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Corporate Information

Executive Directors

HUANG Ying Yuan (*Chairman*)
CHEN Hsing Shin (*Vice Chairman*)
HUANG CHEN Li Chu (*Vice Chairman*)
CHEN An Hsin
LEUNG Man Fai

Independent Non-Executive Directors

LIM Pat Wah Patrick
NG Kwun Wan

Company Secretary

KWOK Wai Lok

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

Principal Share Registrar

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

Branch Share Registrar

Secretaries Limited
Ground Floor, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Principal Bankers

ABN AMRO Bank
Hang Seng Bank

Solicitors

Sidley Austin Brown & Wood
Richards Butler

Auditors

Deloitte Touche Tohmatsu



Quality

Our first priority

Innovation

Striving for excellence is a never ending process

Focus

Bringing happiness and comfort to infants and children



Company Profile

Founded in 1988, **LERADO** 麗成集團 Lerado Group designs, manufactures and distributes a wide range of infant and pre-school products including baby strollers, beds and playards, soft goods, high chairs, bouncers, infant car seats, battery-operated ride-on cars, as well as other accessories.

Headquartered in Hong Kong, the Group has established efficient manufacturing bases in Zhongshan and Shanghai in the People's Republic of China (the "PRC"), with research and development ("R&D") centres located in Taiwan and the PRC. Our strong R&D capability enables us to design and manufacture a majority of our products on an original design manufacturing ("ODM") basis, while owning the patents on such designs. We currently own more than 600 registered patents on over 330 product features.

We also manufacture for customers on an original equipment manufacturing ("OEM") basis by producing the products 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 commitment to quality are trusted by our customers.

The Group has also extended its business scope to the manufacturing and selling of infant and pre-school products under its own brand, the "Angel". Developed specifically for the PRC market, the Angel brand products are sold in major cities in the PRC. The Group is also taking active steps to enrich its product offering to target for a broader range of end users from infants up to six years of age.

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





Financial Highlights

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	1,149,893	1,024,302	1,117,930
Profit before interest expenses and tax	97,138	103,325	114,139
As a percentage of turnover	8.4%	10.1%	10.2%
EBITDA	146,147	144,038	163,852
As a percentage of turnover	12.7%	14.1%	14.7%
Net profit	81,170	92,357	105,476
As a percentage of turnover	7.1%	9.0%	9.4%
Total assets	1,006,219	922,743	915,277
Total capital employed*	721,656	681,824	642,009
Shareholders' equity	687,936	664,920	619,697
Earnings per share (HK cents)	11.28	12.78	14.55
Return on average capital employed	12.0%	14.4%	17.5%
Current ratio	1.79	1.99	1.70
Average inventory turnover (days)	46.2	44.5	43.3
Bank borrowings to equity ratio	0.02	0.001	0.01

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



In view of an improving economic condition and in anticipation of positive prospect, consumer confidence was recovering.....



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 (collectively the "Group") for the year ended 31st December, 2003.

FINANCIAL RESULTS AND DIVIDENDS

Total turnover for the Group rose 12.3% during the year under review to HK\$1,149.9 million. Net profit for the year was HK\$81.2 million, representing a decrease of 12.1% over the previous year due to the high rise of raw material costs and the provision of certain non-recurring items. Earnings per share for the year ended 31st December, 2003 was HK11.28 cents.

The Board recommends a final dividend of HK5 cents per share. Together with an interim dividend of HK2 cents per share, the total dividend of the year under review will amount to HK7 cents per share.

BUSINESS REVIEW

The year under review recorded a general global rebound. In view of an improving economic condition and in anticipation of positive prospect, consumer confidence was recovering over 2002 as shown in the pattern and amount spent, enhancing a better operating environment for businesses.

On the other hand, the war in Iraq and its ensuing effects had, to some extent, posted uncertainties on the road of recovery. Cost of raw materials, plastic and metal tube in particular, rose as prodded by the increasing oil and steel prices worldwide in the last year. The decreased household travel also affected the sales of foldable playards which are suitable and desirable for traveling with babies and kids. Nevertheless, Lerado was able to leverage its global vision and market mix to achieve higher turnover under such challenging climate.

We are glad to see that the Group is back onto the track of turnover growth in 2003. Worth highlighting is the Group's robust growth in Europe where turnover increased by 17.9% to HK\$286.7 million. Such achievement was mainly attributed to the strong Euro which encouraged the trend to outsource their production, as anticipated, to reduce costs and stay competitive. We were able to capitalise on our strengths and captured the opportunities while further strengthened our market position.

In the US, market began to pick up again after the Iraqi war subsided. The Group maintained its business focus on middle-end products to effectively meet the overall market demand. Though the economy showed some positive signs, consumers remained cautious in their spending and opted for less expensive basic items. The Group will continue to review and adjust its product strategy as appropriate to best cater the market demand and development.

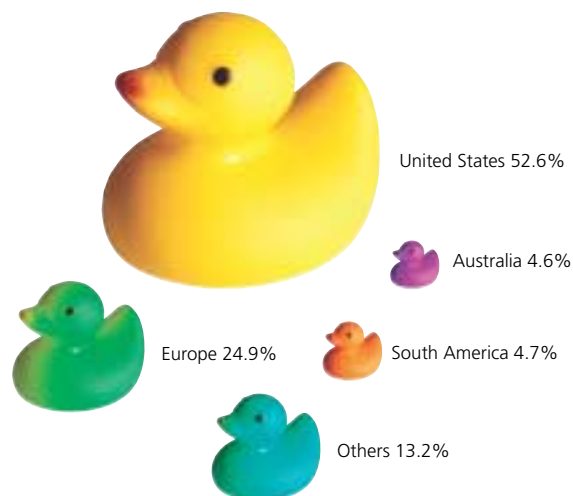
A key development for the Group's future growth was the extension of service and the commencement of production for infant car seat for an existing U.S. customer. After a series of stringent quality and safety testing, the first shipment was made in December 2003 and we expect to see increasing order size in 2004.

OUTLOOK

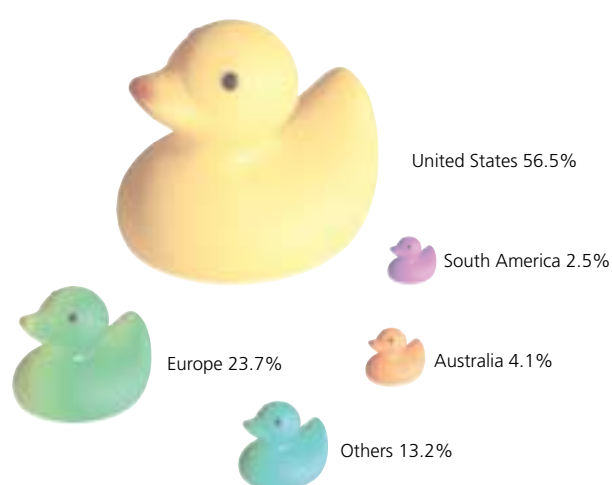
The Group is cautiously optimistic for 2004, in view of a gradually recovering global economy and positive business development thus far in the first quarter this year. Although raw material costs remain high and volatile, the Group will endeavour to maintain its gross margins through actively exploring the growth potential of new products and sharing the cost increments with other participants along the supply chain.

Turnover by Region

2003



2002





The growth potential for infant car seats is viewed as substantial in 2004 and also for the next few years. In most developed countries, the use of infant car seat has been made statutory under the child passenger law which presents a large and educated market for the Group's future expansion. Meanwhile, Asian countries, like Singapore and Taiwan, followed suit to enhance and safeguard child safety. We believe that other Asian countries would adopt similar practice in the future and thus benefiting some of the large and quality manufacturers like Lerado. As one of the first infant car seat manufacturers in the PRC, the Group possesses the top-notch production expertise and industry know-how which enable us to exploit the pioneer advantage to grasp market share.

