

## Notes to the Financial Statements

For the year ended 31st December, 2000

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### 1. GENERAL

The Company is an exempted company incorporated on 18th November, 1998 with limited liability in Bermuda under The Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are to design, manufacture and trading of infant products.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies are as follows:

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

#### Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the net assets at the date of acquisition of a subsidiary, and is written off to reserve immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

On disposal of investments in subsidiaries, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary.

#### Investment in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investment in subsidiaries is included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

#### Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rental invoiced in advance, from properties under operating leases, is recognised on a straight line basis over the term of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

#### Investment properties

Investment properties are completed properties which held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged, respectively, to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No amortisation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

#### Property, plant and equipment

Property, plant and equipment other than leasehold land and buildings and construction in progress are stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment (continued)

Leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of leasehold land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a deficit of the same asset previously recognised as an expense, in which case the surplus is credited to the income statement to the extent of the deficit previously charged. A deficit in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Construction in progress is stated at cost which includes all development expenditure and other direct costs, including borrowing cost capitalised, attributable to such projects. Construction in progress is not depreciated or amortised until the completion of construction. Cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

Depreciation and amortisation are provided to write off the cost or valuation of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land and buildings	2% or the remaining period of the leases or land use rights, if shorter
Leasehold improvements	10–20%
Plant and machinery	10–20%
Furniture, fixtures and equipment	20–33 $\frac{1}{3}$ %
Motor vehicles	20–50%

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### Intellectual property rights

Intellectual property rights are stated at cost less amortisation and provision for impairment in value. Amortisation is calculated to write off the cost of the intellectual property rights over their estimated useful lives, using the straight line method, up to a maximum period of eighteen years.

#### Investments

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities or other investments.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

#### Research and development costs

Expenditure on research and development is charged to income in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of project from the date of commencement of commercial operation.

#### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant leases.

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For the year ended 31st December, 2000

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas operations which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Differences arising on translation are credited or charged to the translation reserve.

#### Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

#### Retirement benefits scheme

The pension costs charged in the income statement represent the contributions payable in current year to the Group's defined contribution scheme.

#### Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks which are repayable within three months from the date of the advances.

### 3. INVESTMENT INCOME

	2000 HK\$'000	1999 HK\$'000
Bank interest income	8,473	9,675
Other interest income	1,613	1,609
Property rental income	173	372
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	10,259	11,656

The Group had no significant outgoings in respect of the property rental income generated.

## Notes to the Financial Statements

For the year ended 31st December, 2000

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### 4. PROFIT FROM OPERATIONS

	2000 HK\$'000	1999 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration ( <i>note</i> )		
Basic salaries and allowances	131,686	105,405
Bonus	22,153	18,753
Retirement benefit scheme contributions, net of forfeited contributions of HK\$10,000 (1999: HK\$1,000)	449	187
	<u>154,288</u>	<u>124,345</u>
Auditors' remuneration		
Current year	1,424	1,412
Underprovision in prior year	95	—
	<u>1,519</u>	<u>1,412</u>
Amortisation of intellectual property rights	5,981	5,995
Deficit arising on revaluation of leasehold land and buildings	—	649
Depreciation and amortisation of property, plant and equipment	21,413	15,252
Loss on disposal of property, plant and equipment	—	8,552
Rental payments under operating leases in respect of properties, plant and equipment	5,919	3,638
Write off of intellectual property rights	—	109
and after crediting:		
Gain on disposal of property, plant and equipment	129	—
Surplus on revaluation of leasehold land and buildings	729	—

*Note:* The research and development staff costs of HK\$10,227,000 (1999: HK\$9,347,000) have been included in the item of staff costs above.

