

► Notes to the Financial Statements

For the year ended 31st December, 2002

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, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the inclusion of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of subsidiaries outside Hong Kong at the closing rate for the period. They are now required to be translated at an average rate. This change in accounting policy has not had any significant effect on the results for the current or prior accounting periods.

Cash flow statements

In the current year, the Group adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interest paid and received and dividends paid, which were previously presented under a separate heading, are classified as operating, investing and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee benefits

In the current year, the Group adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. The principal effect of the implementation of SSAP 34 is in connection with the recognition of costs for the Group's defined benefit retirement benefit plan. This change in accounting policy has not had any significant effect on the results for the current or prior accounting periods.

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For the year ended 31st December, 2002

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 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 subsidiaries is presented separately in the balance sheet.

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 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.

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For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 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 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.

► Notes to the Financial Statements

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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.

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

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%

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For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale 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. An 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 other 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.

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.

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.

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For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. 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 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.

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 assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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 contributions payable in the current year to the Group's Mandatory Provident Fund Scheme ("MPF Scheme"), operated for its employees in Hong Kong, are charged in the income statement as retirement benefits scheme contributions.

The operations in the PRC and Taiwan are members of state-managed retirement benefits schemes operated by the PRC and Taiwan government and the retirement benefits scheme contributions charged to the income statement represent the amount of contributions payable by the subsidiaries in the PRC and Taiwan to their retirement benefits schemes.

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4. INVESTMENT INCOME

	2002 HK\$'000	2001 HK\$'000
Bank interest income	1,187	2,419
Property rental income	313	602
Other interest income	—	798
	1,500	3,819

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

5. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration		
Basic salaries and allowances	132,905	129,465
Bonus	15,438	16,130
Retirement benefit scheme contributions	4,997	2,819
	153,340	148,414
Auditors' remuneration		
Current year	1,446	1,636
Underprovision in prior year	135	71
	1,581	1,707
Amortisation of intellectual property rights (included in other operating expenses)	5,310	5,861
Deficit arising on revaluation of land and buildings	6,750	5,254
Deficit arising on revaluation of investment properties	500	1,138
Depreciation and amortisation of property, plant and equipment	28,422	23,724
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
Loss on disposal of property, plant and equipment	1,179	1,572
Unrealised holding loss on other investments	—	2,300
and after crediting:		
Release of negative goodwill to other operating income	269	269

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For the year ended 31st December, 2002

6. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Directors' fees		
Non-executive directors	98	105
Independent non-executive directors	260	260
	358	365
Other emoluments		
Executive directors		
Basic salaries and allowances	9,254	8,364
Bonus	8,854	8,835
Retirement benefits scheme contributions	180	190
	18,288	17,389
	18,646	17,754

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

	2002 Number of directors	2001 Number of directors
Nil to HK\$1,000,000	5	6
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	—
HK\$3,000,001 to HK\$3,500,000	1	2
HK\$3,500,001 to HK\$4,000,000	2	1
HK\$4,000,001 to HK\$4,500,000	1	—
HK\$5,500,001 to HK\$6,000,000	—	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 for both years.

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For the year ended 31st December, 2002

7. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	46	1,047
Other borrowings	6	8
	52	1,055

8. TAXATION

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	3,394	2,454
Under(over)provision in prior years	262	(846)
	3,656	1,608
Other areas		
The PRC	4,580	2,034
Other jurisdictions	774	885
	5,354	2,919
	9,010	4,527

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 jurisdiction.

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 27.