Expansion into this new product segment lays a solid foundation for sustained growth. Apart from the existing model designed for infants up to one year old, the Group plans to explore opportunities in developing various models of car seat suitable for infants and babies in different ages and weights.

Shareholders can expect to see the Group offering an increasingly diversified and balanced product portfolio. The Group will also remain open to vertical and horizontal expansion and is well positioned to grasp opportunities arising from the recovering economy.

APPRECIATION

I would like to express my sincere gratitude to Mr. Tsang Yat Kiang and Mr. Chen Jo Wan for their past contributions to the Group. I would also like to take this opportunity to thank our shareholders, business partners and employees for their efforts and supports. I look forward to sharing another good year with you.

Huang Ying Yuan

Chairman

Hong Kong, 15th April, 2004

Management Discussion and Analysis

Turnover by Product

For the year ended 31st December



OVERVIEW

The Group recorded a consolidated turnover of HK\$1,149.9 million in 2003, an increase of 12.3% over the previous year. The Group's global strategy, which emphasises a diversified market portfolio, together with an expanded product mix proved to be essential during a challenging period.

Turnover was boosted by the increasing outsourcing trend among key European customers. At the same time, production of battery-operated ride-on cars for a premium US customer opened a new source of revenue and further strengthened the Group's fundamentals.

As a result of the Iraqi War and its ensuing effects on the global economy, the Group faced a challenging operating environment last year. The high rise in oil price last year led to the soaring costs of most oil-related materials. The Group's gross margin was

inevitably hampered by the increased costs of plastics and metal tubes, resulting in a drop from 31.4% in 2002 to 27.4% last year. Taking into account the property revaluation deficit of HK\$5.2 million and the unrealised holding loss on other investments of HK\$8.3 million, the Group reported a net profit of HK\$81.2 million (2002: HK\$92.4 million) in the year under review. Despite, the Group managed to maintain an EBITDA of HK\$146.1 million as compared with HK\$144.0 million in 2002.

GLOBAL SALES & MARKETING STRATEGY

Stroller, a necessity in many developed countries and also the Group's core product, recorded a mild growth of 4.5% over 2002. Sales revenue amounted to HK\$647.4 million and contributed 56.6% to the Group's total turnover. A total of 3.3 million units were sold in 2003.

However, as a result of reduced household travel stemming from the Iraqi War and the yet soft economic condition, sales of the Group's second largest product category, beds and playards, which are most desirable for travelling with children, decreased 9.1%, amounting to HK\$132.6 million.

Performance of miscellaneous infant products, which included mainly soft goods, high chairs, bouncers and walkers, etc., was encouraging in 2003, posting an increase of 21.8% in turnover. Sales of this category amounted to HK\$236.9 million and was contributing to a greater portion of the Group's total turnover.

Lerado is dedicated to strengthen its leading position by developing and broadening its income sources. In the year under review, leveraging on its strong design and manufacturing capability, the Group successfully negotiated with a new and potential US customer for the manufacture of battery-operated ride-on cars on an ODM basis. Shipment commenced in mid 2003 and satisfactory performance was achieved in its first year of production under an improving economic prospect which encouraged the consumption of toys. Furthermore, commencement of production of infant car seats in late 2003 is expected to further diversify and solidify the Group's revenue model and serve as another growth engine in the medium term.

Geographically, all of the Group's markets showed rebound and recorded growth in different extents. The yet soft US market showed a mild increase of 4.3% in turnover to HK\$603.4 million, contributing over 50% to the Group's total sales.

Attributed to the Group's efforts in developing a

globally balanced market mix and its notable capability, together with the increased outsourcing production trend in Europe taking advantage of the favourable exchange rates, the Europe market registered a 17.9% sales growth over 2002 to HK\$286.7 million and accounted for 24.9% of the Group's total turnover in 2003.

The Group continued to enjoy growing income from Australia, South America and other markets which accounted for 4.6%, 4.7% and 13.2% of the consolidated turnover respectively. In addition, to maintain presence of the Group's own brand, 'Angel', in the PRC and to achieve higher operational efficiency, the Group restructured its distribution network. By continuously refining its strategy in the PRC market, the Group can better concentrate its resources to strengthen the "Angel" brand and to capture opportunities arising from the flourishing economy. On retail side, due to reshuffle of tenant mix in the shopping mall in Shenzhen, the Group's one-stop infant products shop, "Peek-a-boo", was closed in April 2003.

CAPITAL EXPENDITURE

HK\$72.0 million was spent on capital expenditure in 2003, including production facilities for the new product lines of infant car seats and battery-operated ride-on cars. In addition, the Group allocated part of its extended plant for its major clients for customised product line purpose in response to the market trend for higher confidentiality. Such production facility planning will be continued in order to provide more attentive services and to foster closer relationship with its long-term clients. In addition, the reorganised floor plan also benefits the Group from further enhanced operation efficiency and raises productivity.



WORKFORCE

As at 31st December, 2003, the Group had a dedicated workforce of over 7,200 staff members, of which 7,000 worked in the PRC production sites. Employees' remuneration is consistent with the industry practice. Apart from basic salaries, discretionary bonus and contribution to retirement funds are provided for staff in Hong Kong, Taiwan and the PRC. Share options may also be granted to staff with reference to the individual's performance.

LIQUIDITY & FINANCIAL RESOURCES

The Group had a total cash and bank balance of HK\$95.1 million as at 31st December, 2003, with the majority of which in Hong Kong and US currencies. After deducting total borrowings of HK\$15.3 million, the Group recorded a net cash balance of HK\$79.8 million as compared to HK\$124.8 million as at 31st December, 2002. The borrowings, bearing interest at prevailing market rates, were short term bank loans due within one year. At 31st December, 2003, The Group's gearing ratio, expressing as total bank borrowings to shareholders' fund, was 0.02 (2002: 0.001). The Board is in the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditure.

As at 31st December, 2003, the Group had net current assets of HK\$225.5 million (2002: HK\$221.6 million) and a current ratio of 1.8 (2002: 2.0). Trade receivable turnover and inventory turnover were 58.9 days (2002: 63.5 days) and 46.2 days (2002: 44.5 days) respectively.

CHARGES ON GROUP ASSETS

As at 31st December, 2003, other receivables of HK\$34.8 million were pledged to a bank to secure bank borrowings of HK\$15.3 million.

EXCHANGE RISK EXPOSURE AND CONTINGENT LIABILITIES

The Group's sales are principally denominated in US dollars while purchases are transacted mainly in HK dollars, Renminbi and New Taiwanese dollars. The Group does not foresee significant risk in exchange rate fluctuation and no financial instruments have been used for hedging purposes.

As at 31st December, 2003, the Group had no significant contingent liabilities.



Executive Directors

Mr. HUANG Ying Yuan, aged 53, is a founding member and the chairman and president of the Group. Mr. Huang has 27 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. CHEN Hsing Shin, aged 60, 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 specialised in production site management. With his expertise, Mr. Chen oversees the Group's production operations in the PRC.

Mrs. HUANG CHEN Li Chu, aged 54, was appointed an executive director of the Group in 1998. Mrs. Huang has worked in the infant products industry in Taiwan for over 25 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.

Mr. CHEN An Hsin, aged 60, was appointed as an executive director of the Group in March 2002 and is responsible for the Group's business development in the PRC market. Prior to joining the Group, Mr. Chen has gained almost 30 years' experience in the distribution, retailing and marketing of products spanning from daily necessities to renowned and high-end consumer products in Taiwan and overseas markets including the US and Europe. Mr. Chen graduated from the Taiwan National Zhongxing University and holds a master's degree in public administration from the University of San Francisco.

Mr. LEUNG Man Fai, aged 46, was appointed an executive director of the Group in November 1998. He is also the financial controller of the Group. Prior to joining the Group in July 1995, Mr. Leung worked in the accounting field for over 15 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 a fellow member of the Australian Society of Certified Practising Accountants.

