

1. GENERAL

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

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group adopted a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants, for the first time. Adoption of these standards has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of the new and revised standards has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) *Events after the Balance Sheet Date*, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment which has increased the accumulated profits of the Group and the Company as at 1st January, 2000 by HK\$43,605,000 and as at 1st January, 2001 by HK\$57,977,000.

As a result of the revision of SSAP 9 (Revised) *Events after the Balance Sheet Date*, SSAP 18 *Revenue* has also been revised. Accordingly, the dividends proposed or declared after balance sheet date by the subsidiaries are not recognised by the Company at the balance sheet date. This change in accounting policy has also been applied retrospectively, resulting in a prior period adjustment which has decreased the accumulated profits of the Company at 1st January, 2000 and 1st January, 2001 by HK\$44,948,000 and HK\$59,930,000.

Leases

SSAP 14 (Revised) *Leases* has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for all of the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 *Segment Reporting*. Segment disclosures for the year ended 31st December, 2000 have been amended so that they are presented on a consistent basis.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES (Continued)

Goodwill

In the current year, the Group has adopted SSAP 30 *Business Combinations* and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised on a straight line basis over its estimated useful life. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance is resulted.

3. 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 arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1st January, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of a jointly controlled entity is included within the carrying amount of the jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition after 1st January, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance is resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interest in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interest in associates is stated at the Group's share of the net assets of the associates less any identified impairment loss.

Interest in joint ventures

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in its jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity plus goodwill on acquisition in so far as it has not already been written off, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entity is included in the consolidated income statement.

Turnover

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

Revenue recognition

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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 are 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 twenty years or less.

Property, plant and equipment

Property, plant and equipment other than land and buildings and construction in progress are stated at cost less depreciation and amortisation and accumulated impairment losses.

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 and impairment losses. 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 the revaluation of 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Construction in progress is stated at cost less any identified impairment loss. Cost 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:

Freehold land	Nil
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%

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.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intellectual property rights

Intellectual property rights are stated at cost less amortisation and accumulated impairment losses. 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 and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

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 is calculated using the weighted average method.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Operating leases

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such 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 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 an asset will crystallise in the foreseeable future.

Retirement benefits scheme

The pension costs charged in the income statement represent the contributions payable in the current year to the Group's Mandatory Provident Fund Scheme.

4. INVESTMENT INCOME

	2001 HK\$'000	2000 HK\$'000
Bank interest income	2,419	8,473
Other interest income	798	1,613
Property rental income	602	173
	3,819	10,259

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

Notes to Financial Statements

For the year ended 31st December, 2001

5. PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration		
Basic salaries and allowances	129,465	131,686
Bonus	16,130	22,153
Retirement benefit scheme contributions (2000: net of forfeited contributions of HK\$10,000)	945	449
	146,540	154,288
Auditors' remuneration		
Current year	1,636	1,424
Underprovision in prior year	71	95
	1,707	1,519
Amortisation of intellectual property rights (included in other operating expenses)	5,861	5,981
Depreciation and amortisation of property, plant and equipment	23,724	21,413
Loss on disposal of property, plant and equipment	1,572	—
Unrealised holding loss on other investments	2,300	—
Deficit arising on revaluation of land and buildings	5,254	—
Deficit arising on revaluation of investment properties	1,138	—
Impairment loss recognised in respect of intellectual property rights (included in other operating expenses)	8,476	—
Impairment of goodwill (included in other operating expenses)	48	—
and after crediting:		
Release of negative goodwill to other revenue	269	—
Gain on disposal of property, plant and equipment	—	129
Surplus on revaluation of land and buildings	—	729
	—	—

6. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

	2001 HK\$'000	2000 HK\$'000
Directors' fees		
Non-executive directors	105	83
Independent non-executive directors	260	274
	365	357
Other emoluments		
Executive directors		
Basic salaries and allowances	8,364	7,772
Bonus	8,835	12,500
Retirement benefits scheme contributions	190	38
	17,389	20,310
	17,754	20,667