## Notes to the Financial Statements

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### 5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

	2000 HK\$'000	1999 HK\$'000
Directors' fees	—	—
Other emoluments		
Executive directors		
Basic salaries and allowances	7,772	8,193
Bonus	12,500	12,500
Retirement benefits scheme contributions	38	35
Non-executive directors		
Basic salaries and allowances	83	72
Independent non-executive directors		
Basic salaries and allowances	274	221
	<u>20,667</u>	<u>21,021</u>

The emoluments of the directors were within the following emolument bands:

	2000 Number of directors	1999 Number of directors
Nil to HK\$1,000,000	6	5
HK\$1,500,001 to HK\$2,000,000	1	2
HK\$2,000,001 to HK\$2,500,000	—	1
HK\$3,500,001 to HK\$4,000,000	3	1
HK\$4,500,001 to HK\$5,000,000	—	1
HK\$6,500,001 to HK\$7,000,000	1	1
	<u>11</u>	<u>11</u>

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments.

#### (b) Employees' emoluments

The five highest paid individuals of the Group were all directors in both years.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 6. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	129	369
Bank borrowings not wholly repayable within five years	1,560	1,187
	<u>1,689</u>	<u>1,556</u>

### 7. TAXATION

	2000 HK\$'000	1999 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	1,371	300
Overprovision in prior years	(70)	(198)
	<u>1,301</u>	<u>102</u>
Overseas taxation		
The People's Republic of China (the "PRC")	2,901	6,345
Other jurisdictions	1,300	942
	<u>4,201</u>	<u>7,287</u>
	<u>5,502</u>	<u>7,389</u>

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Overseas taxation is calculated at the rates prevailing in the relevant jurisdictions.

A portion of the Group's profit neither arises in, nor is derived from Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax.

Details of deferred taxation are set out in note 24.

The Group and the Company had no significant unprovided deferred taxation for the year or at the balance sheet date.



## Notes to the Financial Statements

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### 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit attributable to shareholders of HK\$128,363,000 (1999: HK\$125,146,000), a profit of HK\$80,971,000 (1999: HK\$65,310,000) has been dealt with in the financial statements of the Company.

### 9. DIVIDENDS

	2000 HK\$'000	1999 HK\$'000
Interim dividend of HK3 cents (1999: HK3 cents) per share	21,807	21,786
Proposed final dividend of HK8 cents (1999: HK6 cents, with a scrip dividend option) per share	<u>57,977</u>	<u>43,605</u>
	<u>79,784</u>	<u>65,391</u>

During the year, shareholders with a total final dividend of HK\$97,000 for the year ended 31st December, 1999 elected the share alternative.

The final dividend of HK8 cents (1999: HK6 cents) per share has been proposed by the directors and is subject to approval by the shareholders in a general meeting.

### 10. EARNINGS PER SHARE

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

	2000	1999
Profit attributable to shareholders and earnings for the purposes of the basic and diluted earnings per share	<u>HK\$128,363,000</u>	<u>HK\$125,146,000</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	726,700,338	721,959,671
Effect of dilutive potential ordinary shares in respect of share options	<u>560,459</u>	<u>3,286,784</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>727,260,797</u>	<u>725,246,455</u>

## 11. INVESTMENT PROPERTIES

## THE GROUP

HK\$'000

## VALUATION

At 1st January, 2000 and 31st December, 2000 12,400

The investment properties are held under long leases and are situated in Hong Kong.