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

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9. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
2001 final dividend of HK6 cents (2000 final dividend: HK8 cents) per share	43,347	57,977
2002 interim dividend of HK2 cents (2001 interim dividend: HK2 cents) per share	14,449	14,494
	<u>57,796</u>	<u>72,471</u>

The 2002 final dividend of HK6 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:

	2002	2001
Net profit for the year and earnings for the purposes of the basic and diluted earnings per share	<u>HK\$93,130,000</u>	<u>HK\$105,945,000</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	722,451,541	724,731,891
Effect of dilutive potential ordinary shares in respect of share options	6,457	101,774
	<u>722,457,998</u>	<u>724,833,665</u>

11. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1st January, 2002	11,000
Deficit on valuation charged to the income statement	<u>(500)</u>
At 31st December, 2002	<u>10,500</u>

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

Investment properties were revalued at 31st December, 2002 by American Appraisal Hongkong Limited, an independent property valuer, on an open market value existing use basis.

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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, 2002	170,741	6,058	104,345	38,799	11,456	50,459	381,858
Exchange realignment	(39)	—	18	(7)	1	358	331
Additions	507	1,224	4,002	8,692	731	25,441	40,597
Disposals	—	(697)	(1,758)	(132)	(196)	—	(2,783)
Transfer	49,829	—	—	—	—	(49,829)	—
Adjustment on valuation	(3,940)	—	—	—	—	—	(3,940)
At 31st December, 2002	217,098	6,585	106,607	47,352	11,992	26,429	416,063
Comprising:							
At cost	—	6,585	106,607	47,352	11,992	26,429	198,965
At valuation — 2002	217,098	—	—	—	—	—	217,098
	217,098	6,585	106,607	47,352	11,992	26,429	416,063
DEPRECIATION AND AMORTISATION							
At 1st January, 2002	—	3,592	36,625	19,614	6,266	—	66,097
Exchange realignment	—	—	6	(1)	1	—	6
Provided for the year	9,603	839	9,714	6,895	1,371	—	28,422
Eliminated on disposals	—	(697)	(532)	(123)	(176)	—	(1,528)
Adjustment on valuation	(9,603)	—	—	—	—	—	(9,603)
At 31st December, 2002	—	3,734	45,813	26,385	7,462	—	83,394
NET BOOK VALUES							
At 31st December, 2002	217,098	2,851	60,794	20,967	4,530	26,429	332,669
At 31st December, 2001	170,741	2,466	67,720	19,185	5,190	50,459	315,761

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2002 HK\$'000	2001 HK\$'000
Held in Hong Kong under long leases	28,000	33,000
Held in the PRC under medium term land use rights	148,198	125,841
Held in Taiwan, freehold	40,900	11,900
	217,098	170,741

A leasehold building of the Group with net book value of HK\$478,000 (2001: HK\$562,000) as at 31st December, 2002 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, 2002 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 an 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\$6,750,000 was charged to the income statement and a surplus of HK\$12,413,000 was credited to property revaluation reserve.

The Group has rights to the use of certain piece of land in the PRC at valuation of approximately HK\$23,400,000 (2001: HK\$21,100,000) and has erected buildings thereon. As at 31st December, 2002, 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 use rights does not impair the value of the relevant properties to the Group. The directors also believe that formal title to these land use 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\$187,186,000 (2001: HK\$139,609,000).

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13. NEGATIVE GOODWILL

	THE GROUP HK\$'000
GROSS AMOUNT	
At 1st January, 2002 and at 31st December, 2002	<u>2,692</u>
RELEASED TO INCOME	
At 1st January, 2002	269
Released during the year	<u>269</u>
At 31st December, 2002	<u>538</u>
CARRYING AMOUNTS	
At 31st December, 2002	<u>2,154</u>
At 31st December, 2001	<u>2,423</u>

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

14. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	244,660	244,660
Amounts due from subsidiaries	179,472	162,213
	<u>424,132</u>	<u>406,873</u>

Details of the Company's principal subsidiaries at 31st December, 2002 are set out in note 37.

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.

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15. INTELLECTUAL PROPERTY RIGHTS

	THE GROUP HK\$'000
COST	
At 1st January, 2002 and at 31st December, 2002	<u>88,982</u>
AMORTISATION AND IMPAIRMENT	
At 1st January, 2002	32,280
Provided for the year	<u>5,310</u>
At 31st December, 2002	<u>37,590</u>
NET BOOK VALUES	
At 31st December, 2002	<u>51,392</u>
At 31st December, 2001	<u>56,702</u>

The Group's intellectual property rights are amortised over a period ranging from 4 to 18 years.