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

	2001 Number of directors	2000 Number of directors
Nil to HK\$1,000,000	6	6
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	2	—
HK\$3,500,001 to HK\$4,000,000	1	3
HK\$5,500,001 to HK\$6,000,000	1	—
HK\$6,500,001 to HK\$7,000,000	—	1
	11	11

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) Highest paid individuals

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

Notes to Financial Statements

For the year ended 31st December, 2001

7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	1,047	60
Bank borrowings not wholly repayable within five years	—	1,560
Other borrowings	8	69
	1,055	1,689

8. TAXATION

	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	2,454	1,371
Overprovision in prior years	(846)	(70)
	1,608	1,301
Other areas		
The People's Republic of China (the "PRC")	2,034	2,901
Other jurisdictions	885	1,300
	2,919	4,201
	4,527	5,502

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

Taxation in other areas 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 29.

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

9. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
2000 final dividend of HK8 cents (1999 final dividend: HK6 cents with a scrip dividend option) per share	57,977	43,605
2001 interim dividend of HK2 cents (2000 interim dividend: HK3 cents) per share	14,494	21,807
	72,471	65,412

The 2001 final dividend of HK6 cents (2000 final dividend: HK8 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

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

	2001	2000
Net profit for the year and earnings for the purposes of the basic and diluted earnings per share	HK\$105,945,000	HK\$128,363,000
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	724,731,891	726,700,338
Effect of dilutive potential ordinary shares in respect of share options	101,774	560,459
Weighted average number of ordinary shares for the purposes of diluted earnings per share	724,833,665	727,260,797

11. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1st January, 2001	12,400
Adjustment on valuation	(1,400)
At 31st December, 2001	11,000

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

Notes to Financial Statements

For the year ended 31st December, 2001

11. INVESTMENT PROPERTIES (Continued)

Investment properties were revalued at 31st December, 2001 by American Appraisal Hongkong Limited, an independent property valuer, on an open market value existing use basis. The valuation gave rise to a revaluation deficit of HK\$1,400,000 of which HK\$262,000 was charged to investment property revaluation reserve to the extent of the surplus previously credited and HK\$1,138,000 was charged to the income statement.

12. PROPERTY, PLANT AND EQUIPMENT

	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
THE GROUP							
COST OR VALUATION							
At 1st January, 2001	140,920	6,233	79,799	33,517	10,442	654	271,565
Exchange realignment	(880)	—	(19)	(4)	(1)	(1,279)	(2,183)
Additions	16,456	—	16,935	4,974	1,015	30,266	69,646
Acquired on acquisition of subsidiaries	21,232	—	18,071	561	283	20,818	60,965
Disposals	—	(175)	(10,441)	(249)	(283)	—	(11,148)
Adjustment on valuation	(6,987)	—	—	—	—	—	(6,987)
At 31st December, 2001	170,741	6,058	104,345	38,799	11,456	50,459	381,858
Comprising:							
At cost	—	6,058	104,345	38,799	11,456	50,459	211,117
At valuation — 2001	170,741	—	—	—	—	—	170,741
	170,741	6,058	104,345	38,799	11,456	50,459	381,858
DEPRECIATION AND AMORTISATION							
At 1st January, 2001	—	2,838	27,057	13,507	5,178	—	48,580
Exchange realignment	—	—	(64)	(2)	(1)	—	(67)
Acquired on acquisition of subsidiaries	—	—	4,161	83	78	—	4,322
Provided for the year	7,361	929	7,934	6,228	1,272	—	23,724
Eliminated on disposals	—	(175)	(2,463)	(202)	(261)	—	(3,101)
Adjustment on valuation	(7,361)	—	—	—	—	—	(7,361)
At 31st December, 2001	—	3,592	36,625	19,614	6,266	—	66,097
NET BOOK VALUES							
At 31st December, 2001	170,741	2,466	67,720	19,185	5,190	50,459	315,761
At 31st December, 2000	140,920	3,395	52,742	20,010	5,264	654	222,985

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2001 HK\$'000	2000 HK\$'000
Held in Hong Kong under long leases	33,000	37,800
Held in the PRC under medium term land use rights	125,841	103,120
Held in Taiwan, freehold	11,900	—
	170,741	140,920

A leasehold building of the Group with net book value of HK\$562,000 (2000: HK\$700,000) as at 31st December, 2001 was valued by the directors, who estimated that its fair value was not materially different from its carrying amount.

