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Corporate Information

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Executive Directors

HUANG Ying Yuan (*Chairman*)
TSANG Yat Kiang (*Vice Chairman*)
CHEN Hsing Shin (*Vice Chairman*)
HUANG CHEN Li Chu (*Vice Chairman*)
LEUNG Man Fai

Non-Executive Directors

CHEN Jo Wan
LIN John Sian-zu
CHAN Lai Sha Liza

Independent Non-Executive Directors

LIM Pat Wah Patrick
NG Kwun Wan

Company Secretary

LEUNG Man Fai

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business

Unit 18, 17th Floor, China Merchants Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Auditors

Deloitte Touche Tohmatsu

Principal Bankers

ABN AMRO Bank
Hang Seng Bank

Principal Share Registrar

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM11
Bermuda

Branch Share Registrar

Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Solicitors

Richards Butler
Sidley & Austin

Corporate Mission

Quality

Our first priority

Innovation

*Striving for excellence is
a never-ending process*

Focus

*Bringing happiness and comfort
to children and infants*







Founded in 1988, Lerado Group designs, manufactures, and distributes a wide range of infant and pre-school products including baby strollers, beds, soft goods, battery operated ride-on cars, infant garments, feeding bottles as well as other accessories.

Headquartered in Hong Kong, the Group has established an efficient manufacturing base in Zhongshan and Shanghai of the Peoples Republic of China (the "PRC"), whereas research and development ("R&D") centres are located in Taiwan and the PRC. Our strong R&D teams enable us to design and manufacture a majority of our products on an original design manufacturing ("ODM") basis, where we own the patents on such designs. We currently own more than 250 registered patents on over 120 product features.

We also manufacture for customers on an original equipment manufacturing ("OEM") basis, where products are manufactured according to customers' specifications. The majority of our products are sold to the United States of America (the "US") and Europe. Our experienced manufacturing expertise and high quality products are trusted by our customers.

The Group has also expanded its scope of services by manufacturing and selling in its own brand. The "Angel" brand, developed specifically for the PRC market, is sold in department stores in major cities of the PRC. The Group is also taking active steps to widen its product range to cater for a broader range of customers from infants up to six years of age.

Our motto is to provide superior products with innovative features meeting the highest safety standards to our customers worldwide.

Financial Highlights

	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	1,180,286	1,066,666	959,710
Profit before interest expenses and tax	133,632	134,090	109,327
As a percentage of turnover	11.3%	12.6%	11.4%
Profit before tax	131,943	132,534	104,678
As a percentage of turnover	11.2%	12.4%	10.9%
Profit attributable to shareholders	128,363	125,146	100,888
As a percentage of turnover	10.9%	11.7%	10.5%
Dividends	79,784	65,391	37,456
Total assets	827,407	827,634	668,614
Total capital employed*	542,746	504,340	449,923
Shareholders' equity	532,666	478,735	413,868
Earnings per share (HK cents)	17.66	17.33	18.71
Return on average capital employed	25.5%	28.1%	37.7%
Current ratio	1.73	1.61	1.60
Average inventory turnover on sales (days)	26.1	22.3	27.2
Bank borrowings to equity ratio	0.01	0.05	0.09

* Total capital employed includes shareholders' equity, minority interests and interest-bearing debts.

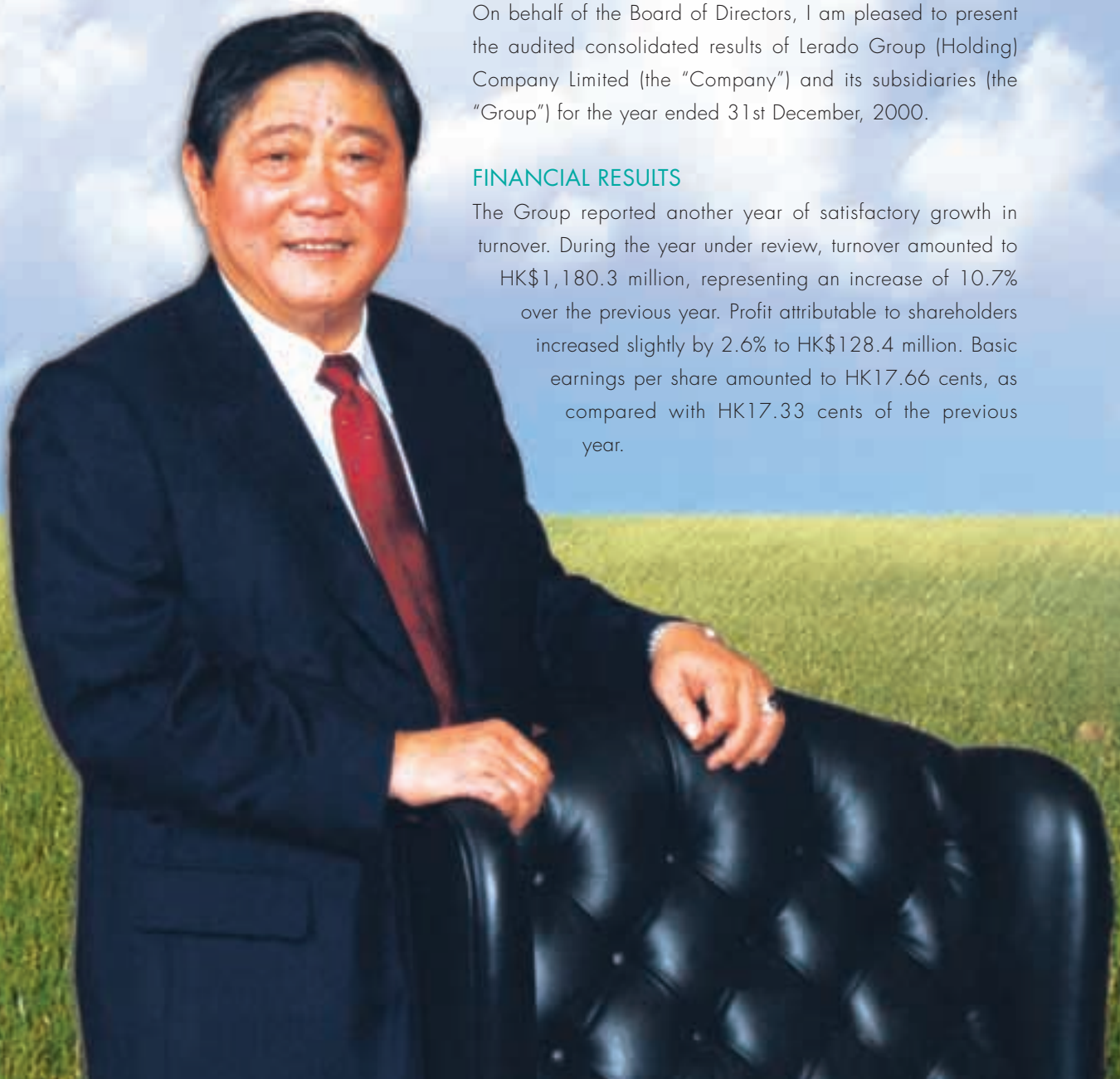
Being one of the most reputable ODM and OEM manufacturers for baby and pre-school products, the Group continues to enjoy a leading market position in its major markets.