16. INTEREST IN ASSOCIATES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets of associates	—	—
Loan to an associate	<u>11,700</u>	9,360
	<u>11,700</u>	9,360

Details of the Group's associates at 31st December, 2002 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 Group	Principal activity
Alpha Link Corporation	The United States of America ("USA")	US\$300,000	15%*	Inactive
FLT Hong Kong Technology Limited	British Virgin Islands ("BVI")	US\$1	30%	Trading of optical fibre products
Mighty Energy Investment Limited	BVI	US\$100	15%*	Investment holding

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16. INTEREST IN ASSOCIATES (continued)

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 Group	Principal activity
Weblink Technology Limited ("Weblink")	BVI	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%	Manufacturing and distribution of optical fibre products

* These companies are non-wholly owned subsidiaries of Weblink.

The loan to an associate is unsecured, non-interest bearing 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.

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP 2002 & 2001 HK\$'000
Share of net assets of a jointly controlled entity	<u>49,117</u>

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.

As at 31st December, 2002, 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.

Details of the Group's jointly controlled entity at 31st December, 2002 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 Group	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.

18. OTHER INVESTMENTS

THE GROUP

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

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19. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	37,225	37,123
Work in progress	12,847	12,359
Finished goods	36,486	35,106
	86,558	84,588

Included above are finished goods of HK\$1,811,000 (2001: HK\$1,347,000) which are carried at net realisable value.

20. 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\$156,494,000 (2001: HK\$199,695,000) and their aged analysis is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within 30 days	82,945	94,053
31 to 90 days	70,869	85,064
Over 90 days	2,680	20,578
	156,494	199,695

21. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$111,018,000 (2001: HK\$129,885,000) and their aged analysis is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within 30 days	48,082	48,696
31 to 90 days	55,825	68,984
Over 90 days	7,111	12,205
	111,018	129,885

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22. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

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

23. SHORT TERM BANK BORROWINGS

	2002 HK\$'000	2001 HK\$'000
Bank loans		
— secured	1,000	500
— unsecured	—	3,900
	1,000	4,400

24. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 2001, 31st December, 2001 and 31st December, 2002	1,000,000,000	100,000
Issued and fully paid:		
At 1st January, 2001	726,908,724	72,691
Shares repurchased and cancelled	(4,102,000)	(410)
At 31st December, 2001	722,806,724	72,281
Shares repurchased and cancelled	(358,000)	(36)
At 31st December, 2002	722,448,724	72,245

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For the year ended 31st December, 2002

24. SHARE CAPITAL (continued)

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 2002	<u>358,000</u>	0.88	0.87	<u>312</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 the consolidated statement of changes in equity.

25. SHARE OPTIONS

The Company adopted a share option scheme on 2nd December, 1998 (the "1998 Scheme") for the primary purpose of providing incentives to directors and eligible employees and will expire on 1st December, 2008. Under the 1998 Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 30 days from the date of grant.

Under the 1998 Scheme, the exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the Company's shares, and 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

At 31st December, 2002, the number of shares in respect of which options had been granted and remained outstanding under the 1998 Scheme was 19,500,000, representing 2.7% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 1998 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

No option may be granted to any one person which if exercised in full would result in the total number of shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the number of shares issued and issuable under all the options which may be granted under the 1998 Scheme at the time it is proposed to grant the said option to that person.

► Notes to the Financial Statements

For the year ended 31st December, 2002

25. SHARE OPTIONS (continued)

An option may be exercised in accordance with the terms of the 1998 Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the 1998 Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the 1998 Scheme shall be valid and effective for a period of 10 years after the date of adoption of the 1998 Scheme by shareholders of the Company by resolution at a general meeting.