The remaining land and buildings of the Group were revalued at 31st December, 2001 by American Appraisal Hongkong Limited, an independent property valuer not connected to the Group. The land and buildings in Hong Kong and Taiwan were valued on a open market value basis, the buildings and structures in the PRC were valued on a 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.

A deficit on revaluation of HK\$5,254,000 was charged to the income statement and a surplus of HK\$5,628,000 was credited to property revaluation reserve.

During the year, the Group has acquired certain rights to the use of land (the "land rights") in the PRC at a cost of approximately HK\$15,392,000 (2000: nil) and has erected buildings thereon. As at 31st December, 2001, the Group had not been granted formal title by the PRC government authority. In the opinion of the directors, the absence of formal title to these land rights does not impair the value of the relevant properties to the Group. The directors also believe that formal title to these land rights will be granted to the Group in due course.

If the land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated amortisation at HK\$139,609,000 (2000: HK\$111,266,000).

13. GOODWILL

	THE GROUP HK\$'000
COST	
Arising on acquisition during the year and balance at 31st December, 2001	48
AMORTISATION AND IMPAIRMENT	
Impairment loss recognised during the year and balance at 31st December, 2001	48
NET BOOK VALUE	
At 31st December, 2001	—

Notes to Financial Statements

For the year ended 31st December, 2001

14. NEGATIVE GOODWILL

	THE GROUP HK\$'000
GROSS AMOUNT	
Arising on acquisition during the year and balance at 31st December, 2001	2,692
RELEASED TO INCOME	
Released during the year and balance at 31st December, 2001	<u>269</u>
CARRYING AMOUNT	
At 31st December, 2001	<u>2,423</u>
At 31st December, 2000	<u>—</u>

The negative goodwill is released to other revenue on a straight line basis over 10 years based on the remaining weighted average useful lives of the identifiable acquired depreciable assets.

15. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares	244,660	244,660
Amounts due from subsidiaries	162,213	166,387
	<u>406,873</u>	<u>411,047</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.

Details of the Company's principal subsidiaries at 31st December, 2001 are set out in note 41.

The amounts due from subsidiaries are unsecured, non-interest bearing 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.

16. INTELLECTUAL PROPERTY RIGHTS

	THE GROUP HK\$'000
COST	
At 1st January, 2001 and at 31st December, 2001	<u>88,982</u>
AMORTISATION AND IMPAIRMENT	
At 1st January, 2001	17,943
Provided for the year	5,861
Impairment loss recognised in the year	<u>8,476</u>
At 31st December, 2001	<u>32,280</u>
NET BOOK VALUES	
At 31st December, 2001	<u>56,702</u>
At 31st December, 2000	<u>71,039</u>

The Group's intellectual property rights are generally amortised over a period ranging from 4 to 18 years. During the year, due to the new design and development of components of some products, the directors determined that certain intellectual property rights would no longer generate future revenue and their carrying amounts have therefore been written off to the income statement.

17. INTEREST IN ASSOCIATES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Share of net assets of associates	—	—
Loan to an associate	9,360	—
	<u>9,360</u>	<u>—</u>

17. INTEREST IN ASSOCIATES (Continued)

Details of the Group's associates 31st December, 2001 are as follows:

Name of associate	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 indirectly	Principal activity
Weblink Technology Limited	British Virgin Islands	US\$100	30%	Investment holding
珠海保稅區隆宇光電科技有限公司	PRC	US\$1,548,000	30%	Inactive

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the amount will not be repayable within twelve months from the balance sheet date and is therefore shown as non-current.

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Share of net assets of a jointly controlled entity	49,117	—
Goodwill arising on acquisition	3,181	—
Impairment loss on goodwill	(3,181)	—
	49,117	—

The jointly controlled entity was incorporated for the principal purpose of project investment. Due to the change of economic environment, the jointly controlled entity had not commenced its business and remained inactive at the balance sheet date. The directors are of the opinion that the goodwill should not be carried forward in the financial statements and that it should be written off to the income statement accordingly.