Independent Non-Executive Directors

Mr. LIM Pat Wah Patrick, aged 44, is a senior advisor of an advisory firm. Mr. Lim is a Chartered Financial Analyst and a fellow member of the Chartered Institute of Management Accountants and Association of Chartered Certified Accountants. He obtained a bachelor's degree in accounting from Birmingham University, a master's degree in management of information systems from the London School of Economics and Political Science and a master's degree in management from University of Sydney. Mr. Lim has over 19 years of experience in accounting and finance.

Mr. NG Kwun Wan, aged 40, is currently the Director of Easecorp Enterprises Limited. Mr. Ng graduated from University of New South Wales with a master's degree in professional accounting. He is also an associate member of each of the Australian Society of Certified Practising Accountants and the Hong Kong Society of Accountants. He has over 13 years of experience in accounting and corporate finance.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December, 2003.

Principal Activities

The Company is an investment holding company. Its major subsidiaries are engaged in the design, manufacture and trading of infant products. The activities of principal subsidiaries are set out in note 36 to the financial statements.

Results and Appropriations

The results of the Group and appropriations of the Company for the year ended 31st December, 2003 are set out in the consolidated income statement on page 22.

An interim dividend of HK2 cents per share amounting to HK\$14,327,000 was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK5 cents per share to the shareholders on the register of members on 19th May, 2004.

Investment Properties and Property, Plant and Equipment

During the year, the Group continued to expand and upgrade the manufacturing facilities.

The Group revalued its investment properties and 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 the 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

Details of movements during the year in the share capital of the Company are set out in note 23 to the financial statements.

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 23 to the financial statements. The directors considered that the repurchases may result in an increase in earnings per share of the Group.

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. Chen Hsing Shin (*Vice Chairman*)

Madam Huang Chen Li Chu (*Vice Chairman*)

Mr. Chen An-Hsin

Mr. Leung Man Fai

Mr. Tsang Yat Kiang (*Vice Chairman*) (resigned on 11th November, 2003)

Non-executive director:

Mr. Chen Jo Wan (resigned on 5th January, 2004)

Independent non-executive directors:

Mr. Lim Pat Wah Patrick

Mr. Ng Kwun Wan

In accordance with clause 87 of the Company's bye-laws, Madam Huang Chen Li Chu and Mr. Ng Kwun Wan 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 for Mr. Chen An-Hsin and Leung Man Fai, has entered into a service agreement with the Company for a period of three years commencing 1st December, 1998 and will continue thereafter unless and until terminated by either party by three months' prior written notice.

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 Securities

At 31st December, 2003, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in shares and underlying shares of the Company

Name of director	Beneficial owner	Other interests	Number of shares held as		Share options
			Total	Approximate % of the issued share capital	
Mr. Huang Ying Yuan	104,153,360	Spouse interest of 43,336,180 (Note 1)	147,489,540	20.40	7,000,000 (Note 3)
Mr. Chen Hsing Shin	96,805,800	—	96,805,800	13.39	3,500,000
Madam Huang Chen Li Chu	43,336,180	Spouse interest of 104,153,360 (Note 1)	147,489,540	20.40	7,000,000 (Note 4)
Mr. Chen An-Hsin	—	Corporate interest of 36,689,675 (Note 2)	36,689,675	5.08	—
Mr. Leung Man Fai	—	—	—	—	2,500,000
Mr. Chen Jo Wan	1,391,225	—	1,391,225	0.19	—

Notes:

1. The spouse interest represents the shares held by the spouse of Mr. Huang Ying Yuan and Madam Huang Chen Li Chu, respectively. Madam Huang Chen Li Chu is the wife of Mr. Huang Ying Yuan.
2. Mr. Chen An-Hsin beneficially owns the entire interest of Gold Field Business Ltd., which in turn owns 36,689,675 ordinary shares in the Company.
3. It represents 4,000,000 share options beneficially owned by Mr. Huang Ying Yuan and 3,000,000 share options held by the spouse of him.
4. It represents 3,000,000 options beneficially owned by Madam Huang Chen Li Chu and 4,000,000 share options held by the spouse of her.

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

Share Options

Particulars of the Company's share option schemes are set out in note 24 to the financial statements.

The following table discloses movements in the Company's share options during the year:

Director	Date of grant	Number of share options of the Company		
		Outstanding at 1st January, 2003	Exercised during the year	Outstanding at 31st December, 2003
Mr. Huang Ying Yuan	18th August, 1999	4,000,000	—	4,000,000
Mr. Chen Hsing Shin	18th August, 1999	3,500,000	—	3,500,000
Madam Huang Chen Li Chu	18th August, 1999	3,000,000	—	3,000,000
Mr. Leung Man Fai	18th August, 1999	2,500,000	—	2,500,000
Mr. Tsang Yat Kiang	18th August, 1999	3,500,000	(3,500,000)	—
Mr. Chen Jo Wan	18th August, 1999	2,500,000	(2,500,000)	—
Mr. Lim Pat Wah Patrick	18th August, 1999	500,000	(500,000)	—
		19,500,000	(6,500,000)	13,000,000

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

Share options were exercised on various dates from 21st October, 2003 to 24th October, 2003. The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised during such period ranged from HK\$1.30 to HK\$1.31.

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 debt securities (including debentures) of, the Company or any other body corporate.

Connected Transactions and Directors' Interests in Contracts

During the year, the Group made purchases of fabrics and sponge and plastic parts of HK\$197,000 from Yojin Industrial Corporation, a company in which Mr. Huang Ying Yuan and Madam Huang Chen Li Chu, directors of the Company, have beneficial interests. In accordance with the conditions agreed with the Stock Exchange with respect to the connected transactions, the independent non-executive directors have reviewed the above connected transactions 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 agreements governing such transactions.

Details of other 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 Listing Rules.

Substantial Shareholders

As at 31st December, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long position in shares and underlying shares of the Company

Name of substantial shareholder	Number of shares	Capacity	Approximate % of the issued share capital
Mr. Cheah Cheng Hye	50,720,000	Corporate interest (<i>Note</i>)	7.0%
Value Partners Limited	50,720,000	Investment manager	7.0%
Templeton Investment Counsel, LLC	35,965,968	Investment manager	5.0%

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 31st December, 2003.

Donations

During the year, the Group made charitable and other donations amounting to HK\$70,000.

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

Other than the repurchase by the Company of certain of its shares on the Stock Exchange as described in note 23 to the financial statements, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year.

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 56% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 22% of total sales. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 25% of the total purchases 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.

Corporate Governance

The Company has complied throughout the year ended 31st December, 2003 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

15th April, 2004

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 Shareholders of
Lerado Group (Holding) Company Limited**
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 22 to 65 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 financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of The Companies Act of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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, 2003 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, 15th April, 2004

Consolidated Income Statement

For the year ended 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Turnover		1,149,893	1,024,302
Cost of sales		(835,109)	(702,739)
Gross profit		314,784	321,563
Investment income	4	356	1,500
Other operating income		17,996	10,492
Marketing and distribution costs		(88,689)	(93,116)
Research and development expenses		(14,794)	(17,743)
Administrative expenses		(113,660)	(106,811)
Other operating expenses		(18,855)	(12,560)
Profit from operations	5	97,138	103,325
Finance costs	7	(121)	(52)
Profit from ordinary activities before taxation		97,017	103,273
Taxation	8	(16,421)	(10,970)
Profit before minority interests		80,596	92,303
Minority interests		574	54
Net profit for the year		81,170	92,357
Dividends	9	57,369	57,796
Earnings per share	10		
Basic		11.28 cents	12.78 cents
Diluted		11.26 cents	12.78 cents