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the audited consolidated results of Lerado Group (Holding) Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st December, 2000.

FINANCIAL RESULTS

The Group reported another year of satisfactory growth in turnover. During the year under review, turnover amounted to HK\$1,180.3 million, representing an increase of 10.7% over the previous year. Profit attributable to shareholders increased slightly by 2.6% to HK\$128.4 million. Basic earnings per share amounted to HK17.66 cents, as compared with HK17.33 cents of the previous year.



Chairman's Statement

DIVIDEND

The Board of Directors (the "Board") recommends a final dividend of HK8 cents per share. Together with an interim dividend of HK3 cents per share, the total dividend of the year under review will amount to HK11 cents.

BUSINESS REVIEW

Market Review

Being one of the most reputable ODM and OEM manufacturers for baby and pre-school products, the Group continues to enjoy a leading market position in its major markets. As in previous years, the US and Europe remain to be the Group's largest markets, accounting for 65.2% and 20.7% of the turnover respectively, while sales to Australia, South America and other countries accounted for 3.6%, 3.0% and 7.5% of the total turnover.

Sales to the US recorded a mild increase of 2.6% over the previous year, amounting to HK\$769.4 million. Reaping the fruits of our efforts placed in ensuring product quality and safety standards, we are pleased to see that the leading baby product brands in the US continue to be our long-term customers.

Strong growth is seen in Europe market. Turnover from Europe recorded a growth of 17.1%, amounting to HK\$244.2 million. As European brands have gradually outsourced to manufacturers that are capable of producing quality products at lower cost, the Group has seized the opportunity to increase its presence in Europe and successfully acquired further market shares. The Board believes that such outsourcing trend in Europe will continue, offering enormous opportunities for the Group in this potential market.

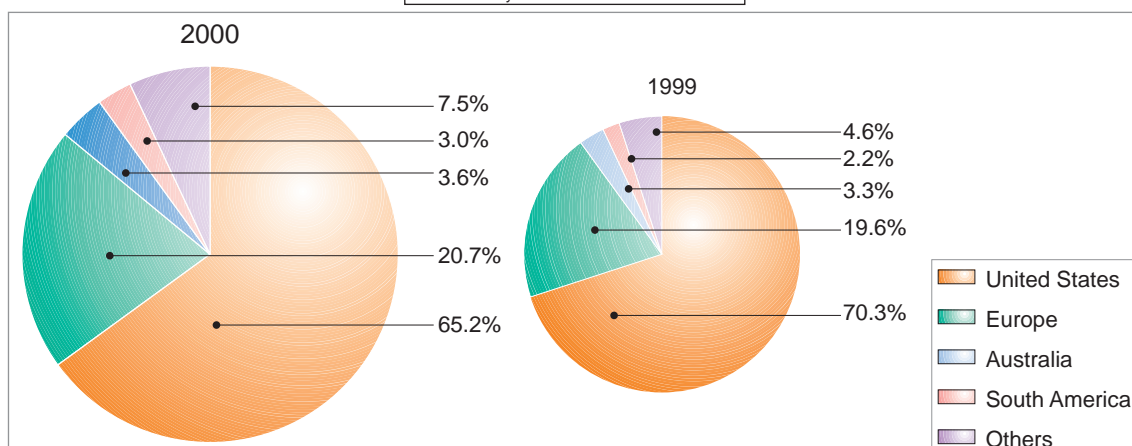
Encouraging growth is also reflected in Australia, South America as well as other Asian countries. The aggregated turnover of these markets amounted to HK\$166.7 million, representing an average increase of 54.1%.

The Board believes that the increased sales contribution from Europe market is a healthy move in line with the Group's strategy of broadening revenue sources from different geographical markets. Such development will lower the risk of reliance on any single market and benefit the Group's long term development.