The following options to subscribe for shares were outstanding under the 1998 Scheme:

	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	Number of shares to be issued upon exercise of the share options		
					Outstanding at 1st January, 2002	Lapsed/ cancelled during the year	Outstanding at 31st December, 2002
Total Employees	1.2.1999	6 months	1.8.1999-31.1.2002	0.68	282,000	(282,000)	—
Total Directors	18.8.1999	4.5 months	1.1.2000-17.8.2009	1.26	20,500,000	(1,000,000)	19,500,000
					<u>20,782,000</u>	<u>(1,282,000)</u>	<u>19,500,000</u>

	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	Number of shares to be issued upon exercise of the share options		
					Outstanding at 1st January, 2001	Lapsed/ cancelled during the year	Outstanding at 31st December, 2001
Total Employees	1.2.1999	6 months	1.8.1999-31.1.2002	0.68	282,000	—	282,000
Total Directors	18.8.1999	4.5 months	1.1.2000-17.8.2009	1.26	21,500,000	(1,000,000)	20,500,000
					<u>21,782,000</u>	<u>(1,000,000)</u>	<u>20,782,000</u>

As a result of the amendments of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on 1st September, 2001, certain terms of the 1998 Scheme are no longer in compliance with the Listing Rules and the Company can no longer grant any further options under the 1998 Scheme without being in breach of the Listing Rules. Accordingly, the Company terminated the 1998 Scheme and adopted a new share option scheme (the "2002 Scheme"), which were approved in the Company's annual general meeting on 30th May, 2002, for the primary purpose of providing incentives to directors and eligible participants.

► Notes to the Financial Statements

For the year ended 31st December, 2002

26. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Accumulated profits (deficit) HK\$'000	Total HK\$'000
THE COMPANY					
At 1st January, 2001	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)	—
Net 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
Premium on repurchase of shares	(276)	—	—	—	(276)
Transfer of reserves for cancellation of shares	—	—	36	(36)	—
Net profit for the year	—	—	—	60,077	60,077
Dividends (note 9)	—	—	—	(57,796)	(57,796)
At 31st December, 2002	90,110	244,461	446	1,676	336,693

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.

► Notes to the Financial Statements

For the year ended 31st December, 2002

26. RESERVES (continued)

In the opinion of the directors, at the balance sheet date, the Company's reserves available for distribution to shareholders comprises:

	2002 HK\$'000	2001 HK\$'000
Contributed surplus	244,461	244,461
Accumulated profits (deficit)	1,676	(569)
	246,137	243,892

27. DEFERRED TAXATION

THE GROUP
2002 & 2001
HK\$'000

Balance at 1st January and 31st December 260

At the balance sheet date, the major component of the deferred tax 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 use rights in the PRC and Taiwan as these are either factories for manufacturing or quarters for staff accommodation, and are not expected to be disposed of.

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.

28. LOANS FROM MINORITY SHAREHOLDERS

THE GROUP

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

► Notes to the Financial Statements

For the year ended 31st December, 2002

29. ACQUISITION OF SUBSIDIARIES

During the year ended 31st December, 2001, the Group acquired a 52% of Glory Time Investments Limited and 中山市國宏塑膠製品有限公司 for a consideration of HK\$15,867,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of negative goodwill arising as a result of the acquisition was HK\$2,692,000.

	2002 HK\$'000	2001 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)
	—	19,697
Net assets	—	19,697
Goodwill arising on acquisition	—	48
Negative goodwill arising on acquisition	—	(2,692)
	—	17,053
Satisfied by:		
Long-term receivable	—	15,867
Cash consideration paid	—	1,186
	—	17,053
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
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	—	2,092

The subsidiaries acquired during the year ended 31st December, 2001 contributed HK\$22,471,000 to the Group's turnover and HK\$7,596,000 to the Group's profit before taxation.

30. 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.