As at 31st December, 2001, the net assets of the jointly controlled entity comprised of loans to shareholders and certain monetary assets which were considered recoverable. The directors are of the opinion that the investment is worth at least its carrying value.

18. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Details of the Group's jointly controlled entity at 31st December, 2001 are as follows:

Name of jointly controlled entity	Place of incorporation	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by the Company indirectly	Principal activity
E-1 SkyTech Investment Company Limited	Cayman Islands	HK\$350,000	50%	Inactive

The Group's entitlement to share in the profits of its jointly controlled entity is in proportion to its equity interest.

19. OTHER INVESTMENTS

The carrying amount of other investments represents the fair value of unlisted securities at the balance sheet date.

20. LONG-TERM RECEIVABLE

As at 31st December, 2000, the amount represented an advance to Glory Time Investments Limited ("Glory Time") which held 40% interest in 中山市國宏塑膠製品有限公司 (formerly known as Zhong Shan Sun Red General Electronic Co., Ltd.) ("國宏"). The advance carried interest at commercial rates and was secured by a charge of the shares of Glory Time, a pledge of the interest in 國宏, together with personal guarantee from the shareholders of Glory Time.

Pursuant to a deed and subsequent supplementary deeds entered into by the subsidiary of the Company in December 1997, March 2000 and January 2001, whereby, among other things, the Group would 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 would be set off against part of the existing advance to Glory Time to the satisfaction of the following conditions on or before 31st December, 2001:

- (i) completion of acquisition by Glory Time of the remaining 60% interest in 國宏;
- (ii) 國宏 being registered as a foreign wholly-owned enterprise; and
- (iii) the obtaining of all necessary approvals in accordance with the relevant PRC laws and regulations.

The convertible note would carry interest at 7% per annum and could 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 could be extended for another two years at the option of the Group.

During the year, the Group exercised its right to convert the loan directly into a 52% equity interest in Glory Time which then, together with 國宏, became indirect non-wholly owned subsidiaries of the Company.

Notes to Financial Statements

For the year ended 31st December, 2001

21. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	37,123	51,592
Work in progress	12,359	17,698
Finished goods	35,106	33,315
	<hr/>	<hr/>
	84,588	102,605

Included above are finished goods of HK\$1,347,000 (2000: nil) which are carried at net realisable value.

At 31st December, 2000, raw materials of HK\$1,833,000 are carried at net realisable value.

22. 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 receivables of HK\$199,695,000 (2000: HK\$161,815,000) and their aged analysis is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Within 30 days	94,053	100,692
31 to 90 days	85,064	56,304
Over 90 days	20,578	4,819
	<hr/>	<hr/>
	199,695	161,815

23. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$129,885,000 (2000: HK\$152,944,000) and their aged analysis is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Within 30 days	48,696	60,946
31 to 90 days	68,984	71,187
Over 90 days	12,205	20,811
	<hr/>	<hr/>
	129,885	152,944

24. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

The amount due to the jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

25. SHORT TERM BANK BORROWINGS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Short term bank borrowings comprise:		
Bank loans	4,400	5,653
Bank overdraft	—	192
	4,400	5,845
Analysed as:		
Secured	500	—
Unsecured	3,900	5,845
	4,400	5,845

26. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Shares of HK\$0.10 each		
Authorised:		
At 1st January, 2000, 31st December, 2000 and at 31st December, 2001	1,000,000,000	100,000
Issued and fully paid:		
At 1st January, 2000	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
Shares repurchased and cancelled	(4,102,000)	(410)
At 31st December, 2001	722,806,724	72,281

Notes to Financial Statements

For the year ended 31st December, 2001

26. SHARE CAPITAL (Continued)

All shares issued by the Company during the year ended 31st December, 2000 rank pari passu with the then existing shares in all respects.