Turnover by Region

For the year ended 31st December



New Product Development

In addition to the four main product categories, namely strollers, beds, soft goods and accessories, the Group has also embarked on new product development as a further step to broaden its product range. During the year under review, our Shanghai plant resumed operation and was then engaged in the production of two new lines of products — Step2 products and feeding bottles & nipples. A new production line for baby garments was also established in Zhongshan in April last year. To our satisfaction, trial orders for these products, though in small quantities, were received shortly after the initial launches.

A series of marketing activities for battery operated ride-on cars were conducted. Encouraging responses were received during our participation at the Hong Kong Toys Fair in January 2001. The Board is confident that increased revenue from this product category will be recorded in the second half of year 2001.

Since pre-operating and R&D expenses for the new products were incurred, there was a slight decline in the Group's overall net profit margin, dipping from 11.7% to 10.9%. However, the Board is confident that positive contributions from these new products will be generated when the products are gradually accepted by the market.



PROSPECTS AND FUTURE PLANS

Product research and development has always been one of the key elements that leads Lerado to the road of success. Looking ahead, the Group will continue to strengthen its product research and development team with an aim to incorporate new product features and broaden product range to cater for customer needs.

The Board believes that Europe market will offer tremendous potential due to the increasing outsourcing trend. Taking advantage of this, the Group will utilize its manufacturing expertise and product innovation to seize emerging opportunities. It is expected that the Europe market will be the Group's key growth driver in the coming years.

The Board anticipates steady growth in the US market. Seeing signs of economy slowdown in the US, the Group will review its business strategy and product portfolio to strengthen its presence in the US, further consolidating its market position.

The PRC market is full of challenges and opportunities. Baby products such as strollers and beds are gaining wider market acceptance in major cities. Products under our own "Angel" brand name are now being sold in department stores in major cities and provinces. With China's imminent entry into the World Trade Organization, coupled with the increasing affluence of society, we are optimistic of the growth potential of this dynamic market in the next few years. The Group will further explore suitable opportunities to increase its market penetration and will make an effort to expand its sales network in the PRC.

We will further identify suitable business development and investment opportunities, particularly in Europe and the emerging PRC market. Based on our solid manufacturing expertise, strong research and development capabilities and extensive customer base, we are well positioned to capture the market opportunities ahead.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our customers worldwide for their trust and support towards our products. May I also take this opportunity to express my heartiest thanks to our shareholders for their support and our staff for their hard work. We will continue to dedicate our efforts towards the long-term development of the Group.

By Order of the Board
HUANG Ying Yuan
Chairman

Hong Kong, 10th April, 2001



A POSITIVE OUTLOOK

Traditionally, the demand for infant and pre-school products depends primarily on the size of the juvenile population, followed by the affluence of society. Last decade, where birth rates in developed countries remained relatively steady, increased prosperity has proved to be the key factor of fuelling growth in the demand for infant and pre-school products.

Entering into the new millennium, with an ever-increasing worldwide female working population in developed countries, parents tend to spend even more on each child. In light of such market trend, the Group has expanded its product range to include infant necessities such as feeding bottles and nipples, as well as pre-school products such as plastic goods and battery operated ride-on cars. The widened product range caters for a broader age group of children, starting from infants up to the age of six, thus fostering new opportunities for the Group's future expansion.

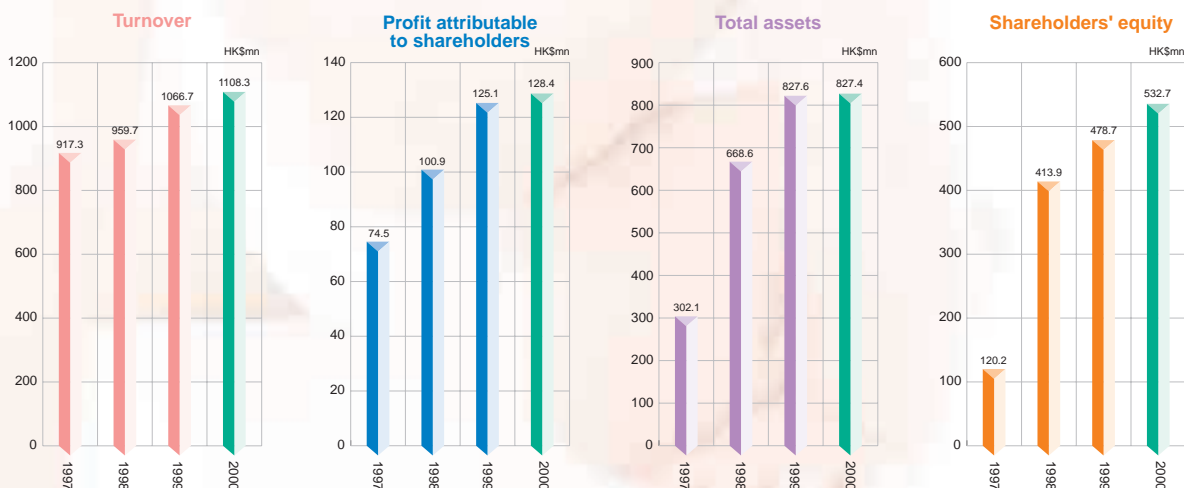
DIVERSIFIED PRODUCT RANGE OFFERS A STRONG EARNING BASE

Among the four main product categories, namely strollers, beds, soft goods and other accessories, the former two continue to be the top revenue contributors, accounting for 61.1% and 17.0% of total turnover respectively. As reviewed in our interim report, competition in the US stroller market intensified in the first half of 2000 as one of the stroller brands triggered a price reduction, affecting the Group's sales correspondingly.

However, such an impact was only temporary. Sales picked up again in the second half of the year, compensating the decrease in the first six months. Sales of strollers for the year under review amounted to HK\$721.0 million, a slight decrease of 2.7% as compared to the previous year.