► Notes to the Financial Statements

For the year ended 31st December, 2002

31. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Minimum lease payments paid under operating leases in respect of premises during the year	6,373	5,852

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	
	2002	2001
	HK\$'000	HK\$'000
Within one year	2,646	3,600
In the second to fifth year inclusive	6,945	9,374
	9,591	12,974

Included above are operating lease commitments for premises of approximately HK\$4,843,000 (2001: HK\$6,053,000) 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 were negotiated for terms ranging from one to ten years and rentals are fixed and reviewed for an average of one to five years.

The Group as lessor

The Group does not have any committed tenants at 31st December, 2002.

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

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	—	386

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

► **Notes to the Financial Statements**

For the year ended 31st December, 2002

32. COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	6,986	14,936

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

33. PLEDGE OF ASSETS

At 31st December, 2002, certain of the Group's leasehold land and buildings with an aggregate carrying value of HK\$5,800,000 (2001: HK\$6,000,000) were pledged to a bank to secure general banking facilities granted to the Group of which HK\$1,000,000 (2001: HK\$500,000) were utilised.

34. CONTINGENT LIABILITIES

At 31st December, 2002, the Company had guarantees of approximately HK\$261 million (2001: HK\$315 million) given to banks in respect of banking facilities granted to certain subsidiaries of the Company.

35. RETIREMENT BENEFITS SCHEME

The Group operates an MPF Scheme for all qualifying employees in Hong Kong. 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 retirement benefit scheme 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.

The employees employed by the subsidiaries in the PRC and Taiwan are members of the stated-managed retirement benefits schemes operated by the PRC and Taiwan government. The PRC and Taiwan subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes operated by the PRC and Taiwan government is to make the required contributions under the schemes.

Notes to the Financial Statements

For the year ended 31st December, 2002

36. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had transactions and/or balances with the directors and/or related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules. 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	2002 HK\$'000	2001 HK\$'000
Yojin Industrial Corporation	Huang Ying Yuan	Rental expenses paid by the Group (note i)	811	831
	Huang Chen Li Chu	Purchase of fabrics and sponge and plastic parts by the Group (note ii)	1,189	75
		Sales made by the Group (note ii)	90	608
Chen Chin Yuan	(note iii)	Rental expenses paid by the Group (note i)	164	164

(b) Transactions with directors:

Name of director	Nature of transactions	2002 HK\$'000	2001 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)	27	25
Chen Jo Wan	Rental expenses paid by the Group (note i)	228	228

Other than the above, at 31st December, 2002, the Group also had loans from minority shareholders of HK\$9,234,000 (2001: HK\$6,459,000), details are disclosed in note 28. 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 agreed by both parties.
- 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.

Notes to the Financial Statements

For the year ended 31st December, 2002

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2002 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)
Angel Juvenile Products (Zhongshan) Co., Ltd.	PRC (note iii)	US\$1,430,775 registered capital	100%	Manufacture and trading of infant products
Glory Time Investments Limited	BVI	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	BVI	HK\$5,000 ordinary shares	100%	Investment holding and trading of infant products in Taiwan
Lerado H.K. Limited	Hong Kong	HK\$5,000 ordinary shares	100%	Trading of infant products in Hong Kong and Taiwan
Lerado Overseas Limited	BVI	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	BVI	US\$5,000 ordinary shares	100%	Provision of research and development services in Taiwan
Shanghai Lerado Daily Article Co., Ltd.	PRC (note iii)	US\$5,260,000 registered capital	100%	Manufacture and trading of nursery products
中山隆順日用製品有限公司	PRC (note iii)	US\$7,860,000 registered capital	100%	Manufacture and trading of infant products

► Notes to the Financial Statements

For the year ended 31st December, 2002

37. 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)
中山市隆成日用製品有限公司	PRC (note iii)	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 (note iii)	US\$500,000 registered capital	51%	Manufacture and trading of baby wears
中山市國宏塑膠製品有限公司	PRC (note iii)	US\$2,413,300 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 and trading of infant products

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.
- iii. These PRC subsidiaries are foreign equity enterprises.