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
January 2001	1,550,000	0.94	0.91	1,428
February 2001	650,000	0.97	0.84	589
October 2001	220,000	0.88	0.87	192
November 2001	570,000	0.88	0.87	498
December 2001	1,112,000	0.89	0.79	928
	<u>4,102,000</u>			<u>3,635</u>

The repurchased shares were subsequently cancelled upon repurchase and accordingly, the issued capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company as set out in note 28.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

27. SHARE OPTIONS

At 31st December, 2001, the following options to subscribe for shares were outstanding under the Company's share option scheme:

Date of grant	Exercisable period	Exercise price per share HK\$	Number of shares
			to be issued upon exercise of the share options
1st February, 1999	1st August, 1999 — 31st January, 2002 (Note)	0.68	282,000
18th August, 1999	1st January, 2000 — 17th August, 2009	1.26	<u>20,500,000</u>
			<u>20,782,000</u>

Note: These share options were lapsed on 31st January, 2002.

28. 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	Capital redemption reserve	Accumulated profits (deficit)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP												
At 1st January, 2000												
— as originally stated	93,230	—	38,510	262	30,503	8,983	817	463	—	—	233,334	406,102
— prior period adjustment (note 2)	—	—	—	—	—	—	—	—	—	—	43,605	43,605
— as restated	93,230	—	38,510	262	30,503	8,983	817	463	—	—	276,939	449,707
Exchange differences arising from translation of the financial statements of PRC/overseas operations	—	—	—	—	—	—	—	457	—	—	—	457
Premium arising from issue of shares	381	—	—	—	—	—	—	—	—	—	—	381
Goodwill arising on acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	(88)	—	—	(88)
Revaluation surplus on 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)	—	—	—	—	—	—	—	—	—	—	(65,412)	(65,412)
At 31st December, 2000	93,611	—	38,510	262	35,047	11,099	817	920	(88)	—	337,774	517,952
Exchange differences arising from translation of the financial statements of PRC/overseas operations	—	—	—	—	—	—	—	(3,122)	—	—	—	(3,122)
Premium on repurchase of shares	(3,225)	—	—	—	—	—	—	—	—	—	—	(3,225)
Transfer of reserves for cancellation of shares	—	—	—	—	—	—	—	—	—	410	(410)	—
Revaluation deficit on investment properties	—	—	—	(262)	—	—	—	—	—	—	—	(262)
Revaluation surplus on land and buildings	—	—	—	—	5,628	—	—	—	—	—	—	5,628
Profit for the year	—	—	—	—	—	—	—	—	—	—	105,945	105,945
Transfer of statutory reserves	—	—	—	—	—	1,480	—	—	—	—	(1,480)	—
Dividends (note 9)	—	—	—	—	—	—	—	—	—	—	(72,471)	(72,471)
At 31st December, 2001	90,386	—	38,510	—	40,675	12,579	817	(2,202)	(88)	410	369,358	550,445
THE COMPANY												
At 1st January, 2000												
— as originally stated	93,230	244,461	—	—	—	—	—	—	—	—	1,062	338,753
— prior period adjustments												
— restatement of dividends payable (note 2)	—	—	—	—	—	—	—	—	—	—	43,605	43,605
— restatement of dividends receivable (note 2)	—	—	—	—	—	—	—	—	—	—	(44,948)	(44,948)
— as restated	93,230	244,461	—	—	—	—	—	—	—	—	(281)	337,410
Premium arising from issue of shares	381	—	—	—	—	—	—	—	—	—	—	381
Profit for the year	—	—	—	—	—	—	—	—	—	—	65,989	65,989
Dividends (note 9)	—	—	—	—	—	—	—	—	—	—	(65,412)	(65,412)
At 31st December, 2000	93,611	244,461	—	—	—	—	—	—	—	—	296	338,368
Premium on repurchase of shares	(3,225)	—	—	—	—	—	—	—	—	—	—	(3,225)
Transfer of reserves for cancellation of shares	—	—	—	—	—	—	—	—	—	410	(410)	—
Profit for the year	—	—	—	—	—	—	—	—	—	—	72,016	72,016
Dividends (note 9)	—	—	—	—	—	—	—	—	—	—	(72,471)	(72,471)
At 31st December, 2001	90,386	244,461	—	—	—	—	—	—	—	410	(569)	334,688

Notes to Financial Statements

For the year ended 31st December, 2001

28. RESERVES (Continued)

The accumulated profits of the Group include a loss of HK\$883,000 (2000: nil) attributable to the jointly controlled entity.

