	2,288	2,288
(5)	—	—	—	(1,559)	—	—	—
—	—	—	—	(14,457)	(14,457)	(4,800)	(19,257)
1,067	435	(88)	1,131	449,373	717,626	16,812	734,438

Condensed Consolidated Statement of Changes in Equity *(continued)*

For the six months ended 30th June, 2005

	Attributable to equity holders of the parent				
	Share capital	Share premium	Special reserve	Property revaluation reserve	Statutory surplus reserve fund
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2005	72,210	90,056	38,510	49,308	15,624
Effects of changes in accounting policies	—	—	—	—	—
As restated	72,210	90,056	38,510	49,308	15,624
Exchange differences arising from translation of the financial statements of operations outside Hong Kong and income recognised directly in equity	—	—	—	—	—
Profit for the period	—	—	—	—	—
Total recognised income and expense for the period	—	—	—	—	—
Dividends	—	—	—	—	—
At 30th June, 2005	72,210	90,056	38,510	49,308	15,624

Attributable to equity holders of the parent							
Enterprise expansion fund	Translation reserve	Goodwill reserve	Capital redemption reserve	Retained profits	Total	Minority interests	Total equity
HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
1,067	435	(88)	1,131	449,373	717,626	16,812	734,438
—	—	88	—	2,730	2,818	—	2,818
1,067	435	—	1,131	452,103	720,444	16,812	737,256
—	382	—	—	—	382	—	382
—	—	—	—	2,358	2,358	(373)	1,985
—	382	—	—	2,358	2,740	(373)	2,367
—	—	—	—	(25,273)	(25,273)	(1,290)	(26,563)
1,067	817	—	1,131	429,188	697,911	15,149	713,060

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2005

	Six months ended	
	30th June, 2005 *HK$'000* (Unaudited)	30th June, 2004 *HK$'000* (Unaudited)
Net cash (used in) from operating activities	(15,108)	51,713
Net cash used in investing activities	(5,052)	(11,428)
Net cash used in financing activities	(26,562)	(40,345)
Net decrease in cash and cash equivalents	(46,722)	(60)
Cash and cash equivalents at 1st January	175,559	95,070
Effect of foreign exchange rate changes	40	169
Cash and cash equivalents at 30th June, representing bank balances and cash	128,877	95,179

Notes to The Condensed Financial Statements

For the six months ended 30th June, 2005

1. Basis of Preparation

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

2. Principal Accounting Policies

The condensed financial statements have been prepared on the historical cost convention except for certain properties and financial instruments, which are measured at fair values.

The accounting policies used in the condensed 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 31st December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill reserve

In previous periods, goodwill arising on acquisition prior to 1st January, 2001 was held in reserves. The Group has applied the relevant transitional provision in HKFRS 3. Goodwill of HK$88,000 previously recognised in reserves has been transferred to the Group's retained profits on 1st January, 2005.

2. Principal Accounting Policies *(continued)*

Negative goodwill

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st January, 2005 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1st January, 2005 (of which negative goodwill of HK$2,818,000 was previously presented as a deduction from assets), with a corresponding increase to retained profits.

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see below for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under Statement of Standard Accounting Practice ("SSAP") 13 were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The application of HKAS 40 has had no major impact on current period's and prior years' figures.

2. Principal Accounting Policies *(continued)*

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of the Group's financial statements. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below.

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment loss (if any). From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities and financial assets other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with HKAS 39. Under HKAS 39, the Group recognised its financial assets at fair value initially. Financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Other investments classified under non-current assets with carrying amount of HK$3,963,000 as at 1st January, 2005 were classified as available-for-sale investments. Unquoted equity investments of which their fair value cannot be determined reliably are carried at cost less impairment.

2. Principal Accounting Policies *(continued)*

Financial Instruments (continued)

From 1st January, 2005 onwards, the Group classifies and measures its financial liabilities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. The Group recognises its financial liabilities at fair value initially. All financial liabilities are generally measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss.

Foreign currency forward contracts that are not held for hedging purposes are deemed as held-for-trading and measured at fair value, with fair value movements recognised in profit or loss in accordance with HKAS 39. The Group did not enter into any foreign currency forward contacts in prior years.