Remarkable increase in the sale of beds further offsets the impact of such a decline. Enjoying a broad customer base and good relation with existing customers, several stroller customers initiated their first-time orders for beds in the year under review. Sales of beds, as a result, grew strongly by 61.5% to HK\$200.7 million.

Soft goods and other accessories have also recorded encouraging growth. Sales increased by 16.7% and 38.7% respectively, amounting to HK\$111.2 million and HK\$147.4 million.



Management Discussion and Analysis

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EFFICIENT SALES AND MARKETING

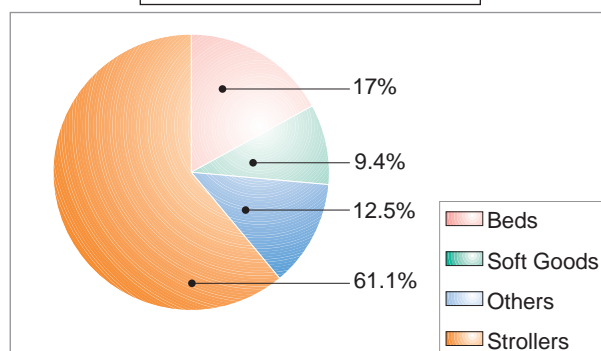
During the year under review, the Group's products were sold to over 140 customers in 60 countries and regions worldwide, including brand name owners, importers as well as trading agents. The Board is pleased to see that the major infant product brands in the US continued to be our customers.

While the US is still the Group's largest revenue contributor, the growth in Europe is expected to outpace that in the US in the coming years. It is the Group's goal to develop a solid and balanced revenue base from different regions and products. Encouragingly, a European customer is now among the top five customers of the Group in 2000.

In addition to being an ODM and OEM manufacturer, the Group has developed its own brand names. Products under the "Angel" brand specifically developed for the PRC market are sold in department stores in major cities. In addition, the Group has also developed a series of "Lerado" brand battery operated ride-on cars for sale in the US. Such initiatives will benefit the Group in the long run.

Turnover by Product

For the year ended 31st December, 2000



IMPRESSIVE R&D CAPABILITY

To cope with the development of a series of new products, the Group increased its R&D budget and devoted 2.0% of the total turnover (1999: 1.8%) for R&D purposes, amounting to HK\$23.5 million, representing an increase of 22.4% over the previous year.

Employing a highly competent R&D team, the Group owns more than 250 registered patents on over 120 product features. In addition, over 74 new product features were submitted for patent registration in various countries in 2000.

LIQUIDITY AND FINANCIAL POSITION



The Group maintained a solid balance sheet. As at 31st December, 2000, the Group had cash and bank balances of HK\$150.5 million. Following the repayment of a mortgage loan during the year, the total bank borrowings as at 31st December, 2000 dropped to HK\$5.8 million, further lowering the Group's gearing ratio to 2.2% (1999: 5.3%), which was expressed as a ratio of total debts to shareholders' equity.

The Group is also healthy in its liquidity position. As at 31st December, 2000, the Group had net current assets of HK\$211.7 million. A higher current ratio of 1.73 was resulted, compared with 1.61 in 1999, while stock turnover remained at a low level of 26.1 days.

Out of the proceeds from the Company's initial public offerings in 1998, approximately HK\$19 million was utilized during 2000 for the acquisition of production facilities for the manufacture of battery operated ride-on cars and HK\$3 million for the establishment of sales office in the US for the related marketing functions. A further HK\$6 million was used for the marketing of the Group's products in the PRC. The remaining balance of the proceeds will be further applied according to schedule.

EXPANSION OF ZHONGSHAN PRODUCTION PLANT

Catering for the manufacturing needs of a widened product range, the Group has commenced construction work so as to expand the Zhongshan plant during the year under review, adding new production lines for battery operated ride-on cars. Completion is expected in mid 2001.

STAYING AT THE FOREFRONT

Ever since the establishment of our manufacturing base in Zhongshan, the PRC, the suppliers have commenced to locate themselves to nearby areas of our plants, enabling us to enjoy material-efficiency. Accelerating demand for materials eventuates a declining average cost. Controlling measures effectively imposed on production, quality assurance, delivery and after-sale service make our products remain highly-competitive in the forthcoming decades.

Given our innovation in product design and features, stringent quality control measures and high safety standards, our products have firmly established its competitive edge.



Directors' Profile

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LERADO
隆成集團

Executive Directors

Mr. HUANG Ying Yuan, aged 50, is a founding member and the chairman and president of the Group. Mr. Huang has 24 years of experience in the infant products industry. Mr. Huang oversees the strategic planning and daily operations of the Group and has particular responsibility for marketing.

Mr. TSANG Yat Kiang, aged 52, is a founding member and vice chairman of the Group. Prior to the establishment of the Group, Mr. Tsang owned a trading business, which dealt mainly in machinery and equipment. Mr. Tsang is in charge of the strategic planning and finance of the Group.

Mr. CHEN Hsing Shin, aged 57, is a founding member and vice chairman of the Group. Prior to the establishment of the Group, Mr. Chen worked in various manufacturing set-ups, and was mainly responsible for production site management. With his expertise, Mr. Chen oversees the Group's production operations in the PRC.

Mrs. HUANG CHEN Li Chu, aged 51, was appointed an executive director of the Group in January 1997. Mrs. Huang has worked in the infant products industry in Taiwan for over 22 years and established her own research and development company whose operations were acquired by the Group in early 1998. Mrs. Huang is in charge of the Group's research and development operations.