Consolidated Balance Sheet

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At 31st December, 2003

		2003	2002
	Notes	HK\$'000	HK\$'000
			(Restated)
Non-Current Assets			
Investment properties	11	7,500	10,500
Property, plant and equipment	12	369,028	332,669
Negative goodwill	13	(3,238)	(2,154)
Intellectual property rights	15	46,084	51,392
Interest in associates	16	11,700	11,700
Interest in a jointly controlled entity	17	49,117	49,117
Other investments	18	13,663	21,997
Deferred tax assets	26	1,700	2,665
		495,554	477,886
Current Assets			
Inventories	19	124,678	86,558
Trade and other receivables	20	290,917	232,488
Bank balances and cash		95,070	125,811
		510,665	444,857
Current Liabilities			
Trade and other payables	21	217,094	168,613
Amount due to a jointly controlled entity	22	49,117	49,117
Taxation		3,723	4,569
Secured short term bank borrowings		15,256	1,000
		285,190	223,299
Net Current Assets		225,475	221,558
		721,029	699,444
Capital and Reserves			
Share capital	23	72,284	72,245
Reserves		615,652	592,675
		687,936	664,920
Minority Interests		18,464	15,904
Non-Current Liabilities			
Deferred tax liabilities	26	11,074	9,386
Loans from minority shareholders	27	3,555	9,234
		14,629	18,620
		721,029	699,444

The financial statements on pages 22 to 65 were approved and authorised for issue by the Board of Directors on 15th April, 2004 and are signed on its behalf by:

Huang Ying Yuan
Chairman

Chen Hsing Shin
Vice Chairman

Balance Sheet

At 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-Current Asset			
Interest in subsidiaries	14	411,182	424,132
Current Assets			
Other receivables		73	73
Bank balances		41	86
		114	159
Current Liabilities			
Amounts due to subsidiaries		1,175	15,327
Other payables		188	26
		1,363	15,353
Net Current Liabilities		(1,249)	(15,194)
		409,933	408,938
Capital and Reserves			
Share capital	23	72,284	72,245
Reserves	25	337,649	336,693
		409,933	408,938

Huang Ying Yuan
Chairman

Chen Hsing Shin
Vice Chairman

Consolidated Statement of Changes in Equity

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For the year ended 31st December, 2003

	Share capital HK\$'000	Share premium HK\$'000	Special 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	Capital redemption reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE GROUP											
At 1st January, 2002											
— as originally stated	72,281	90,386	38,510	40,675	12,579	817	(2,202)	(88)	410	369,358	622,726
— change in accounting policy with respect to deferred tax (note 2)	—	—	—	(5,346)	—	—	—	—	—	2,317	(3,029)
— as restated	72,281	90,386	38,510	35,329	12,579	817	(2,202)	(88)	410	371,675	619,697
Exchange differences arising from translation of the financial statements of operations outside Hong Kong	—	—	—	—	—	—	40	—	—	—	40
Revaluation surplus on land and buildings	—	—	—	12,413	—	—	—	—	—	—	12,413
Deferred tax liability arising on revaluation of properties	—	—	—	(1,479)	—	—	—	—	—	—	(1,479)
Net gains not recognised in the income statement	—	—	—	10,934	—	—	40	—	—	—	10,974
Shares repurchased and cancelled	(36)	—	—	—	—	—	—	—	—	—	(36)
Premium on repurchase of shares	—	(276)	—	—	—	—	—	—	—	—	(276)
Transfer of reserves for cancellation of shares	—	—	—	—	—	—	—	—	36	(36)	—
Net profit for the year	—	—	—	—	—	—	—	—	—	92,357	92,357
Transfer of statutory reserves	—	—	—	—	—	112	—	—	—	(112)	—
Dividends (note 9)	—	—	—	—	—	—	—	—	—	(57,796)	(57,796)
	(36)	(276)	—	—	—	112	—	—	36	34,413	34,249
At 31st December, 2002	72,245	90,110	38,510	46,263	12,579	929	(2,162)	(88)	446	406,088	664,920
Exchange differences arising from translation of the financial statements of operations outside Hong Kong	—	—	—	—	—	—	(1,186)	—	—	—	(1,186)
Revaluation deficit on land and buildings	—	—	—	(414)	—	—	—	—	—	—	(414)
Deferred tax liability arising on revaluation of properties	—	—	—	(30)	—	—	—	—	—	—	(30)
Net gains not recognised in the income statement	—	—	—	(444)	—	—	(1,186)	—	—	—	(1,630)
Shares repurchased and cancelled	(611)	—	—	—	—	—	—	—	—	—	(611)
Share options exercised	650	7,540	—	—	—	—	—	—	—	—	8,190
Premium on repurchase of shares	—	(6,734)	—	—	—	—	—	—	—	—	(6,734)
Transfer of reserves for cancellation of shares	—	—	—	—	—	—	—	—	611	(611)	—
Net profit for the year	—	—	—	—	—	—	—	—	—	81,170	81,170
Transfer of statutory reserves	—	—	—	—	43	—	—	—	—	(43)	—
Dividends (note 9)	—	—	—	—	—	—	—	—	—	(57,369)	(57,369)
	39	806	—	—	43	—	—	—	611	23,147	24,646
At 31st December, 2003	72,284	90,916	38,510	45,819	12,622	929	(3,348)	(88)	1,057	429,235	687,936

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2003

For the year ended 31st December, 2003, the accumulated profits of the Group include a loss of HK\$883,000 attributable to a jointly controlled entity (2002: HK\$883,000).

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

As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China, other than Hong Kong (the "PRC"), the PRC subsidiaries of the Group are required to maintain two statutory reserves, being a statutory surplus reserve fund and an enterprise expansion fund which are not distributable. Appropriations to such reserves are made out of net profit after taxation as per the statutory accounts of the PRC subsidiaries and the amount and allocation basis are decided by the respective board of directors annually.

Consolidated Cash Flow Statement

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For the year ended 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
OPERATING ACTIVITIES			
Profit from ordinary activities before taxation		97,017	103,273
Adjustments for:			
Interest income		(356)	(1,187)
Interest expenses		121	52
Rental income		—	(313)
Allowance for bad and doubtful debts		5,694	—
Loss on disposal of property, plant and equipment		1,747	1,179
Unrealised holding loss on other investments		8,334	—
Depreciation and amortisation of property, plant and equipment		30,574	28,422
Amortisation of intellectual property rights		5,308	5,310
Deficit arising on revaluation of land and buildings		2,213	6,750
Deficit arising on revaluation of investment properties		3,000	500
Release of negative goodwill		(420)	(269)
Gain on disposal of subsidiaries		(660)	—
Operating cash flows before movements in working capital		152,572	143,717
Increase in inventories		(43,173)	(1,970)
(Increase) decrease in trade and other receivables		(66,398)	32,592
Increase (decrease) in trade and other payables		56,517	(39,598)
Cash generated from operations		99,518	134,741
Hong Kong Profits Tax paid		(4,347)	(4,908)
Taxation in other jurisdictions paid		(10,307)	(3,262)
NET CASH FROM OPERATING ACTIVITIES		84,864	126,571
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(71,970)	(40,597)
Acquisition of additional interest in subsidiaries		(1,161)	—
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	28	(540)	—
Proceeds from disposal of property, plant and equipment		579	76
Interest received		356	1,187
Loan to an associate		—	(2,340)
Rental received		—	313
NET CASH USED IN INVESTING ACTIVITIES		(72,736)	(41,361)

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For the year ended 31st December, 2003

	2003 HK\$'000	2002 HK\$'000
FINANCING		
Dividends paid	(57,369)	(57,796)
Repayment of bank loans	(8,449)	(3,900)
Repurchase of shares	(7,345)	(312)
Interest paid	(121)	(52)
Bank loans raised	22,705	500
Proceeds from issue of shares	8,190	—
Dividend paid by a subsidiary to a minority shareholder	—	(2,880)
Loans from minority shareholders	—	2,775
Capital contribution from minority shareholders	—	926
NET CASH USED IN FINANCING ACTIVITIES	(42,389)	(60,739)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(30,261)	24,471
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	125,811	101,346
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(480)	(6)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	95,070	125,811

For the year ended 31st December, 2003

1. General

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

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

2. Adoption of Hong Kong Financial Reporting Standards

In the current year, the Group adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA.