The special reserve represents the difference between the nominal value of shares of Lerado Group Limited 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.

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 two statutory reserves, being a statutory surplus reserve fund and an enterprise expansion 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, at the balance sheet date, the Company's reserves available for distribution to shareholders comprise:

	2001 HK\$'000	2000 HK\$'000
Contributed surplus	244,461	244,461
Accumulated (deficit) profits	(569)	296
	<hr/>	<hr/>
	243,892	244,757

29. DEFERRED TAXATION

	THE GROUP 2001 & 2000 HK\$'000
Balance at 1st January and 31st December	<hr/> 260

At the balance sheet date, the major component 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 taxation has not been provided on the revaluation surplus arising on the revaluation of the land and buildings and land rights in the PRC and Taiwan as it is not expected that the potential deferred taxation liability will be crystallised in the foreseeable future.

29. DEFERRED TAXATION *(Continued)*

Deferred taxation has not been provided on the revaluation surplus arising on the revaluation of leasehold land and buildings 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.

30. LOANS FROM MINORITY SHAREHOLDERS

The loans are unsecured, non-interest bearing 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 amounts are therefore shown as non-current.

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

	2001 HK\$'000	2000 HK\$'000
Profit from ordinary activities before taxation	113,084	131,943
Interest income	(3,217)	(10,086)
Interest expense	1,055	1,689
Rental income	(602)	(173)
Loss (gain) on disposal of property, plant and equipment	1,572	(129)
Impairment loss recognised in respect of intellectual property rights	8,476	—
Depreciation and amortisation of property, plant and equipment	23,724	21,413
Amortisation of intellectual property rights	5,861	5,981
Deficit (surplus) arising on revaluation of leasehold land and buildings	5,254	(729)
Deficit arising on revaluation of investment properties	1,138	—
Unrealised holding loss on other investments	2,300	—
Share of result of a jointly controlled entity	883	—
Impairment loss on goodwill arising on acquisition of a jointly controlled entity	3,181	—
Release of negative goodwill	(269)	—
Impairment of goodwill	48	—
Decrease (increase) in inventories	24,156	(36,142)
Decrease (increase) in trade and other receivables	14,237	(29,895)
Decrease in trade and other payables	(74,074)	(55,570)
Net cash inflow from operating activities	126,807	28,302

Notes to Financial Statements

For the year ended 31st December, 2001

32. ACQUISITION OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Property, plant and equipment	56,643	—
Trade and other receivables	31,590	—
Inventories	6,139	—
Bank balances and cash	3,278	—
Trade and other payables	(60,826)	—
Minority interests	(17,127)	—
	<hr/>	
Net assets	19,697	—
Goodwill arising on acquisition	48	—
Negative goodwill arising on acquisition	(2,692)	—
	<hr/>	
	17,053	—
	<hr/>	
Satisfied by:		
Long-term receivable (note 20)	15,867	—
Cash consideration paid	1,186	—
	<hr/>	
	17,053	—
	<hr/>	
Analysis of net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:		
Total cash consideration paid	(1,186)	—
Bank balances and cash acquired	3,278	—
	<hr/>	
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	2,092	—
	<hr/>	

The subsidiaries acquired during the year contributed HK\$34,397,000 to the Group's net operating cash flows, received HK\$72,000 in respect of the net returns on investments and servicing of finance, utilised HK\$9,893,000 for investing activities and raised HK\$47,517,000 in respect of financing activities.

The subsidiaries acquired during the year contributed HK\$22,471,000 to the Group's turnover and HK\$7,596,000 to the Group's profit before taxation.

33. 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	Amount due to a jointly controlled entity HK\$'000
At 1st January, 2000	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	—
Repurchase of shares	(3,635)	—	—	—	—
Bank loans raised	—	109,031	—	—	—
Repayment during the year	—	(110,284)	—	—	—
Advance from a jointly controlled entity	—	—	—	—	49,117
Loans from minority shareholders	—	—	—	390	—
Minority share of results for the year	—	—	2,612	—	—
Minority interests arising on acquisition of subsidiary	—	—	17,127	—	—
At 31st December, 2001	162,667	4,400	17,905	6,459	49,117

34. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2001, long-term receivable of HK\$15,867,000 were offset with the consideration paid for the acquisition of a subsidiary.

35. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Minimum lease payments paid under operating leases in respect of premises during the year	5,852	5,919

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Within one year	3,600	3,788
In the second to fifth year inclusive	9,374	8,838
Over five years	—	1,896
	12,974	14,522

Included in the above are operating lease commitments for premises of approximately HK\$9,483,000 (2000: HK\$11,379,000) 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.

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average term ranging from one to eight years and rentals are fixed for an average of seven years.

The Group as lessor

The investment property is expected to generate rental yields of 5% on an ongoing basis and have committed tenant for the next year.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Within one year	386	544
In the second to fifth year inclusive	—	386
	386	930

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

36. CAPITAL COMMITMENTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	14,936	10,059

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

37. PLEDGE OF ASSETS

At 31st December, 2001, certain of the Group's leasehold land and buildings with an aggregate carrying value of HK\$6,000,000 (2000: nil) were pledged to a bank to secure general banking facilities granted to the Group of which HK\$500,000 (2000: nil) were utilised.

38. CONTINGENT LIABILITIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Bills discounted with recourse	—	4,895

At 31st December, 2001, the Company had guarantees of approximately HK\$315.3 million (2000: HK\$80.0 million) given to banks in respect of banking facilities granted to certain subsidiaries of the Company.

39. RETIREMENT BENEFITS SCHEME

Prior to 1st December, 2000, the Company and its subsidiaries in Hong Kong operated defined contribution retirement benefits scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

With effect from 1st December, 2000, the Group joined a Mandatory Provident Fund Scheme ("MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

40. 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 with connected or related parties:

Name of party	Interested directors	Nature of transactions	2001 HK\$'000	2000 HK\$'000
Yojin Industrial Corporation	Huang Ying Yuan	Rental expenses paid by the Group (note i)	831	911
	Huang Chen Li Chu	Purchase of fabrics and sponge and plastic parts by the Group (note ii)	75	110
		Sales made by the Group (note ii)	608	—
Chen Chin Yuan	(note iii)	Rental expenses paid by the Group (note i)	164	164

(b) Transactions with directors:

Name	Nature of transactions	2001 HK\$'000	2000 HK\$'000
Huang Ying Yuan	Rental expenses paid by the Group (note i)	379	379
Tsang Yat Kiang	Rental expenses paid by the Group (note i)	228	228
Chen Hsing Shin	Rental expenses paid by the Group (note i)	379	379
Huang Chen Li Chu	Rental expenses paid by the Group (note i)	25	15
Chen Jo Wan	Rental expenses paid by the Group (note i)	228	228

Other than the above, at 31st December, 2001, the Group also had loans from minority shareholders of HK\$6,459,000 (2000: HK\$6,069,000), details are disclosed in note 30. These loans are made by the minority shareholders to the related subsidiaries in the proportion of their interests in the respective subsidiaries, as appropriate.

Notes:

- i. 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 at the time when the tenancy agreements were entered into.
- 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. Chen Chin Yuan is a brother of Chen Hsing Shin.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2001 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 (note i)	Principal activities (note ii)
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 infant products
Glory Time	British Virgin Islands	US\$1,540,000 ordinary shares	52%	Investment holding
Kintop Limited	Hong Kong	HK\$2 ordinary shares	100%	Trading of infant products
Lerado China Limited	British Virgin Islands	HK\$5,000 ordinary shares	100%	Investment holding and trading of infant products 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 infant products 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.	United States of America	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 Articles Co., Ltd.	PRC	US\$5,260,000 registered capital	100%	Manufacture and trading of nursery products