Upper row: Mr. LEUNG Man Fai, Ms. CHAN Lai Sha Liza, Mr. LIN John Sian-zu, Mr. CHEN Jo Wan, Mr. NG Kwun Wan,
(From Left to right) Mr. LIM Pak Wah Patrick

Mr. LEUNG Man Fai, aged 43, was appointed an executive director of the Group in November 1998. He is also the financial controller and company secretary of the Group. Prior to joining the Group in July 1995, Mr. Leung worked in the accounting field for over 17 years. He graduated from Manchester Polytechnic in the UK with a bachelor's degree in accounting and finance and holds a master's degree from the University of New South Wales in Australia in professional accounting. He is an associate member of the Hong Kong Society of Accountants and the Australian Society of Certified Practising Accountants.

Non-Executive Directors

Mr. CHEN Jo Wan, aged 40, joined the Group in 1989 as an executive director. Mr. Chen was responsible for shipping and financial management until June 1997 when he became non-executive director. Mr. Chen has over 10 years of experience in trading business including the development of markets for toys, furniture and ceramics in Europe and the US.

Mr. LIN John Sian-zu, aged 37, is an executive director of the Direct Investment Division of AIG Investment Corporation (Asia) Ltd. ("AIGIC (Asia)"). Mr. Lin manages AIGIC (Asia)'s direct investment activities in the South Asia and retailing projects in the PRC. Mr. Lin joined AIG's Foreign Investment Department in New York in 1990 where he was responsible for the evaluation of AIG's direct investment and credit proposals in the Asia Pacific region, excluding Japan. Mr. Lin holds a bachelor of science degree in civil engineering and a master's degree in Finance and International Business, both from the Massachusetts Institute of Technology.



Lower row: Mr. CHEN Hsing Shin, Mrs. HUANG CHEN Li Chu, Mr. HUANG Ying Yuan, Mr. TSANG Yat Kiang
(From Left to right)

Directors' Profile

Ms. CHAN Lai Sha Liza, aged 42, is the chief financial officer of Investor Asia Limited ("IAL"), a business advisor to Investor AB of Sweden. Ms. Chan joined IAL in 2000 and is responsible for monitoring Investor AB's Asian portfolio of investments. Ms. Chan is a Certified Management Accountant in Canada. She obtained a B. Comm. (Hon) degree from University of Ottawa, Ontario, Canada. Ms. Chan has over 19 years of experience in accounting and finance.

Independent Non-Executive Directors

Mr. LIM Pat Wah Patrick, aged 41, is a director of an advisory firm and is responsible for direct investment operations. Mr. Lim is a fellow member of the Chartered Institute of Management Accountants and Chartered Association of Certified Accountants. He obtained a bachelor's degree in accounting from Birmingham University and a master's degree in management of information systems from the London School of Economics and Political Science. Mr. Lim has over 16 years of experience in accounting and finance.

Mr. NG Kwun Wan, aged 37, is currently the Deputy General Manager of New World China Enterprises Projects Limited. Mr. Ng graduated from University of New South Wales with a master's degree in business administration in accounting. He is also an associate member of each of the Chartered Association of Certified Accountants of Australia and the Hong Kong Society of Accountants. He has over 10 years of experience in accounting and corporate finance.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Lerado Group (Holding) Company Limited (the "Company") will be held at Marriott Ballroom, Third Floor, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 21st May, 2001 at 3:00 p.m. to transact the following ordinary business:

1. to receive and adopt the audited financial statements and the reports of the directors and auditors for the year ended 31st December, 2000;
2. to declare a final dividend for the year ended 31st December, 2000;
3. to re-elect directors of the Company;
4. to authorize the Board of Directors to fix the remuneration of the Directors for the year ending 31st December, 2001; and
5. to appoint the auditors and authorize the board of directors to fix their remuneration.

To consider as special business and, if thought fit, pass with or without amendments, the following resolutions each as an Ordinary Resolution:

6(A). "THAT:

- (a) subject to sub-paragraph (c) of this Resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements and options, including bonds, warrants and debentures convertible into shares of the Company, which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in sub-paragraph (a) of this Resolution shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options, including bonds, warrants and debentures convertible into shares of the Company, which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in sub-paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined below), (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) the exercise of options under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of the cash payment for a dividend on shares of the

Notice of Annual General Meeting

Company in accordance with the Bye-laws of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and

- (d) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting.

“Rights Issue” means an offer of shares or other securities of the Company open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside the Hong Kong Special Administrative Region of the People's Republic of China).”

6(B). “THAT:

- (a) subject to sub-paragraph (b) of this Resolution, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as defined below) of all the powers of the Company to repurchase shares of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other exchange on which the shares of the Company may be listed and recognized for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchases (the “Recognized Stock Exchange”) subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time or that of any other Recognized Stock Exchange, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares of the Company which may be purchased pursuant to the approval in sub-paragraph (a) of this Resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of passing of this Resolution and the said approval shall be limited accordingly; and

(c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting."

6(C). "THAT conditional upon Resolution 6(A) and Resolution 6(B) set out in the notice convening this meeting of which this Resolution forms part being passed, the aggregate nominal amount of the shares of the Company which are repurchased by the Company after the date of the passing of this Resolution (up to a maximum of 10 per cent. of the aggregate nominal amount of the share capital of the Company as stated in Resolution 6(B) set out in the notice convening this meeting of which this resolution forms part) shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to Resolution 6(A) set out in the notice convening this meeting of which this resolution forms part."