Income Taxes

In the current year, the Group adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly.

As a result of this change in policy, the balance of accumulated profits at 1st January, 2002 has been increased by HK\$2,317,000, representing the cumulative effect of the change in policy on the results for periods prior to 1st January, 2002. The balance on the Group's property revaluation reserve at 1st January, 2002 has been decreased by HK\$5,346,000, representing the deferred tax liability recognised in respect of the revaluation surplus on the Group's properties at that date. The change has resulted in an increase in the net profit for the year ended 31st December, 2003 of HK\$973,000 and a decrease in the net profit for the year ended 31st December, 2002 of HK\$773,000.

3. Significant Accounting Policies

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

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

Basis of consolidation

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

For the year ended 31st December, 2003

3. Significant Accounting Policies *(continued)*

Basis of consolidation *(continued)*

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

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

Goodwill

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

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

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

Negative goodwill

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

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

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

Investments in subsidiaries

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

Interest in associates

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

For the year ended 31st December, 2003

3. Significant Accounting Policies *(continued)*

Interest in joint ventures

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

The Group's interest in its jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entity is included in the consolidated income statement.

Turnover

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

Revenue recognition

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

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

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

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 to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

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

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

For the year ended 31st December, 2003

3. **Significant Accounting Policies** *(continued)*

Property, plant and equipment

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

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

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

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

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

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

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

For the year ended 31st December, 2003

3. Significant Accounting Policies *(continued)*

Impairment

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

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

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

Intellectual property rights

Intellectual property rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated to write off the cost of the intellectual property rights over their estimated useful lives, using the straight-line method.

Investments

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

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

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

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

For the year ended 31st December, 2003

3. Significant Accounting Policies *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Research and development expenditure

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

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

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

Operating leases

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

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

For the year ended 31st December, 2003

3. Significant Accounting Policies *(continued)*

Taxation *(continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit scheme

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

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

For the year ended 31st December, 2003

4. Investment Income

	2003 HK\$'000	2002 HK\$'000
Bank interest income	356	1,187
Property rental income	—	313
	356	1,500

The Group had no significant outgoings in respect of the property rental income generated for the year 2002.

5. Profit from Operations

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration		
Basic salaries and allowances	146,591	132,905
Bonus	14,227	15,438
Retirement benefit scheme contributions	3,965	4,997
	164,783	153,340
Auditors' remuneration		
Current year	1,570	1,446
Underprovision in prior year	—	135
	1,570	1,581
Allowance for bad and doubtful debts	5,694	—
Amortisation of intellectual property rights	5,308	5,310
Deficit arising on revaluation of land and buildings	2,213	6,750
Deficit arising on revaluation of investment properties	3,000	500
Depreciation and amortisation of property, plant and equipment	30,574	28,422
Loss on disposal of property, plant and equipment	1,747	1,179
Unrealised holding loss on other investments	8,334	—
and after crediting:		
Gain on disposal of subsidiaries	660	—
Release of negative goodwill to other operating income	420	269

For the year ended 31st December, 2003

6. Directors' Emoluments and Highest Paid Individuals

(a) Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Directors' fees		
Non-executive directors	98	98
Independent non-executive directors	260	260
	358	358
Other emoluments		
Executive directors		
Basic salaries and allowances	8,792	9,254
Bonus	7,349	8,854
Retirement benefits scheme contributions	163	180
	16,304	18,288
	16,662	18,646

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

	2003 Number of directors	2002 Number of directors
Nil to HK\$1,000,000	3	5
HK\$1,000,001 to HK\$1,500,000	2	—
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$2,500,001 to HK\$3,000,000	—	1
HK\$3,000,001 to HK\$3,500,000	2	1
HK\$3,500,001 to HK\$4,000,000	2	2
HK\$4,000,001 to HK\$4,500,000	—	1
	9	11

For the year ended 31st December, 2003

6. Directors' Emoluments and Highest Paid Individuals (continued)

(a) Directors' emoluments (continued)

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

(b) Highest paid individuals

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

7. Finance Costs

	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	119	46
Other borrowings	2	6
	121	52

8. Taxation

	2003 HK\$'000	2002 HK\$'000
Current tax:		
Hong Kong	4,316	3,394
The PRC	8,045	4,580
Other jurisdictions	735	774
	13,096	8,748
(Over)underprovision in prior years:		
Hong Kong	(20)	262
The PRC	581	—
Other jurisdictions	141	—
	702	262
Deferred tax (Note 26):		
Current year	(386)	1,960
Attributable to change in tax rates	3,009	—
	2,623	1,960
	16,421	10,970

For the year ended 31st December, 2003

8. Taxation (continued)

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. The Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st December, 2003.

The tax rate of a PRC subsidiary was increased from 12% to 27% with effect from the year ended 31st December, 2003. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st December, 2003.

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

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

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	The Group			
	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before taxation	97,017		103,273	
Tax at Hong Kong Profits Tax rate of 17.5% (2002: 16.0%)	16,978	17.5	16,524	16.0
Tax effect of expenses that are not deductible in determining taxable profit	2,202	2.3	3,571	3.5
Tax effect of income that is not taxable in determining taxable profit	(189)	(0.2)	(74)	(0.1)
Underprovision in respect of prior year	702	0.7	262	0.3
Deferred tax assets not recognised	33	0.0	—	—
Tax losses not recognised	3,793	4.0	7,547	7.3
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	3,009	3.1	—	—
Effect of different tax rates of subsidiaries	(6,620)	(6.8)	(12,446)	(12.1)
Income tax on concessionary rate	(3,868)	(4.0)	(3,811)	(3.7)
Others	381	0.4	(603)	(0.6)
Taxation and effective tax rate for the year	16,421	17.0	10,970	10.6

Details of deferred taxation are set out in note 26.

For the year ended 31st December, 2003

9. Dividends

	2003 HK\$'000	2002 HK\$'000
2002 final dividend of HK6 cents (2001 final dividend: HK6 cents) per share	43,042	43,347
2003 interim dividend of HK2 cents (2002 interim dividend: HK2 cents) per share	14,327	14,449
	57,369	57,796

The 2003 final dividend of HK5 cents per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. Earnings Per Share

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

	2003	2002
Net profit for the year and earnings for the purposes of the basic and diluted earnings per share	HK\$81,170,000	HK\$92,357,000
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	719,669,442	722,451,541
Effect of dilutive potential ordinary shares in respect of share options	952,982	6,457
Weighted average number of ordinary shares for the purposes of diluted earnings per share	720,622,424	722,457,998

11. Investment Properties

	The Group HK\$'000
Valuation	
At 1st January, 2003	10,500
Deficit on valuation charged to the income statement	(3,000)
At 31st December, 2003	7,500

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

Investment properties were revalued at 31st December, 2003 by Grant Sherman Appraisal Limited, an independent property valuer, on an open market value basis.