Notes to Financial Statements

For the year ended 31st December, 2001

41. 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 (note i)	Principal activities (note ii)
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\$7,860,000 registered capital	100%	Manufacture and trading of infant products
中山市隆成日用製品有限公司	PRC	US\$6,330,000 registered capital	100%	Manufacture and trading of infant products
中山飛龍服飾用品有限公司	PRC	US\$500,000 registered capital	51%	Manufacture and trading of baby wears
國宏	PRC	US\$2,300,000 registered capital	52%	Manufacture and trading of stroller wheels
金和信股份有限公司	Taiwan	NTD205,000,000 ordinary shares	100%	Provision of purchasing services in Taiwan

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 table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

42. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three major operating divisions — strollers, beds and playards and soft goods. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Strollers	—	manufacture and distribution of strollers
Beds and playards	—	manufacture and distribution of beds and playards
Soft goods	—	manufacture and distribution of soft goods

42. SEGMENT INFORMATION (Continued)

Segment information about these businesses is presented below:

2001

	Strollers HK\$'000	Beds and playards HK\$'000	Soft goods HK\$'000	Others HK\$'000	Consolidated HK\$'000
INCOME STATEMENT					
External sales	661,536	159,184	100,169	197,041	1,117,930
Segment result	81,538	20,715	14,364	20,844	137,461
Investment income					3,819
Other operating expenses					(23,077)
Profit from operations					118,203
Finance costs					(1,055)
Impairment on goodwill arising on acquisition of a jointly controlled entity					(3,181)
Share of results of a jointly controlled entity					(883)
Profit from ordinary activities before taxation					113,084
Taxation					(4,527)
Profit before minority interests					108,557
BALANCE SHEET					
Assets:					
Segment assets	452,385	86,697	73,959	208,156	821,197
Interest in associates					9,360
Interest in a jointly controlled entity					49,117
Unallocated corporate assets					32,997
Consolidated total assets					912,671
Liabilities:					
Segment liabilities	124,370	28,547	17,788	43,861	214,566
Unallocated corporate liabilities					57,474
Consolidated total liabilities					272,040
OTHER INFORMATION					
Capital additions	76,035	12,788	8,102	29,412	126,337
Depreciation and amortisation	15,428	3,635	1,706	8,816	29,585

Notes to Financial Statements

For the year ended 31st December, 2001

42. SEGMENT INFORMATION (Continued)

2000

	Strollers HK\$'000	Beds and playards HK\$'000	Soft goods HK\$'000	Others HK\$'000	Consolidated HK\$'000
INCOME STATEMENT					
External sales	720,989	200,746	111,195	147,356	1,180,286
Segment results	74,526	17,478	23,159	14,191	129,354
Investment income					10,259
Other operating expenses					(5,981)
Profit from operations					133,632
Finance costs					(1,689)
Profit from ordinary activities before taxation					131,943
Taxation					(5,502)
Profit before minority interests					126,441
BALANCE SHEET					
Assets:					
Segment assets	443,361	123,535	60,473	184,475	811,844
Unallocated corporate assets					15,563
Consolidated total assets					827,407
Liabilities:					
Segment liabilities	133,055	37,047	20,520	37,062	227,684
Unallocated corporate liabilities					10,914
Consolidated total liabilities					238,598
OTHER INFORMATION					
Capital additions	10,363	2,885	1,598	24,846	39,692
Depreciation and amortisation	14,145	4,109	1,745	7,395	27,394

42. SEGMENT INFORMATION (Continued)

Geographical segments

The Group's operations are principally located in Hong Kong, the PRC and Taiwan. Group administration is carried out in Hong Kong and Taiwan and the manufacturing function is carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market		Contribution to profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
United States of America	664,420	769,404	77,667	73,421
Europe	267,834	244,204	35,961	40,922
Australia	36,547	42,905	4,891	6,759
South America	35,656	34,943	4,472	3,499
Others	113,473	88,830	14,470	4,753
	1,117,930	1,180,286	137,461	129,354
Investment income			3,819	10,259
Other operating expenses			(23,077)	(5,981)
Profit from operations			118,203	133,632

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
United States of America	4,836	4,981	11	258
Hong Kong	200,019	208,292	597	1,540
PRC	366,465	288,486	77,951	34,702
Taiwan	341,351	325,648	47,778	3,192
	912,671	827,407	126,337	39,692