Investment properties were revalued at 31st December, 2000 by American Appraisal Hongkong Limited, an independent property valuer, on an open market value existing use basis at HK\$12,400,000. The revaluation did not give rise to any surplus or deficit.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
COST OR VALUATION							
At 1st January, 2000	135,942	5,998	56,324	26,193	9,174	1,379	235,010
Exchange realignment	238	1	198	46	26	5	514
Additions	4,721	234	23,476	8,252	2,425	584	39,692
Transfer	1,314	—	—	—	—	(1,314)	—
Adjustment on valuation	(1,295)	—	—	—	—	—	(1,295)
Disposals	—	—	(199)	(974)	(1,183)	—	(2,356)
At 31st December, 2000	<u>140,920</u>	<u>6,233</u>	<u>79,799</u>	<u>33,517</u>	<u>10,442</u>	<u>654</u>	<u>271,565</u>
Comprising:							
At cost	—	6,233	79,799	33,517	10,442	654	130,645
At valuation — 2000	<u>140,920</u>	—	—	—	—	—	<u>140,920</u>
	<u>140,920</u>	<u>6,233</u>	<u>79,799</u>	<u>33,517</u>	<u>10,442</u>	<u>654</u>	<u>271,565</u>
DEPRECIATION AND AMORTISATION							
At 1st January, 2000	—	1,739	20,453	8,518	5,023	—	35,733
Exchange realignment	—	1	79	19	13	—	112
Provided for the year	6,568	1,098	6,688	5,815	1,244	—	21,413
Adjustment on valuation	(6,568)	—	—	—	—	—	(6,568)
Eliminated on disposals	—	—	(163)	(845)	(1,102)	—	(2,110)
At 31st December, 2000	<u>—</u>	<u>2,838</u>	<u>27,057</u>	<u>13,507</u>	<u>5,178</u>	<u>—</u>	<u>48,580</u>
NET BOOK VALUES							
At 31st December, 2000	<u>140,920</u>	<u>3,395</u>	<u>52,742</u>	<u>20,010</u>	<u>5,264</u>	<u>654</u>	<u>222,985</u>
At 31st December, 1999	<u>135,942</u>	<u>4,259</u>	<u>35,871</u>	<u>17,675</u>	<u>4,151</u>	<u>1,379</u>	<u>199,277</u>

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### 12. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of leasehold land and buildings held by the Group at the balance sheet date comprises:

	2000 HK\$'000	1999 HK\$'000
Held in Hong Kong under long leases	37,800	37,800
Held in the PRC under medium-term land use rights	103,120	98,142
	<u>140,920</u>	<u>135,942</u>

A leasehold building of the Group with net book value HK\$700,000 (1999: HK\$742,000) as at 31st December, 2000 was revalued by the directors at approximately its carrying value.

The remaining leasehold land and buildings of the Group were revalued at 31st December, 2000 by American Appraisal Hongkong Limited, an independent property valuer not connected to the Group. The leasehold land and buildings in Hong Kong were valued at open market value basis, the buildings and structures in the PRC were valued at depreciated replacement cost basis and the land portions in the PRC were valued by reference to the standard land prices in Guangdong Province and Shanghai for private treaty grant determined by local land administration bureau.

The surplus on revaluation of HK\$729,000 was credited to the income statement and the surplus of HK\$4,544,000 (1999: HK\$191,000) was credited to property revaluation reserve. At 31st December, 1999, a deficit arising from the revaluation of leasehold land and buildings of HK\$649,000 was charged to the income statement.

If the leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated amortisation at HK\$111,266,000 (1999: HK\$108,815,000).

### 13. INTEREST IN SUBSIDIARIES

	2000 HK\$'000	1999 HK\$'000
Unlisted shares	244,660	244,660
Amounts due from subsidiaries	166,387	165,536
	<u>411,047</u>	<u>410,196</u>

The carrying value of the unlisted shares is based on the directors' estimate of the underlying net assets of the subsidiaries attributable to the Group at the time these subsidiaries were acquired by the Company pursuant to the group reorganisation.

**13. INTEREST IN SUBSIDIARIES (continued)**

Details of the Company's principal subsidiaries at 31st December, 2000 are set out in note 35.

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the Company will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

**14. INTELLECTUAL PROPERTY RIGHTS**

	THE GROUP
	HK\$'000
COST	
At 1st January, 2000 and 31st December, 2000	<u>88,982</u>
AMORTISATION	
At 1st January, 2000	11,962
Provided for the year	<u>5,981</u>
At 31st December, 2000	<u>17,943</u>
NET BOOK VALUE	<u>71,039</u>

In the opinion of the directors, the intellectual property rights are worth at least their carrying values.

**15. OTHER INVESTMENT**

At 31st December, 2000, the investment represents less than 1% interest in unlisted shares in Taiwan. The investment at 31st December, 1999 represented 10% interest in the capital of 中山市公共保税倉有限公司, which was disposed of during the year.