For the year ended 31st December, 2003

12. Property, Plant and Equipment

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At 1st January, 2003	217,098	6,585	106,607	47,352	11,992	26,429	416,063
Exchange realignment	545	(3)	(547)	(90)	(39)	(121)	(255)
Additions	7,836	1,683	32,032	11,302	786	18,331	71,970
Disposals	—	(1,854)	(1,026)	(865)	(491)	—	(4,236)
Attributable to disposal of subsidiaries	—	—	—	(125)	—	—	(125)
Transfer	14,654	(42)	1,737	766	—	(17,115)	—
Adjustment on valuation	(13,067)	—	—	—	—	—	(13,067)
At 31st December, 2003	227,066	6,369	138,803	58,340	12,248	27,524	470,350
Comprising:							
At cost	—	6,369	138,803	58,340	12,248	27,524	243,284
At valuation — 2003	227,066	—	—	—	—	—	227,066
	227,066	6,369	138,803	58,340	12,248	27,524	470,350
DEPRECIATION AND AMORTISATION							
At 1st January, 2003	—	3,734	45,813	26,385	7,462	—	83,394
Exchange realignment	—	—	(218)	(50)	(25)	—	(293)
Provided for the year	10,440	1,209	10,696	6,900	1,329	—	30,574
Eliminated on disposals	—	(690)	(558)	(273)	(389)	—	(1,910)
Attributable to disposal of subsidiaries	—	—	—	(3)	—	—	(3)
Adjustment on valuation	(10,440)	—	—	—	—	—	(10,440)
At 31st December, 2003	—	4,253	55,733	32,959	8,377	—	101,322
NET BOOK VALUES							
At 31st December, 2003	227,066	2,116	83,070	25,381	3,871	27,524	369,028
At 31st December, 2002	217,098	2,851	60,794	20,967	4,530	26,429	332,669

For the year ended 31st December, 2003

12. Property, Plant and Equipment *(continued)*

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

	2003 HK\$'000	2002 HK\$'000
Held in Hong Kong under long leases	28,000	28,000
Held in the PRC under medium term land use rights	160,066	148,198
Held in Taiwan, freehold	39,000	40,900
	227,066	217,098

A leasehold building of the Group with net book value of HK\$398,000 (2002: HK\$478,000) as at 31st December, 2003 was valued by the directors, who estimated that its fair value was not materially different from its carrying amount.

The remaining land and buildings of the Group were revalued at 31st December, 2003 by Grant Sherman Appraisal Limited, an independent property valuer not connected to the Group. The land and buildings in Hong Kong and Taiwan were valued on an open market value basis, the buildings and structures in the PRC were valued on a depreciated replacement cost basis and the land portions in the PRC were valued by reference to the standard land prices in Guangdong Province and Shanghai for private treaty grant determined by local land administration bureau.

A deficit on revaluation of HK\$2,213,000 was charged to the income statement and a deficit of HK\$414,000 was charged to property revaluation reserve.

The Group has rights to the use of certain piece of land in the PRC at valuation of approximately HK\$25,400,000 (2002: HK\$23,400,000) and has erected buildings thereon. As at 31st December, 2003, the Group had not been granted formal title by the PRC government authority. In the opinion of the directors, the absence of formal title to these land use rights does not impair the value of the relevant properties to the Group. The directors also believe that formal title to these land use rights will be granted to the Group in due course.

If the land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated amortisation at HK\$202,735,000 (2002: HK\$187,186,000).

For the year ended 31st December, 2003

13. Negative Goodwill

	The Group
	HK\$'000
GROSS AMOUNT	
At 1st January, 2003	2,692
Arising on acquisition of additional interest in subsidiaries	1,504
At 31st December, 2003	4,196
RELEASED TO INCOME	
At 1st January, 2003	538
Released during the year	420
At 31st December, 2003	958
CARRYING AMOUNTS	
At 31st December, 2003	3,238
At 31st December, 2002	2,154

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

14. Interest in Subsidiaries

	The Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	244,660	244,660
Amounts due from subsidiaries	166,522	179,472
	411,182	424,132

Details of the Company's principal subsidiaries at 31st December, 2003 are set out in note 36.

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

For the year ended 31st December, 2003

15. Intellectual Property Rights

	The Group <i>HK\$'000</i>
COST	
At 1st January, 2003 and at 31st December, 2003	88,982
AMORTISATION AND IMPAIRMENT	
At 1st January, 2003	37,590
Provided for the year	5,308
At 31st December, 2003	42,898
NET BOOK VALUES	
At 31st December, 2003	46,084
At 31st December, 2002	51,392

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

16. Interest in Associates

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets of associates	—	—
Loan to an associate	11,700	11,700
	11,700	11,700

For the year ended 31st December, 2003

16. Interest in Associates *(continued)*

Details of the Group's associates at 31st December, 2003 are as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Group	Principal activity
FLT Hong Kong Technology Limited	Incorporated	British Virgin Islands ("BVI")	US\$1	30%	Trading of optical fibre products
Weblink Technology Limited ("Weblink")	Incorporated	BVI	US\$100	30%	Investment holding
珠海保稅區隆宇光電科技有限公司	Incorporated	PRC	US\$1,548,000	30%	Manufacturing and distribution of optical fibre products

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

17. Interest in a Jointly Controlled Entity

The Group
2003 & 2002
HK\$'000

Share of net assets of a jointly controlled entity	49,117
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The jointly controlled entity was incorporated for the principal purpose of project investment. Due to the change of economic environment, the jointly controlled entity had not commenced its business and was under the process of voluntary liquidation.

For the year ended 31st December, 2003

17. Interest in a Jointly Controlled Entity *(continued)*

As at 31st December, 2003, the net assets of the jointly controlled entity represented loans to shareholders which were considered recoverable. The directors are of the opinion that the investment is worth at least its carrying value.

Details of the Group's jointly controlled entity at 31st December, 2003 are as follows:

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

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

18. Other Investments

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

19. Inventories

	The Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	58,326	37,225
Work in progress	18,470	12,847
Finished goods	47,882	36,486
	124,678	86,558

Included above are finished goods of HK\$1,243,000 (2002: HK\$1,811,000) which are carried at net realisable values.

For the year ended 31st December, 2003

20. Trade and Other Receivables

The Group has defined credit terms which are agreed with its trade customers. Included in trade and other receivables are trade receivables of HK\$214,900,000 (2002: HK\$156,494,000) and their aged analysis is as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	99,270	82,945
31 to 90 days	103,842	70,869
Over 90 days	11,788	2,680
	214,900	156,494

21. Trade and Other Payables

Included in trade and other payables are trade payables of HK\$154,030,000 (2002: HK\$111,018,000) and their aged analysis is as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	72,942	48,082
31 to 90 days	72,686	55,825
Over 90 days	8,402	7,111
	154,030	111,018

22. Amount Due to A Jointly Controlled Entity

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

For the year ended 31st December, 2003

23. Share Capital

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 1st January, 2002, 31st December, 2002 and 31st December, 2003	1,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 1st January, 2002	722,806,724	72,281
Shares repurchased and cancelled	(358,000)	(36)
At 31st December, 2002	722,448,724	72,245
Shares repurchased and cancelled (i)	(6,110,000)	(611)
Exercise of share options (ii)	6,500,000	650
At 31st December, 2003	722,838,724	72,284

- (i) During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid
		Highest HK\$	Lowest HK\$	HK\$'000
April 2003	2,750,000	1.18	1.13	3,178
May 2003	3,360,000	1.29	1.18	4,167
	6,110,000			7,345

The repurchased shares were subsequently cancelled upon repurchase and accordingly, the issued capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the share premium account of the Company as set out in the consolidated statement of changes in equity and note 25.

- (ii) During the year, 6,500,000 shares in the Company of HK\$0.10 each were issued upon the exercise of 6,500,000 share options at a subscription price of HK\$1.26 per share.

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

For the year ended 31st December, 2003

24. Share Options

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

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

At 31st December, 2003, the number of shares in respect of which options had been granted and remained outstanding under the 1998 Scheme was 13,000,000 (2002: 19,500,000), representing 1.8% (2002: 2.7%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 1998 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

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

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

For the year ended 31st December, 2003

24. Share Options (continued)

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

	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	Number of shares to be issued upon exercise of the share options		
					Outstanding at 1st January, 2003	Exercised during the year (Note)	Outstanding at 31st December, 2003
Total Directors	18.8.1999	4.5 months	1.1.2000 — 17.8.2009	1.26	19,500,000	(6,500,000)	13,000,000

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

Note: The market value per share ranged from HK\$1.39 to HK\$1.41 at the time the share options were exercised.

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

Except that no further options may be granted under the 1998 Scheme subsequent to its termination, all the other provisions of the 1998 Scheme will remain in force so as to give effect to the exercise of all outstanding options granted under the 1998 Scheme prior to 1st September, 2001 and all such options will remain valid and exercisable in accordance with the provisions of the 1998 Scheme.