By Order of the Board
LEUNG Man Fai
Company Secretary

Hong Kong, 10th April, 2001

*Head office and principal place
of business in Hong Kong:*

Unit 18, 17th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Notice of Annual General Meeting

Notes:

1. Any member entitled to attend and vote at the meeting shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorized to sign the same.
3. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, must be deposited at the Company's branch share registrar in Hong Kong, Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjourned meeting.
4. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

The directors present their annual report and the audited financial statements for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its major subsidiaries are engaged in the design, manufacture and trading of infant products. The principal activities of the subsidiaries are set out in note 35 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 67% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 25%. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 30% of the total purchase of the Group.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers of the Group.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31st December, 2000 are set out in the consolidated income statement on page 27 of the financial statements.

An interim dividend of HK3 cents per share amounting to HK\$21,807,000 was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK8 cents per share to the shareholders on the register of member on 20th May, 2001 amounting to HK\$57,977,000.

FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years ended 31st December, 2000 and of the assets and liabilities of the Group as at 31st December, 1998, 1999 and 2000 is set out on page 60 of the financial statements.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired leasehold land and buildings of approximately HK\$4.7 million, plant and machinery of approximately HK\$23.5 million and other assets amounting to approximately HK\$11.5 million to expand and upgrade the manufacturing facilities of the Group.

The Group revalued its investment properties and leasehold land and buildings at the balance sheet date on the basis of open market value.

Details of these and other movements during the year in investment properties and property, plant and equipment of the Group are set out in notes 11 and 12 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital of the Company are set out in note 21 to the financial statements.

Directors' Report

Details of the Company's share option scheme are set out in note 22 to the financial statements.

RESERVES

Movements in the reserves during the year of the Group and the Company are set out in note 23 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Huang Ying Yuan (Chairman)
 Mr. Tsang Yat Kiang (Vice Chairman)
 Mr. Chen Hsing Shin (Vice Chairman)
 Madam Huang Chen Li Chu (Vice Chairman)
 Mr. Leung Man Fai

Non-executive directors:

Mr. Chen Jo Wan	
Mr. Lin John Sian-zu	
Mr. Tsai Joseph Chung	(resigned on 29th March, 2001)
Madam Chan Lai Sha Liza	(appointed on 29th March, 2001)

Independent non-executive directors:

Mr. Lim Pat Wah Patrick	
Mr. Ng Kwun Wan	(appointed on 15th August, 2000)
Mr. Ng Ching Wo	(resigned on 15th August, 2000)

In accordance with clauses 86 and 87 of the Company's bye-laws, Mr. Chen Jo Wan, Mr. Ng Kwun Wan, Madam Huang Chen Li Chu and Madam Chan Lai Sha Liza retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

The terms of office of the non-executive directors and independent non-executive directors are subject to retirement by rotation in accordance with the Company's bye-laws.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except Mr. Leung Man Fai, has entered into a service agreement with the Company for a period of three years commencing on 1st December, 1998 and will continue thereafter unless and until terminated by either party by three months' prior written notice.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company and its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

At 31st December, 2000, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") and the share options were as follows:

	Number of ordinary shares held as		Number of share options of the Company held as	
	Personal interest	Family interest (Note 1)	Personal interest (Note 2)	Family interest (Note 1)
Mr. Huang Ying Yuan	101,187,360	42,102,180	4,000,000	3,000,000
Mr. Tsang Yat Kiang	58,815,720	—	3,500,000	—
Mr. Chen Hsing Shin	94,105,800	—	3,500,000	—
Madam Huang Chen Li Chu	42,102,180	101,187,360	3,000,000	4,000,000
Mr. Chen Jo Wan	11,763,225	—	2,500,000	—
Mr. Leung Man Fai	—	—	2,500,000	—
Mr. Tsai Joseph Chung	—	—	1,000,000	—
Mr. Lin John Sian-zu	—	—	1,000,000	—
Mr. Lim Pat Wah Patrick	—	—	500,000	—

Notes:

- (1) The family interest represents the shares held by the spouse of Mr. Huang Ying Yuan and Madam Huang Chen Li Chu, respectively. Madam Huang Chen Li Chu is the wife of Mr. Huang Ying Yuan.
- (2) The share options in relation to 500,000 shares of the Company granted to Mr. Ng Ching Wo were lapsed upon his resignation as director on 15th August, 2000. Other than this, there were no movements in share options during the year.

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

Save as disclosed above and other than certain nominee shares in the subsidiaries held by certain directors in trust for the Company, none of the directors or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance at 31st December, 2000.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors, their spouses or children under the age of 18, had any right to subscribe for the securities of the Company or had exercised any such right during the year.

Directors' Report

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Details of the discloseable connected transactions for the year are set out in note 34 to the financial statements. Save as disclosed therein:

- (i) no contracts of significance subsisted at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In accordance with the conditions agreed with the Stock Exchange with respect to the connected transactions, the independent non-executive directors have reviewed the connected transactions set out in note 34 to the financial statements and in their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on arm's length basis, on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iii) in accordance with the terms of the agreement governing such transactions.