Summary of the Effects of the Changes in Accounting Policies

The effects of the changes in the accounting policies described above on the results for the current and prior periods are as follows:

		Six months ended	
	Effect of adopting	30th June, 2005 *HK$'000*	30th June, 2004 *HK$'000*
Decrease in depreciation	HKAS 17	813	143
Decrease in negative goodwill released to income	HKFRS 3	(210)	—
Net gain arising from changes in fair value of financial assets and liabilities, measured at fair value through profit or loss	HKAS 39	130	—
Increase in profit for the period		733	143

2. Principal Accounting Policies *(continued)*

Summary of the Effects of the Changes in Accounting Policies (continued)

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	At 31st December, 2004	Effect of HKAS 17	Effect of HKAS 1 and HKAS 27	At 31st December, 2004	Effect of HKFRS 3	Effect of HKAS 39	At 1st January, 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Originally stated)			(Restated)			(Restated)
Balance Sheet Items							
Property, plant and equipment	391,103	(47,374)	–	343,729	–	–	343,729
Prepaid lease payments	–	34,157	–	34,157	–	–	34,157
Negative goodwill	(2,818)	–	–	(2,818)	2,818	–	–
Other investments	3,963	–	–	3,963	–	(3,963)	–
Available-for-sale investments	–	–	–	–	–	3,963	3,963
Deferred tax liabilities	(9,509)	2,050	–	(7,459)	–	–	(7,459)
Total effects on assets and liabilities	382,739	(11,167)	–	371,572	2,818	–	374,390
Retained profits	444,557	4,816	–	449,373	2,730	–	452,103
Properties revaluation reserve	65,291	(15,983)	–	49,308	–	–	49,308
Goodwill reserve	(88)	–	–	(88)	88	–	–
Minority interests	–	–	16,812	16,812	–	–	16,812
Total effects on equity	509,760	(11,167)	16,812	515,405	2,818	–	518,223
Minority interests	16,812	–	(16,812)	–	–	–	–

The financial effects of the application of the new HKFRSs to the Group's equity at 1st January, 2004 are summarised below:

	As originally stated	Effect of HKAS 17	Effect of HKAS 1 and HKAS 27	As restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property revaluation reserve	45,819	(13,952)	—	31,867
Retained profits	429,235	4,274	—	433,509
Minority interests	—	—	18,464	18,464
Total effects on equity	475,054	(9,678)	18,464	483,840

3. Potential Impact Arising on the New Accounting Standards Not Yet Effective

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

4. Segment Information

An analysis of the Group's turnover and contribution to profit from operations by business and geographical segments is as follows:

Business Segments

	Six months ended 30th June, 2005		Six months ended 30th June, 2004	
	External sales *HK$'000*	Segment results *HK$'000*	External sales *HK$'000*	Segment results *HK$'000* (Restated)
Strollers	267,015	3,215	362,420	43,502
Beds and playards	63,426	493	52,654	4,794
Miscellaneous infant products*	154,760	1,342	188,519	17,269
Others	50,912	522	100,741	6,977
	536,113	5,572	704,334	72,542
Investment income		1,102		216
Other operating expenses		(2,852)		(2,654)
Finance costs		(7)		(663)
Profit before tax		3,815		69,441
Income tax expense		(1,830)		(1,685)
Profit for the period		1,985		67,756

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

4. Segment Information *(continued)*

Geographical Segments

	Six months ended 30th June, 2005		Six months ended 30th June, 2004	
	External sales *HK$'000*	Segment results *HK$'000*	External sales *HK$'000*	Segment results *HK$'000* (Restated)
United States of America ("US")	262,592	2,419	391,625	38,607
Europe	150,265	1,796	142,943	16,596
Australia	24,625	443	39,009	4,032
South America	30,666	379	35,626	4,136
Others	67,965	535	95,131	9,171
	536,113	5,572	704,334	72,542
Investment income		1,102		216
Other operating expenses		(2,852)		(2,654)
Finance costs		(7)		(663)
Profit before tax		3,815		69,441
Income tax expense		(1,830)		(1,685)
Profit for the period		1,985		67,756

5. Profit before Tax

	Six months ended 30th June, 2005 *HK$'000*	Six months ended 30th June, 2004 *HK$'000* (Restated)
Profit before tax has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	15,619	14,421
Amortisation of intellectual property rights (included in other operating expenses)	2,685	2,654
Amortisation of prepaid lease payments	424	431
Interest on bank deposits	(606)	(150)

6. Income Tax Expense

	Six months ended	
	30th June, 2005 *HK$'000*	30th June, 2004 *HK$'000*
The charge (credit) comprises:		
Taxation of the Company and its subsidiaries		
— Hong Kong Profits Tax		
— current period	2,824	2,217
— Income tax of the People's Republic of China (the "PRC")		
— current period	277	3,223
— overprovision in prior years	—	(193)
— Other jurisdictions		
— current period	143	272
— underprovision in prior years	—	86
— Deferred tax		
— current period	(1,414)	(1,731)
— attributable to change in tax rate	—	(2,189)
	1,830	1,685

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30th June, 2004: 17.5%) of the estimated assessable profit for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

7. Dividends

	Six months ended	
	30th June, 2005 *HK$'000*	30th June, 2004 *HK$'000*
2004 final dividend of HK3.5 cents (2003 final dividend: HK5 cents) per share	25,273	36,142

The directors have determined that an interim dividend of HK1.5 cents (six months ended 30th June, 2004: HK2 cents) per share would be paid to the shareholders of the Company whose names appear in the Register of Members on 19th October, 2005.