According to the 2002 Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company or any of its subsidiaries and any suppliers, consultants, agents and advisers who have contributed to the Group, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted.

For the year ended 31st December, 2003

24. Share Options *(continued)*

Options granted should be accepted within 30 days from the date of grant. The total number of shares in respect of which options may be granted under the 2002 Scheme and any other share option scheme of the Company at any time shall not exceed 10% of the shares of the Company in issue at any point in time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or any of its associates in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

The directors may at its absolute discretion determine the period during which an option may be exercised, such period to expire not later than 10 years from the date of grant of the option. No option may be granted more than 10 years after the date of approval of the 2002 Scheme. Subject to earlier termination by the Company in general meeting or by the board of directors' meeting, the 2002 Scheme shall be valid and effective for a period of 10 years after the date of adoption of the 2002 Scheme. The exercise price is determined by the directors and shall not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the share.

No options were granted under the 2002 Scheme since its adoption.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

For the year ended 31st December, 2003

25. Reserves

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	(Deficit) accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1st January, 2002	90,386	244,461	410	(569)	334,688
Premium on repurchase of shares	(276)	—	—	—	(276)
Transfer of reserves for cancellation of shares	—	—	36	(36)	—
Net profit for the year	—	—	—	60,077	60,077
Dividends (<i>Note 9</i>)	—	—	—	(57,796)	(57,796)
At 31st December, 2002	90,110	244,461	446	1,676	336,693
Premium on repurchase of shares	(6,734)	—	—	—	(6,734)
Exercised of share options	7,540	—	—	—	7,540
Transfer of reserves for cancellation of shares	—	—	611	(611)	—
Net profit for the year	—	—	—	57,519	57,519
Dividends (<i>Note 9</i>)	—	—	—	(57,369)	(57,369)
At 31st December, 2003	90,916	244,461	1,057	1,215	337,649

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

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

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

For the year ended 31st December, 2003

25. Reserves (continued)

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

	2003 HK\$'000	2002 HK\$'000
Contributed surplus	244,461	244,461
Accumulated profits	1,215	1,676
	245,676	246,137

26. Deferred Tax

The following are the major deferred tax liabilities (assets) provided (recognised) by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$'000	Revaluation of properties in Hong Kong HK\$'000	Revaluation of properties outside Hong Kong HK\$'000	Others HK\$'000	Total HK\$'000
At 1st January, 2002					
— as previously reported	260	—	—	—	260
— adjustment on adoption of SSAP 12 (Revised)	476	(637)	5,346	(2,163)	3,022
— as restated	736	(637)	5,346	(2,163)	3,282
(Credit) charge to the income statement for the year	(103)	(688)	—	2,751	1,960
Charge to equity for the year	—	—	1,479	—	1,479
At 31st December, 2002	633	(1,325)	6,825	588	6,721
(Credit) charge to the income statement for the year	(86)	105	—	(405)	(386)
Charge to equity for the year	—	—	30	—	30
Effect of change in tax rates charge (credit) to the income statement for the year	59	(124)	—	3,074	3,009
At 31st December, 2003	606	(1,344)	6,855	3,257	9,374

For the year ended 31st December, 2003

26. Deferred Tax *(continued)*

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been set off in accordance with the conditions set out in SSAP 12 (Revised). The following is the analysis of the deferred tax balances for financial reporting purposes:

	2003 HK\$'000	2002 HK\$'000
Deferred tax liabilities	11,074	9,386
Deferred tax assets	(1,700)	(2,665)
	9,374	6,721

At 31st December, 2003, the Group had unused tax losses and deductible temporary differences of HK\$96,954,000 (2002: HK\$80,668,000) and HK\$6,532,000 (2002: HK\$3,716,000), respectively. No deferred tax assets were recognised because of the unpredictability of future profit streams. The unrecognised tax losses are losses that will expire in five year's time.

27. Loans from Minority Shareholders

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

For the year ended 31st December, 2003

28. Disposal of Subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net liabilities disposed of:		
Property, plant and equipment	122	—
Trade and other receivables	1,908	—
Inventories	5,053	—
Bank balances and cash	540	—
Trade and other payables	(8,403)	—
Minority interests	120	—
	(660)	—
Gain on disposal of subsidiaries	660	—
Total consideration	—	—
Cash outflow arising on disposal		
Bank balances and cash disposed of	(540)	—

The subsidiaries disposed of during the year did not contribute significantly to the turnover, operating results or cash flows of the Group.

For the year ended 31st December, 2003

29. Operating Lease Arrangements

The Group as lessee

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Minimum lease payments paid under operating leases in respect of premises during the year	5,148	6,373

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	2,117	2,646
In the second to fifth year inclusive	3,776	6,945
	5,893	9,591

Included above are operating lease commitments for premises of HK\$2,266,000 (2002: HK\$4,843,000) entered into by the Group with the directors of the Company, Mr. Huang Ying Yuan, Tsang Yat Kiang, Chen Hsing Shin and Chen Jo Wan.

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

The Group as lessor

No property rental income was earned during the year (2002: HK\$313,000). The investment properties held have committed tenants for the next three years.

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	297	—
In the second to fifth year inclusive	759	—
	1,056	—

For the year ended 31st December, 2003

30. Commitments

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	11,022	6,986

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

31. Pledge of Assets

At 31st December, 2003, other receivables of HK\$34,871,000 were pledged to banks to secure bank borrowings of HK\$15,256,000.

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

32. Contingent Liabilities

At 31st December, 2003, the Company had guarantees of approximately HK\$284 million (2002: HK\$261 million) given to banks in respect of banking facilities granted to certain subsidiaries of the Company.

33. Retirement Benefit Scheme

The Group operates an MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

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

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

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34. Connected and Related Party Transactions

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

(a) Transactions with connected or related parties:

Name of party	Interested directors	Nature of transactions	2003 HK\$'000	2002 HK\$'000
Yojin Industrial Corporation	Huang Ying Yuan	Rental expenses paid by the Group (Note ii)	821	811
	Huang Chen Li Chu (Note i)	Purchase of fabrics and sponge and plastic parts by the Group (Note iii)	197	1,189
		Sales made by the Group (Note iii)	71	90
		Purchase of property, plant and equipment (Note iii)	16	—
Chen Chin Yuan	(Note iv)	Rental expenses paid by the Group (Note ii)	164	164

(b) Transactions with directors:

Name of director	Nature of transactions	2003 HK\$'000	2002 HK\$'000
Huang Ying Yuan	Rental expenses paid by the Group (Note ii)	379	379
Tsang Yat Kiang	Rental expenses paid by the Group (Note ii and v)	190	228
Chen Hsing Shin	Rental expenses paid by the Group (Note ii)	379	379
Huang Chen Li Chu	Rental expenses paid by the Group (Note ii)	27	27
Chen Jo Wan	Rental expenses paid by the Group (Note ii)	228	228

Other than the above, at 31st December, 2003, the Group also had loans from minority shareholders of HK\$3,555,000 (2002: HK\$9,234,000), details are disclosed in note 27. These loans are made by the minority shareholders to the related subsidiaries in the proportion of their interests in the respective subsidiaries, as appropriate.

For the year ended 31st December, 2003

34. Connected and Related Party Transactions *(continued)*

Notes:

- i. Huang Ying Yuan and Huang Chen Li Chu have beneficial interests in Yojin Industrial Corporation.
- ii. The rentals were charged in accordance with the relevant tenancy agreements agreed by both parties.
- iii. These transactions were carried out at market price or, where no market price was available, at terms determined and agreed by both parties.
- iv. Chen Chin Yuan is a brother of Chen Hsing Shin.
- v. Tsang Yat Kiang resigned as a director on 11th November, 2003.

35. Major Non-Cash Transactions

Upon the acquisition of additional interest in subsidiaries in current year, the loan from a minority shareholder of HK\$5,679,000, was assigned to the Group.