SUBSTANTIAL SHAREHOLDERS

At 31st December, 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholder had an interest of 10% or more in the share capital of the Company:

Name of shareholder	Number of shares	Percentage
Investor AB	81,527,040	11.22%

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2000.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2000 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

HUANG Ying Yuan

Chairman

10th April, 2001

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

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

We have audited the financial statements on pages 27 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 10th April, 2001

Consolidated Income Statement

For the year ended 31st December, 2000

	NOTES	2000 HK\$'000	1999 HK\$'000
Turnover		1,180,286	1,066,666
Cost of sales		<u>(852,041)</u>	<u>(763,739)</u>
Gross profit		328,245	302,927
Investment income	3	10,259	11,656
Other revenue		21,439	16,570
Distribution costs		(88,053)	(80,780)
Research and development expenses		(23,499)	(19,197)
Administrative expenses		<u>(114,759)</u>	<u>(97,086)</u>
Profit from operations	4	133,632	134,090
Finance costs	6	<u>(1,689)</u>	<u>(1,556)</u>
Profit from ordinary activities before taxation		131,943	132,534
Taxation	7	<u>5,502</u>	<u>7,389</u>
Profit before minority interests		126,441	125,145
Minority interests		<u>(1,922)</u>	<u>(1)</u>
Profit attributable to shareholders	8	<u>128,363</u>	<u>125,146</u>
Dividends	9	<u>79,784</u>	<u>65,391</u>
EARNINGS PER SHARE	10		
Basic		<u>17.66 cents</u>	<u>17.33 cents</u>
Diluted		<u>17.65 cents</u>	<u>17.26 cents</u>

Consolidated Balance Sheet

At 31st December, 2000

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	NOTES	2000 HK\$'000	1999 HK\$'000
Non-Current Assets			
Investment properties	11	12,400	12,400
Property, plant and equipment	12	222,985	199,277
Intellectual property rights	14	71,039	77,020
Other investment	15	3,163	469
Long-term receivable	16	15,867	15,867
		<u>325,454</u>	<u>305,033</u>
Current Assets			
Inventories	17	102,605	66,229
Trade and other receivables	18	248,841	218,250
Bank balances and cash		150,507	238,122
		<u>501,953</u>	<u>522,601</u>
Current Liabilities			
Trade and other payables	19	221,423	276,083
Taxation		5,001	3,346
Bank borrowings — due within one year	20	5,845	2,429
Proposed dividend		57,977	43,605
		<u>290,246</u>	<u>325,463</u>
Net Current Assets		<u>211,707</u>	<u>197,138</u>
Total assets less current liabilities		<u>537,161</u>	<u>502,171</u>
Capital and Reserves			
Share capital	21	72,691	72,633
Reserves	23	459,975	406,102
		<u>532,666</u>	<u>478,735</u>
Minority Interests		<u>(1,834)</u>	<u>76</u>
Non-Current Liabilities			
Bank borrowings — due after one year	20	—	23,100
Deferred taxation	24	260	260
Loans from minority shareholders	25	6,069	—
		<u>6,329</u>	<u>23,360</u>
		<u>537,161</u>	<u>502,171</u>

The financial statements on pages 27 to 59 were approved by the Board of Directors on 10th April, 2001 and are signed on its behalf by:

HUANG Ying Yuan
Chairman

TSANG Yat Kiang
Vice Chairman

Balance Sheet

At 31st December, 2000

	NOTES	2000 HK\$'000	1999 HK\$'000
Non-Current Asset			
Interest in subsidiaries	13	<u>411,047</u>	<u>410,196</u>
Current Assets			
Other receivables		—	70
Dividend receivable from a subsidiary		59,930	44,947
Bank balances		<u>52</u>	<u>91</u>
		<u>59,982</u>	<u>45,108</u>
Current Liabilities			
Other payables and accrued charges		40	313
Proposed dividend		<u>57,977</u>	<u>43,605</u>
		<u>58,017</u>	<u>43,918</u>
Net Current Assets		<u>1,965</u>	<u>1,190</u>
		<u>413,012</u>	<u>411,386</u>
Capital and Reserves			
Share capital	21	72,691	72,633
Reserves	23	<u>340,321</u>	<u>338,753</u>
		<u>413,012</u>	<u>411,386</u>

HUANG Ying Yuan
Chairman

TSANG Yat Kiang
Vice Chairman

Consolidated Statement of Recognised Gains and Losses

For the year ended 31st December, 2000

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	2000 HK\$'000	1999 HK\$'000
Revaluation surplus on leasehold land and buildings	4,544	191
Revaluation surplus on investment properties	—	262
Exchange differences arising on translation of PRC/overseas operations	457	354
	<hr/>	<hr/>
Gains not recognised in the consolidated income statement	5,001	807
Profit attributable to shareholders	128,363	125,146
	<hr/>	<hr/>
Total recognised gains	133,364	125,953
Goodwill arising on acquisition of additional interest in a subsidiary	(88)	—
	<hr/>	<hr/>
	133,276	125,953

Consolidated Cash Flow Statement

For the year ended 31st December, 2000

	NOTES	2000 HK\$'000	1999 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	26	28,302	124,532
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(65,315)	(21,786)
Interest paid		(1,689)	(1,556)
Interest received		10,086	8,804
Rental received		173	372
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(56,745)	(14,166)
TAXATION			
Overseas tax paid		(3,871)	(9,958)
Hong Kong Profits Tax refunded (paid)		19	(355)
		(3,852)	(10,313)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(39,692)	(68,465)
Acquisition of other investment		(3,163)	—
Purchase of additional interest in a subsidiary		(77)	—
Proceed from disposal of other investment		469	—
Proceeds from disposal of property, plant and equipment		375	9
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(42,088)	(68,456)
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING		(74,383)	31,597
FINANCING	28		
Repayment of bank loans		(24,737)	(36,817)
Loans from minority shareholders		6,069	—
Bank loans raised		5,653	25,500
Proceeds from issue of shares		342	4,305
Capital contribution from minority shareholders		1	—
NET CASH OUTFLOW FROM FINANCING		(12,672)	(7,012)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(87,055)	24,585
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		237,330	212,666
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		40	79
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		150,315	237,330
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		150,507	238,122
Bank overdraft		(192)	(792)
		150,315	237,330