**16. LONG-TERM RECEIVABLE**

The amount represents an advance to Glory Time Investments Limited ("Glory Time") which is incorporated in the British Virgin Islands and is an investment holding company. Its principal asset is a 40% interest in Zhong Shan Sun Red General Electronic Co., Ltd. ("Zhong Shan Sun Red"), a sino-foreign equity joint venture established in the PRC. Zhong Shan Sun Red is a supplier of stroller wheels to the Group.

Pursuant to a deed and a supplementary deed entered into by a subsidiary of the Company and Glory Time in December 1997 and March 2000 whereby, among other things, the Group will subscribe to a convertible note in the amount of US\$2,002,000 (approximately HK\$15.5 million) and the subscription money payable for the note will be set off against part of the existing advance to Glory Time to the satisfaction of the following conditions by Glory Time on or before 31st December, 2000:

- (i) completion of acquisition by Glory Time of the remaining 60% interest in Zhong Shan Sun Red;
- (ii) Zhong Shan Sun Red being registered as a foreign wholly-owned enterprise; and

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### 16. LONG-TERM RECEIVABLE (continued)

(iii) the obtaining of all necessary approvals in accordance with the relevant PRC laws and regulations.

The remaining balance would be repayable by Glory Time on or before the Group subscribes to the convertible note or 31st December, 2000, whichever is earlier.

Pursuant to another supplementary deed entered into by both parties on 2nd January, 2001, the subscription date has been further extended to 31st December, 2001.

The convertible note will bear interest at 7% per annum and can be converted in whole into 52% of the issued shares of Glory Time at any time from the issue of the convertible note up to a period of two years thereafter, and can be extended for another two years at the Group's option. Should Glory Time be unable to fulfil the conditions stated above on or before 31st December, 2001 or if the Group does not exercise the subscription right on the expiry of the subscription period, the advance (together with any unpaid portion of the remaining balance as stated above) or the convertible note together with any accrued and unpaid interest will become repayable on demand.

The existing advance is and the note will be (assuming it is subscribed for) secured by a charge in the shares of Glory Time, a pledge of the interests in Zhong Shan Sun Red held by Glory Time together with personal guarantees from the shareholders of Glory Time. The Group is also entitled to set off the payment for its purchase of stroller wheels from Zhong Shan Sun Red against the advance or note amount and the accrued interest.

### 17. INVENTORIES

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Raw materials	51,592	36,132
Work in progress	17,698	17,254
Finished goods	33,315	12,843
	<u>102,605</u>	<u>66,229</u>

Included above are raw materials of HK\$1,833,000 (1999: nil) which are carried at net realisable value.

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### 18. TRADE AND OTHER RECEIVABLES

The Group has defined credit terms which are agreed with its trade customers. Included in trade and other receivables are trade and bills receivables of HK\$161,815,000 (1999: HK\$145,484,000) and their aged analysis is as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Within 30 days	100,692	91,452
31 to 90 days	56,304	47,207
Over 90 days	4,819	6,825
	<u>161,815</u>	<u>145,484</u>

### 19. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of HK\$152,944,000 (1999: HK\$165,063,000) and their aged analysis is as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Within 30 days	60,946	87,923
31 to 90 days	71,187	62,841
Over 90 days	20,811	14,299
	<u>152,944</u>	<u>165,063</u>

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### 20. BANK BORROWINGS

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Bank borrowings comprise:		
Mortgage loans	—	24,737
Other bank loans	5,653	—
Bank overdraft	192	792
	<u>5,845</u>	<u>25,529</u>
Analysed as:		
Secured	—	24,737
Unsecured	5,845	792
	<u>5,845</u>	<u>25,529</u>
The bank borrowings are repayable as follows:		
Within one year or on demand	5,845	2,429
More than one year, but not exceeding two years	—	1,816
More than two years, but not exceeding five years	—	6,666
More than five years	—	14,618
	<u>5,845</u>	<u>25,529</u>
Less: Amount repayable within one year or on demand and shown under current liabilities	<u>(5,845)</u>	<u>(2,429)</u>
Amount due after one year	<u>—</u>	<u>23,100</u>

## 21. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Shares of HK\$0.10 each		
<i>Authorised:</i>		
At 1st January, 1999, 31st December, 1999 and at 31st December, 2000	1,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 1st January, 1999	720,000,000	72,000
— exercise of share options	6,330,000	633
At 31st December, 1999	726,330,000	72,633
— exercise of share options	502,000	50
— issued under scrip dividend scheme	76,724	8
At 31st December, 2000	726,908,724	72,691

All shares issued by the Company during the year rank pari passu with the then existing shares in all respects.