36. Particulars of Principal Subsidiaries

Details of the Company's principal subsidiaries at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company (Note i)	Principal activities (Note ii)
Angel Juvenile Products (Zhongshan) Co., Ltd.	PRC (Note iii)	US\$1,430,775 registered capital	100%	Manufacture and trading of infant products
Glory Time Investments Limited	BVI	US\$1,540,000 ordinary shares	52%	Investment holding
Kintop Limited	Hong Kong	HK\$2 ordinary shares	100%	Trading of infant products
Lerado China Limited	BVI	HK\$5,000 ordinary shares	100%	Investment holding and trading of infant products in Taiwan
Lerado H.K. Limited	Hong Kong	HK\$5,000 ordinary shares	100%	Trading of infant products in Hong Kong and Taiwan

For the year ended 31st December, 2003

36. Particulars of Principal Subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company <i>(Note i)</i>	Principal activities <i>(Note ii)</i>
Lerado Overseas Limited	BVI	HK\$5,000 ordinary shares	100%	Provision of purchasing and marketing services in Taiwan
Link Treasure Limited	BVI	US\$5,000 ordinary shares	100%	Provision of research and development services in Taiwan
Shanghai Lerado Daily Article Co., Ltd.	PRC <i>(Note iii)</i>	US\$5,260,000 registered capital	100%	Manufacture and trading of nursery products
中山隆順日用制品 有限公司	PRC <i>(Note iii)</i>	US\$7,860,000 registered capital	100%	Manufacture and trading of infant products
中山市隆成日用制品 有限公司	PRC <i>(Note iii)</i>	US\$6,330,000 registered capital	100%	Manufacture and trading of infant products
中山飛龍服飾用品 有限公司	PRC <i>(Note iii)</i>	US\$500,000 registered capital	100%	Manufacture and trading of baby wears
中山市國宏塑膠製品 有限公司	PRC <i>(Note iii)</i>	US\$2,413,300 registered capital	52%	Manufacture and trading of stroller wheels
金和信股份有限公司	Taiwan	NTD205,000,000 ordinary shares	100%	Provision of purchasing services and trading of infant products

Notes:

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

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

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36. Particulars of Principal Subsidiaries (continued)

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

37. Segment Information

Business segments

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

Principal activities are as follows:

Strollers	—	manufacture and distribution of strollers
Beds and playards	—	manufacture and distribution of beds and playards
Miscellaneous infant products	—	manufacture and distribution of miscellaneous infant products such as soft goods, high chairs, bouncers, walkers and etc.
Others	—	manufacture and distribution of battery-operated ride-on cars and other products

Segment information about these businesses is presented below:

2003

	Strollers	Beds and	Miscellaneous	Others	Consolidated
	HK\$'000	playards	infant	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	products	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Income statement for the year ended 31st December, 2003:					
External sales	647,368	132,639	236,916	132,970	1,149,893
Segment results	75,997	11,633	18,042	9,965	115,637
Investment income					356
Other operating expenses					(18,855)
Profit from operations					97,138
Finance costs					(121)
Profit from ordinary activities before taxation					97,017
Taxation					(16,421)
Profit before minority interests					80,596

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37. Segment Information (continued)

Business segments (continued)

2003 (continued)

	Strollers HK\$'000	Beds and playards HK\$'000	Miscellaneous infant products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Balance sheet at 31st December, 2003:					
ASSETS					
Segment assets	498,729	86,488	218,030	119,236	922,483
Interest in associates					11,700
Interest in a jointly controlled entity					49,117
Unallocated corporate assets					22,919
Consolidated total assets					1,006,219
LIABILITIES					
Segment liabilities	124,587	24,113	44,077	27,872	220,649
Unallocated corporate liabilities					79,170
Consolidated total liabilities					299,819

Other Information:

	Strollers HK\$'000	Beds and playards HK\$'000	Miscellaneous infant products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Capital additions	41,698	7,970	14,861	7,441	71,970
Depreciation and amortisation of property, plant and equipment and intellectual property rights	18,513	3,614	7,603	6,152	35,882
Release of negative goodwill	269	—	151	—	420
Loss on disposal of property, plant and equipment	250	—	—	1,497	1,747
Allowance for bad and doubtful debts	1,744	353	1,678	1,919	5,694

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37. Segment Information (continued)

Business segments (continued)

2002

	Strollers HK\$'000	Beds and playards HK\$'000	Miscellaneous infant products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Income statement for the year ended 31st December, 2002:					
External sales	619,556	145,879	194,585	64,282	1,024,302
Segment results	76,796	16,150	15,412	6,027	114,385
Investment income					1,500
Other operating expenses					(12,560)
Profit from operations					103,325
Finance costs					(52)
Profit from ordinary activities before taxation					103,273
Taxation					(10,970)
Profit before minority interests					92,303

For the year ended 31st December, 2003

37. Segment Information *(continued)*

Business segments *(continued)*

2002 *(continued)*

		Miscellaneous			
	Strollers	Beds and	infant	Others	Consolidated
	HK\$'000	playards	products	HK\$'000	HK\$'000
		HK\$'000	HK\$'000		
Balance sheet at					
31st December, 2002:					
ASSETS					
Segment assets	464,188	91,642	112,593	158,342	826,765
Interest in associates					11,700
Interest in a jointly					
controlled entity					49,117
Unallocated corporate assets					35,161
Consolidated total assets					922,743
LIABILITIES					
Segment liabilities	101,057	22,523	29,284	24,981	177,845
Unallocated corporate					
liabilities					64,074
Consolidated total liabilities					241,919

Other Information:

		Miscellaneous			
	Strollers	Beds and	infant	Others	Consolidated
	HK\$'000	playards	products	HK\$'000	HK\$'000
		HK\$'000	HK\$'000		
Capital additions	22,659	5,100	7,776	5,062	40,597
Depreciation and					
amortisation of property,					
plant and equipment and					
intellectual property rights	18,137	4,023	6,388	5,184	33,732
Release of negative goodwill	269	—	—	—	269
Loss on disposal of property,					
plant and equipment	1,179	—	—	—	1,179

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37. Segment Information (continued)

Geographical segments

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

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

	2003 HK\$'000	2002 HK\$'000
United States of America	603,398	578,712
Europe	286,748	243,231
Australia	53,430	42,489
South America	54,319	25,900
Others	151,998	133,970
	1,149,893	1,024,302

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

	Carrying amount of total assets		Additions to property, plant and equipment and intangible assets	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000
United States of America	245	2,770	4	18
Hong Kong	200,190	204,003	347	277
Taiwan	314,248	317,007	2,107	5,062
PRC	491,536	398,963	69,512	35,240
	1,006,219	922,743	71,970	40,597

RESULTS

	Year ended 31st December,				
	1999	2000	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)	(Restated)	(Restated)	(Restated)	
TURNOVER	1,066,666	1,180,286	1,117,930	1,024,302	1,149,893
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION	132,534	131,943	113,084	103,273	97,017
TAXATION	(3,380)	(6,725)	(4,989)	(10,970)	(16,421)
PROFIT BEFORE MINORITY INTERESTS	129,154	125,218	108,095	92,303	80,596
MINORITY INTERESTS	1	1,922	(2,619)	54	574
NET PROFIT FOR THE YEAR	129,155	127,140	105,476	92,357	81,170

ASSETS AND LIABILITIES

	At 31st December,				
	1999	2000	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)	(Restated)	(Restated)	(Restated)	
TOTAL ASSETS	831,440	830,460	915,277	922,743	1,006,219
TOTAL LIABILITIES	(308,920)	(243,544)	(277,668)	(241,919)	(299,819)
MINORITY INTERESTS	(76)	1,834	(17,912)	(15,904)	(18,464)
SHAREHOLDERS' FUNDS	522,444	588,750	619,697	664,920	687,936

Note: Prior years' amounts have been adjusted to reflect the change in accounting policy arising from the adoption of Statement of Standard Accounting Practice 12 (Revised) as described in Note 2 to the financial statements.