8. Earnings Per Share

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

	Six months ended 30th June, 2005 HK$'000	Six months ended 30th June, 2004 HK$'000 (Restated)
Profit for the period attributable to equity holders of the parent	2,358	64,368
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	722,096,724	722,838,724
Effect of dilutive potential ordinary shares in respect of share options	–	1,912,783
Weighted average number of ordinary shares for the purpose of diluted earnings per share	722,096,724	724,751,507

No effect on diluted earnings per share is resulted because the exercise price of Company's options was higher than the average market price for shares for the period.

9. Property, Plant and Equipment and Investment Properties

During the period, the Group spent approximately HK$6 million on acquisition of property, plant and equipment. There was no movement in investment properties.

At 30th June, 2005, the directors have considered the carrying amount of the Group's buildings and investment properties carried at revalued amounts and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

10. Interest in Associates

	30th June, 2005 *HK$'000*	31st December, 2004 *HK$'000*
Share of net assets of associates	—	—

11. Trade and Other Receivables

The Group has defined credit terms which are agreed with its trade customers. At 30th June, 2005, included in trade and other receivables are trade receivables of HK$182,744,000 (31st December, 2004: HK$167,147,000) and their aged analysis is as follows:

	30th June, 2005 *HK$'000*	31st December, 2004 *HK$'000*
Within 30 days	85,660	84,313
31 to 90 days	82,255	65,388
Over 90 days	14,829	17,446
	182,744	167,147

12. Trade and Other Payables

At 30th June, 2005, included in trade and other payables are trade payables of HK$143,989,000 (31st December, 2004: HK$153,109,000) and their aged analysis is as follows:

	30th June, 2005 *HK$'000*	31st December, 2004 *HK$'000*
Within 30 days	60,607	63,230
31 to 90 days	72,089	79,325
Over 90 days	11,293	10,554
	143,989	153,109

13. Capital Commitment

At 30th June, 2005, the Group had no significant capital commitment (31st December, 2004: commitment to acquire property, plant and equipment of approximately HK$729,000).

Independent Review Report

Deloitte.
德勤

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

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 1 to 18.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report 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.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Company's management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21st September, 2005

Management Discussion and Analysis

Business review and outlook

The first half of 2005 was a difficult period. The surge of oil price exerted great impact on the Group's operating environment. As a result of rising raw material costs, the Group's gross margin was squeezed and the net profit was inevitably hampered. In view of such, the Group has been reassessing its customer mix and phasing out orders with extremely thin margin.

For the six months ended 30th June, 2005, the Group reported consolidated turnover of HK$536.1 million, compared with HK$704.3 million of the same period last year. Gross margin declined from 23.9% to 16.9% and the profit attributable to equity holders was HK$2.4 million (six months ended 30th June, 2004: HK$64.4 million).

Nevertheless, the Group maintained a healthy financial position. As at 30th June, 2005, the Group had cash and bank balances of HK$128.9 million and was free of bank borrowings.

Geographically, sales to most countries dropped. Sales to the US amounted to HK$262.6 million, declined by 32.9%, while sales to Australia and South America recorded HK$24.6 million and HK$30.7 million showing decrease of 36.9% and 13.9% respectively. An exception was Europe (the Group's second largest market), sales to which reflected a slight increase of 5.1% over the same period last year.

In terms of products, sales of strollers amounted to HK$267.0 million, a decrease of 26.3% over the corresponding period last year. Resulting from the slow down of sales of infant car seats and battery-operated ride-on cars, the categories "miscellaneous infant products" and "others" also recorded a drop in sales of 17.9% and 49.5% respectively.

Looking forward, the Group believes that, amid the environment of high oil prices, the rest of 2005 will still be challenging. In reaction to such, the Group will continue its strategy in reviewing with customers that future orders with extremely low margin should be phased out. In addition, more resources on research and development will be allocated to initiate new designs and to develop innovative products in a view to create higher margins for the coming year.

Investments

The Group had not made any investments during the six months ended 30th June, 2005.