## 22. SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 2nd December, 1998, the directors of the Company may grant to any director or full time employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at any price but not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

A summary of the movements during the year in the share options granted under the scheme is as follows:

Date of grant	Exercisable period	Exercise price per share HK\$	Balance at 1.1.2000	Number of shares to be issued upon exercise of the share options		Balance at 31.12.2000
				Exercised during the year	Lapsed during the year	
1.2.1999	1.8.1999–31.1.2002	0.68	948,000	(502,000)	(164,000)	282,000
18.8.1999	1.1.2000–17.8.2009	1.26	22,000,000	—	(500,000)	21,500,000



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## 23. RESERVES

	Share premium	Contributed surplus	Special reserve	Investment property revaluation reserve	Property revaluation reserve	Statutory surplus reserve fund	Enterprise expansion fund	Translation reserve	Goodwill reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>											
At 1st January, 1999	89,558	—	38,510	—	30,312	4,330	817	109	—	178,232	341,868
Premium arising from issue of shares	3,672	—	—	—	—	—	—	—	—	—	3,672
Revaluation surplus on investment properties	—	—	—	262	—	—	—	—	—	—	262
Revaluation surplus on leasehold land and buildings	—	—	—	—	191	—	—	—	—	—	191
Profit for the year	—	—	—	—	—	—	—	—	—	125,146	125,146
Transfer of reserves	—	—	—	—	—	4,653	—	—	—	(4,653)	—
Dividends (note 9)	—	—	—	—	—	—	—	—	—	(65,391)	(65,391)
Exchange differences arising from translation of the financial statements of PRC/overseas operations	—	—	—	—	—	—	—	354	—	—	354
At 31st December, 1999	93,230	—	38,510	262	30,503	8,983	817	463	—	233,334	406,102
Premium arising from issue of shares	381	—	—	—	—	—	—	—	—	—	381
Goodwill arising on acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	(88)	—	(88)
Revaluation surplus on leasehold land and buildings	—	—	—	—	4,544	—	—	—	—	—	4,544
Profit for the year	—	—	—	—	—	—	—	—	—	128,363	128,363
Transfer of reserves	—	—	—	—	—	2,116	—	—	—	(2,116)	—
Dividends (note 9)	—	—	—	—	—	—	—	—	—	(79,784)	(79,784)
Exchange differences arising from translation of the financial statements of PRC/overseas operations	—	—	—	—	—	—	—	457	—	—	457
At 31st December, 2000	93,611	—	38,510	262	35,047	11,099	817	920	(88)	279,797	459,975
<b>THE COMPANY</b>											
At 1st January, 1999	89,558	244,461	—	—	—	—	—	—	—	1,143	335,162
Premium arising from issue of shares	3,672	—	—	—	—	—	—	—	—	—	3,672
Profit for the year	—	—	—	—	—	—	—	—	—	65,310	65,310
Dividends (note 9)	—	—	—	—	—	—	—	—	—	(65,391)	(65,391)
At 31st December, 1999	93,230	244,461	—	—	—	—	—	—	—	1,062	338,753
Premium arising from issue of shares	381	—	—	—	—	—	—	—	—	—	381
Profit for the year	—	—	—	—	—	—	—	—	—	80,971	80,971
Dividends (note 9)	—	—	—	—	—	—	—	—	—	(79,784)	(79,784)
At 31st December, 2000	93,611	244,461	—	—	—	—	—	—	—	2,249	340,321

The special reserve represents the difference between the nominal value of shares of the subsidiary acquired together with its share premium and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation.

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation.