None of the subsidiaries had any debt securities 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 assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

► Notes to the Financial Statements

For the year ended 31st December, 2002

38. 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
Others	—	manufacture and distribution of battery-operated ride-on cars and other infant products

Segment information about these businesses is presented below:

2002

	Strollers HK\$'000	Beds and playards HK\$'000	Soft goods HK\$'000	Others HK\$'000	Consolidated HK\$'000
Income statement for the year ended 31st December, 2002:					
External sales	619,556	145,879	75,625	183,242	1,024,302
Segment results	76,796	16,150	10,125	11,314	114,385
Investment income					1,500
Other operating expenses					(12,560)
Profit from operations					103,325
Finance costs					(52)
Profit from ordinary activities before taxation					103,273
Taxation					(9,010)
Profit before minority interests					94,263

► Notes to the Financial Statements

For the year ended 31st December, 2002

38. SEGMENT INFORMATION (continued)

2002 (continued)

	Strollers	Beds and playards	Soft goods	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance sheet at 31st December, 2002:					
ASSETS					
Segment assets	464,188	91,642	53,686	217,249	826,765
Interest in associates					11,700
Interest in a jointly controlled entity					49,117
Unallocated corporate assets					<u>32,496</u>
Consolidated total assets					<u>920,078</u>
LIABILITIES					
Segment liabilities	128,932	29,204	14,876	52,237	225,249
Unallocated corporate liabilities					<u>7,544</u>
Consolidated total liabilities					<u>232,793</u>
Other Information:					
Capital additions	22,659	5,100	2,621	10,217	40,597
Depreciation and amortisation of property, plant and equipment and intellectual property rights	18,137	4,023	1,624	9,948	33,732
Release of negative goodwill	269	—	—	—	269
Loss on disposal of property, plant and equipment	1,179	—	—	—	1,179

► Notes to the Financial Statements

For the year ended 31st December, 2002

38. SEGMENT INFORMATION (continued)

2001

	Strollers	Beds and playards	Soft goods	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Income statement for the year ended 31st December, 2001:					
External sales	661,536	159,184	100,169	197,041	1,117,930
Segment results	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

Notes to the Financial Statements

For the year ended 31st December, 2002

38. SEGMENT INFORMATION (continued)

2001 (continued)

	Strollers HK\$'000	Beds and playards HK\$'000	Soft goods HK\$'000	Others HK\$'000	Consolidated HK\$'000
Balance sheet at 31st December, 2001:					
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					<u>32,997</u>
Consolidated total assets					<u>912,671</u>
LIABILITIES					
Segment liabilities	124,370	28,547	17,788	43,861	214,566
Unallocated corporate liabilities					<u>57,474</u>
Consolidated total liabilities					<u>272,040</u>

	Strollers HK\$'000	Beds and playards HK\$'000	Soft goods HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Other Information:						
Capital additions	76,035	12,788	8,102	29,412	—	126,337
Depreciation and amortisation of property, plant and equipment and intellectual property rights	15,428	3,635	1,706	8,816	—	29,585
Impairment loss recognised in respect of intellectual property rights and goodwill	5,667	2,857	—	—	3,181	11,705
Loss on disposal of property, plant and equipment	128	—	—	1,444	—	1,572
Release of negative goodwill	269	—	—	—	—	269

► Notes to the Financial Statements

For the year ended 31st December, 2002

38. 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:

	2002 HK\$'000	2001 HK\$'000
United States of America	578,712	664,420
Europe	243,231	267,834
Australia	42,489	36,547
South America	25,900	35,656
Others	133,970	113,473
	1,024,302	1,117,930

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	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
United States of America	2,770	4,836	18	11
Hong Kong	203,311	200,019	277	597
Taiwan	315,572	341,351	5,062	47,778
PRC	398,425	366,465	35,240	77,951
	920,078	912,671	40,597	126,337