Liquidity and financial resources

As at 30th June, 2005, the Group had total cash and bank balance of HK$128.9 million, with the majority of which in US dollars and Renminbi. On the same date, the Group was free from bank borrowings, and thus, the Group's gearing ratio, expressed as total bank borrowings to shareholders' fund, stayed at zero (31st December, 2004: zero).

As at 30th June, 2005, the Group had net current assets of HK$297.3 million and a current ratio of 2.6 compared with 2.5 at 31st December, 2004. Trade receivable and inventory turnover were 59 days and 55 days respectively (31st December, 2004: 55 days and 49 days respectively).

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

Exchange risk exposure and contingent liabilities

The sales of the Group are mainly denominated in US dollars and purchases are mainly in HK dollars, Renminbi, and New Taiwanese dollars. The Group does not foresee significant risk in exchange rate.

As at 30th June, 2005, the Group had no significant contingent liabilities.

Employees and remuneration policies

As at 30th June, 2005, the Group employed a total workforce of around 5,800 staff members, of which above 5,600 worked in the PRC offices and production sites, 119 in Taiwan and 13 in Hong Kong.

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

Interim Dividend

The Board has declared an interim dividend of HK1.5 cents per share in cash for the six months ended 30th June, 2005 to shareholders whose names appear on the Register of Members of the Company on 19th October, 2005. It is expected that the dividend warrants will be sent to the Shareholders no later than 3rd November, 2005.

Closure of Register of Members

The Register of Members of the Company will be closed from 17th October, 2005 to 19th October, 2005, 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, Secretaries Limited, Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 14th October, 2005.

Purchase, Sale or Redemption of The Company's Listed Securities

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

Directors' Interests in Securities

At 30th June, 2005, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock

Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

Long positions in shares and underlying shares of the Company

Name of director	Number of shares held as: Beneficial owner	Number of shares held as: Other interests	Total	Approximate % of the issued share capital	Share options
Mr. Huang Ying Yuan	104,153,360	Spouse interest of 43,336,180 *(Note 1)*	147,489,540	20.4	7,000,000 *(Note 2)*
Mr. Chen Hsing Shin	96,805,800	–	96,805,800	13.4	3,500,000
Madam Huang Chen Li Chu	43,336,180	Spouse interest of 104,153,360 *(Note 1)*	147,489,540	20.4	7,000,000 *(Note 3)*
Mr. Leung Man Fai	–	–	–	–	2,500,000

Notes:

1. The spouse interest represents the shares held by the spouse of Mr. Huang Ying Yuan and Madam Huang Chen Li Chu, respectively. Madam Huang Chen Li Chu is the wife of Mr. Huang Ying Yuan.

2. It represents 4,000,000 share options beneficially owned by Mr. Huang Ying Yuan and 3,000,000 share options held by the spouse of him.

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

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

Share Options

No share options were granted, exercised, lapsed or cancelled during the six months ended 30th June, 2005.

Details of outstanding share options at 30th June, 2005 are set out as follows:

Director	Date of grant	Number of share options of the Company outstanding at 1st January, and 30th June, 2005
Mr. Huang Ying Yuan	18th August, 1999	4,000,000
Mr. Chen Hsing Shin	18th August, 1999	3,500,000
Madam Huang Chen Li Chu	18th August, 1999	3,000,000
Mr. Leung Man Fai	18th August, 1999	2,500,000
		13,000,000

The share options were granted by the Company on 18th August, 1999 to subscribe for shares in the Company at an exercise price of HK$1.26 per share, subject to adjustment. These share options are exercisable from 1st January, 2000 to 17th August, 2009.

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 30th June, 2005, 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
Templeton Investment Counsel, LLC	Investment manager	43,339,968	6.0%
Mr. Cheah Cheng Hye	Corporate interest *(Note 1)*	43,238,000	6.0%
Value Partners Limited	Investment manager	43,238,000	6.0%
OCM Emerging Markets Funds, LP	Investment Manager	38,122,000	5.3%
Mr. Chen An-Hsin	Corporate interest *(Note 2)*	36,689,675	5.1%
Gold Field Business Ltd.	Beneficial owner	36,689,675	5.1%

Notes:

1. Mr. Cheah Cheng Hye beneficially owns approximately 32% interest in Value Partners Limited.

2. Mr. Chen An-Hsin owns the entire interest of Gold Field Business Ltd.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 30th June, 2005.

Corporate Governance

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2005 with deviations from code provision B.1.1 in respect of the establishment of a remuneration committee. The Company is in the process of establishing a remuneration committee with appropriate composition and terms of reference and expects to complete the task by the end of 2005.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30th June, 2005.

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.

By Order of the Board
Huang Ying Yuan
Chairman

Hong Kong, 21st September, 2005