**23. RESERVES (continued)**

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiaries of the Group are required to maintain three statutory reserves, being a statutory surplus reserve fund, an enterprise expansion fund and a staff welfare and incentive bonus fund which are not distributable. Appropriations to such reserves are made out of net profit after taxation as per the statutory accounts of the PRC subsidiaries and the amount and allocation basis are decided by its board of directors annually.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at 31st December, 2000 consisted of contributed surplus and accumulated profits totalling HK\$246,710,000 (1999: HK\$245,523,000).

**24. DEFERRED TAXATION**

**THE GROUP**  
**2000 & 1999**  
HK\$'000

Balance at 1st January and 31st December	260
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At the balance sheet date, the major components of the deferred taxation liability of the Group related entirely to the tax effect of timing differences attributable to the excess of tax allowances over depreciation charged in the financial statements.

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of the leasehold buildings and land use rights in the PRC as it is not expected that the potential deferred taxation liability will be crystallised in the foreseeable future.

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of leasehold land and buildings and investment properties in Hong Kong as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

**25. LOANS FROM MINORITY SHAREHOLDERS**

The loans are unsecured, interest free and have no fixed terms of repayment. The minority shareholders agreed not to demand repayment within twelve months from the balance sheet date and the amount is therefore shown as non-current.

## Notes to the Financial Statements

For the year ended 31st December, 2000

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### 26. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 HK\$'000	1999 HK\$'000
Profit from ordinary activities before taxation	131,943	132,534
Interest income	(10,086)	(11,284)
Interest on bank and other borrowings	1,689	1,556
Rental income	(173)	(372)
(Gain) loss on disposal of property, plant and equipment	(129)	8,552
Write off of intellectual property rights	—	109
Depreciation and amortisation of property, plant and equipment	21,413	15,252
Amortisation of intellectual property rights	5,981	5,995
(Surplus) deficit arising on revaluation of leasehold land and buildings	(729)	649
Amortisation of pre-operating expenses	—	409
Increase in inventories	(36,142)	(1,947)
Increase in trade and other receivables	(29,895)	(90,256)
(Decrease) increase in trade and other payables	(55,570)	63,335
Net cash inflow from operating activities	<u>28,302</u>	<u>124,532</u>

### 27. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 1999, leasehold land and buildings with net book value of HK\$12,138,000 were transferred to investment properties.

## 28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Bank borrowings, excluding bank overdraft HK\$'000	Minority interests HK\$'000	Loans from minority shareholders HK\$'000
At 1st January, 1999	161,558	36,054	—	—
Proceeds from issue of shares	4,305	—	—	—
Bank loans raised	—	25,500	—	—
Repayment during the year	—	(36,817)	—	—
Issue of shares in a subsidiary to minority shareholders	—	—	77	—
Minority share of results for the year	—	—	(1)	—
At 31st December, 1999	165,863	24,737	76	—
Proceeds from issue of shares	342	—	—	—
Shares issued under scrip dividend scheme	97	—	—	—
Bank loans raised	—	5,653	—	—
Repayment during the year	—	(24,737)	—	—
Capital contribution from minority shareholders	—	—	1	—
Loans from minority shareholders	—	—	—	6,069
Minority share of results for the year	—	—	(1,922)	—
Acquisition of additional interest in a subsidiary	—	—	11	—
At 31st December, 2000	166,302	5,653	(1,834)	6,069

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For the year ended 31st December, 2000

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### 29. LEASE COMMITMENTS

At the balance sheet date, the Group had commitments payable in the following year under non-cancellable operating leases in respect of rented premises as follows:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Operating leases which expire:		
Within one year	1,242	1,067
In the second to fifth year inclusive	719	304
Over five years	<u>1,895</u>	<u>1,916</u>
	<u>3,856</u>	<u>3,287</u>

The amount over five years represents leases entered into by the Group with the directors of the Company, Messrs. Huang Ying Yuan, Tsang Yat Kiang, Chen Hsing Shin and Chen Jo Wan.

The Company had no outstanding commitments under non-cancellable operating leases at the balance sheet date.

### 30. CAPITAL COMMITMENTS

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>10,059</u>	<u>5,761</u>

The Company had no significant capital commitments at the balance sheet date.