Notes to the Financial Statements

For the year ended 31st December, 2000

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1. GENERAL

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

Goodwill

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

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

Investment in subsidiaries

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

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

Turnover

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

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

Investment properties

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

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

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

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

Property, plant and equipment

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

Notes to the Financial Statements

For the year ended 31st December, 2000

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalisation of borrowing costs

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

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

Intellectual property rights

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

Investments

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

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

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

Inventories

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

Research and development costs

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

Operating leases

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

Notes to the Financial Statements

For the year ended 31st December, 2000

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Taxation

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

Retirement benefits scheme

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

Cash equivalents

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

3. INVESTMENT INCOME

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

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

Notes to the Financial Statements

For the year ended 31st December, 2000

4. PROFIT FROM OPERATIONS

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

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

Notes to the Financial Statements

For the year ended 31st December, 2000

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5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

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

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

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

(b) Employees' emoluments

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

Notes to the Financial Statements

For the year ended 31st December, 2000

6. FINANCE COSTS

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

7. TAXATION

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

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

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

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

Details of deferred taxation are set out in note 24.

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

Notes to the Financial Statements

For the year ended 31st December, 2000

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8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

9. DIVIDENDS

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

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

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

10. EARNINGS PER SHARE

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

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

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For the year ended 31st December, 2000

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11. INVESTMENT PROPERTIES

THE GROUP

HK\$'000

VALUATION

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

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

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

12. PROPERTY, PLANT AND EQUIPMENT

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

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For the year ended 31st December, 2000

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

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

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

13. INTEREST IN SUBSIDIARIES

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

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

13. INTEREST IN SUBSIDIARIES (continued)

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

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

14. INTELLECTUAL PROPERTY RIGHTS

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

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

15. OTHER INVESTMENT

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

16. LONG-TERM RECEIVABLE

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

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

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

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For the year ended 31st December, 2000

16. LONG-TERM RECEIVABLE (continued)

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

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

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

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

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

17. INVENTORIES

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

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

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18. TRADE AND OTHER RECEIVABLES

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

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

19. TRADE AND OTHER PAYABLES

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

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

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For the year ended 31st December, 2000

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20. BANK BORROWINGS

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

Bank borrowings comprise:

Mortgage loans	—	24,737
Other bank loans	5,653	—
Bank overdraft	192	792
	<u>5,845</u>	<u>25,529</u>

Analysed as:

Secured	—	24,737
Unsecured	5,845	792
	<u>5,845</u>	<u>25,529</u>

The bank borrowings are repayable as follows:

Within one year or on demand	5,845	2,429
More than one year, but not exceeding two years	—	1,816
More than two years, but not exceeding five years	—	6,666
More than five years	—	14,618
	<u>5,845</u>	<u>25,529</u>

Less: Amount repayable within one year or on demand
and shown under current liabilities

(5,845) (2,429)

Amount due after one year

— 23,100

Notes to the Financial Statements

For the year ended 31st December, 2000

21. SHARE CAPITAL

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

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

22. SHARE OPTION SCHEME

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

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

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

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23. RESERVES

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

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

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

23. RESERVES (continued)

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

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

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

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

24. DEFERRED TAXATION

THE GROUP
2000 & 1999
HK\$'000

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

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

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

25. LOANS FROM MINORITY SHAREHOLDERS

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

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

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

27. MAJOR NON-CASH TRANSACTION

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

Notes to the Financial Statements

For the year ended 31st December, 2000

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

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

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For the year ended 31st December, 2000

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29. LEASE COMMITMENTS

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

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

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

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

30. CAPITAL COMMITMENTS

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

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

31. PLEDGE OF ASSETS

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

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

32. CONTINGENT LIABILITIES

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

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

33. RETIREMENT BENEFITS SCHEME

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

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

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

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34. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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

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

34. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with directors:

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

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

Notes:

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

Notes to the Financial Statements

For the year ended 31st December, 2000

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35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

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

Notes to the Financial Statements

For the year ended 31st December, 2000

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

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

Notes:

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2000

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36. SEGMENT INFORMATION

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

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

Notes to the Financial Statements

For the year ended 31st December, 2000

36. SEGMENT INFORMATION (continued)

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

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

Financial Summary

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RESULTS

	Year ended 31st December,				2000
	1996	1997	1998	1999	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	844,570	917,302	959,710	1,066,666	1,180,286
PROFIT FROM ORDINARY ACTIVITIES					
BEFORE TAXATION	64,811	77,288	104,678	132,534	131,943
TAXATION	2,803	2,771	3,790	7,389	5,502
PROFIT BEFORE MINORITY INTERESTS	62,008	74,517	100,888	125,145	126,441
MINORITY INTERESTS	—	—	—	(1)	(1,922)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	62,008	74,517	100,888	125,146	128,363

ASSETS AND LIABILITIES

	At 31st December,		
	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	668,614	827,634	827,407
TOTAL LIABILITIES	(254,746)	(348,823)	(296,575)
MINORITY INTERESTS	—	(76)	1,834
SHAREHOLDERS' FUNDS	413,868	478,735	532,666

Notes:

1. The Company was incorporated in Bermuda on 18th November, 1998 and became the holding company of the Group with effect from 2nd December, 1998 as a result of the group reorganisation. Accordingly, the only audited balance sheets of the Group that have been prepared are as at 31st December, 1998, 1999 and 2000.
2. The results of the Group for each of the two years ended 31st December, 1997 presented above have been extracted from the Company's prospectus dated 8th December, 1998 when listing of the Company's shares was sought on the Stock Exchange of Hong Kong Limited.