### 31. PLEDGE OF ASSETS

At 31st December, 1999, certain of the Group's leasehold properties with an aggregate carrying value of HK\$37,800,000 were pledged to a bank to secure general banking facilities granted to the Group, of which, HK\$24,737,000 were utilised.

During the year, the liabilities under the above facilities were fully repaid and the assets pledged were released.

## 32. CONTINGENT LIABILITIES

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Bills discounted with recourse	4,895	2,993

At 31st December, 2000, the Company had guarantees of approximately HK\$80.0 million (1999: HK\$108.5 million) given to banks in respect of banking facilities granted to certain subsidiaries of the Company.

## 33. RETIREMENT BENEFITS SCHEME

The Company and its subsidiaries in Hong Kong operate defined contribution retirement benefits scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost charged to income statement represents contributions payable to the funds by the Group at rates specified in the rules of the schemes. Where there are employees who leave the scheme prior to vesting fully in the contribution, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there was no significant forfeited contributions, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contributions payable in the future years.

## Notes to the Financial Statements

For the year ended 31st December, 2000

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### 34. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had transactions and balances with the directors and related parties, some of which are also deemed to be connected parties pursuant to the Rules Governing the Listing of Securities on the Stock Exchange. The transactions during the year and balances with them at the balance sheet date, are as follows:

(a) Transactions and balances with connected or related parties:

Name of party	Interested directors	Nature of transactions	2000 HK\$'000	1999 HK\$'000
Zhong Shan Sun Red	<i>(note i)</i>	Sales of plastic materials by the Group <i>(note ii)</i>	—	8,210
		Purchase of stroller wheels by the Group <i>(note ii)</i>	—	38,824
		Trade payable by the Group on 31st December	—	1,411
Yojin Industrial Corporation	Huang Ying Yuan	Rental expenses paid by the Group <i>(note iii)</i>	911	879
	Huang Chen Li Chu	Purchase of fabrics and sponge and plastic parts by the Group <i>(note ii)</i>	110	307
Competent Mind Limited	Huang Ying Yuan Tsang Yat Kiang Chen Hsing Shin Leung Man Fai	Consultancy fee paid by the Group <i>(note iv)</i>	—	900
Chen Chin Yuan	<i>(note v)</i>	Rental expenses paid by the Group <i>(note iii)</i>	164	163
Lo Chih Chung	<i>(note vi)</i>	Other receivable by the Group on 31st December	—	77

## 34. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with directors:

Name	Nature of transactions	2000	1999
		HK\$'000	HK\$'000
Huang Ying Yuan	Rental expenses paid by the Group (note iii)	379	377
Tsang Yat Kiang	Rental expenses paid by the Group (note iii)	228	227
Chen Hsing Shin	Rental expenses paid by the Group (note iii)	379	377
Huang Chen Li Chu	Rental expenses paid by the Group (note iii)	15	31
Chen Jo Wan	Rental expenses paid by the Group (note iii)	228	227

Other than the above, at 31st December, 2000, the Group also had loans from minority shareholders of HK\$6,069,000 (1999: nil), details are disclosed in note 25. These loans are made to the related subsidiaries in the proportion of their interests in the respective subsidiaries, as appropriate.

Notes:

- i. At 1st January, 2000, directors of the Company, Messrs. Huang Ying Yuan, Tsang Yat Kiang and Chen Hsing Shin, resigned as directors of Zhong Shan Sun Red. After that date, Zhong Shan Sun Red is no longer treated as a related party and transactions with it are not included in the above table.
- ii. These transactions were carried out at market price or, where no market price was available, at terms determined and agreed by both parties.
- iii. The rentals were charged in accordance with the relevant tenancy agreements and the prevailing rent is equivalent or approximate to the market rentals as certified by an independent firm of professional property valuers or estimated by the directors at the time when the tenancy agreements were entered into.
- iv. This transaction was carried out pursuant to the service agreement entered into by both parties.
- v. Chen Chin Yuan is a brother of Chen Hsing Shin.
- vi. At 31st December, 1999, Lo Chih Chung owned 20% interest in a subsidiary of the Company. During the year, the Group acquired his entire interest in that subsidiary. The amount due from him was unsecured, non-interest bearing and fully repaid during the year.



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### 35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2000 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company <i>(note i)</i>	Principal activities <i>(note ii)</i>
Acoustic Power Limited	British Virgin Islands	US\$100 ordinary shares	51%	Investment holding
Angel Juvenile Products (Zhongshan) Co., Ltd.	PRC	US\$1,200,000 registered capital	100%	Manufacture and trading of strollers
Kintop Limited	Hong Kong	HK\$2 ordinary shares	100%	Trading of baby health care products
Lerado China Limited	British Virgin Islands	HK\$5,000 ordinary shares	100%	Investment holding and trading of strollers in Taiwan
Lerado Group Limited	British Virgin Islands	HK\$10,702 ordinary shares	100%	Investment holding
Lerado H.K. Limited	Hong Kong	HK\$5,000 ordinary shares	100%	Trading of strollers in Hong Kong and Taiwan
Lerado International Limited	British Virgin Islands	HK\$5,000 ordinary shares	100%	Investment holding
Lerado Overseas Limited	British Virgin Islands	HK\$5,000 ordinary shares	100%	Provision of purchasing and marketing services in Taiwan
Lerado (USA) Inc.	USA	US\$100,000 common stock	80%	Trading of battery operating ride-on cars
Link Treasure Limited	British Virgin Islands	US\$5,000 ordinary shares	100%	Provision of research and development services in Taiwan
Peaceful Cove Limited	British Virgin Islands	US\$1 ordinary shares	100%	Investment holding
Shanghai Lerado Daily Article Co., Ltd.	PRC	US\$3,760,000 registered capital	100%	Manufacture and trading of toys

## 35. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company <i>(note i)</i>	Principal activities <i>(note ii)</i>
Shanghai Lerado Nursery Products Company Limited	PRC	US\$1,165,862 registered capital	100%	Manufacture and trading of feeding bottle
Smart Global Limited	British Virgin Islands	US\$10 ordinary shares	80%	Investment holding
中山隆順日用 製品有限公司	PRC	US\$6,379,499 registered capital	100%	Manufacture and trading of strollers
中山市隆成日用 製品有限公司	PRC	US\$2,700,000 registered capital	100%	Manufacture and trading of strollers
中山飛龍服飾 用品有限公司	PRC	US\$500,000 registered capital	51%	Manufacturing and trading of baby wears

*Notes:*

- i. The Company directly holds the interest in Lerado Group Limited, all other interests shown above are indirectly held by the Company.
- ii. The principal activities are carried out in place of incorporation/establishment except as otherwise stated under principal activities above.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

The above tables list the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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### 36. SEGMENT INFORMATION

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

	Turnover		Contribution to profit from ordinary activities before taxation	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
United States	769,404	749,994	70,026	75,034
Europe	244,204	208,504	39,030	37,278
Australia	42,905	34,975	6,446	5,011
South America	34,943	23,956	3,337	1,754
Others	88,830	49,237	4,707	3,729
	<u>1,180,286</u>	<u>1,066,666</u>	<u>123,546</u>	<u>122,806</u>
Interest income — net			<u>8,397</u>	<u>9,728</u>
Profit from ordinary activities before taxation			<u>131,943</u>	<u>132,534</u>

## Notes to the Financial Statements

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### 36. SEGMENT INFORMATION (continued)

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

	Turnover		Contribution to profit from ordinary activities before taxation	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Strollers	720,989	740,805	71,080	65,350
Beds	200,746	124,330	16,670	13,610
Soft goods	111,195	95,320	22,088	24,889
Others	147,356	106,211	13,708	18,957
	<u>1,180,286</u>	<u>1,066,666</u>	<u>123,546</u>	<u>122,806</u>
Interest income — net			<u>8,397</u>	<u>9,728</u>
Profit from ordinary activities before taxation			<u>131,943</u>	<u>132,534</u>