1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the listing of the Company's shares on the Stock Exchange, on 2nd December, 1998, the Company issued shares in exchange for the entire issued share capital of Lerado Group Limited, the previous holding company of the Group, and thereby became the holding company of the companies now comprising the Group. Further details of the Group Reorganisation were set out in the prospectus of the Company dated 8th December, 1998.

The Group resulting from the above Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group.

In the opinion of the Company's directors, the financial statements, prepared on the above basis, present fairly the results and the state of affairs of the Group as a whole.

The comparative figures shown in the consolidated financial statements reflect the state of affairs of the companies set out in note 37 as at 31st December, 1997 and their results and cash flows for the year then ended.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants.

SSAP 20	Related Party Disclosures
SSAP 22	Inventories

SSAP 20 requires the disclosure of details of transactions with specified related parties (note 36).

SSAP 22 specifies the accounting treatment to be adopted for inventories. The adoption of this standard has resulted in some changes in terminology and presentation, but does not have a material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

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

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

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

Goodwill

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

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

Investment in subsidiaries

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

Investment in subsidiaries is included in the Company's balance sheet at cost less provision, if necessary, for any permanent diminution in value.

Turnover

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

Revenue recognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

Fixed assets and depreciation and amortisation

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

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

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

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

Any surplus arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the profit and loss account to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged to the profit and loss account to the extent that it exceeds the balance, if any, on the 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 retained profits.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation and amortisation (continued)

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

Leasehold land and buildings	2% or the remaining period of the lease or land use rights, if shorter
Leasehold improvements	10–20%
Plant and machinery	10–20%
Furniture, fixtures and equipment	20–33$^1/_3$%
Motor vehicles	20–50%

Capitalisation of borrowing costs

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

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

Intellectual property rights

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

Pre-operating expenses

Pre-operating expenses are those costs incurred in the period prior to the commencement of the commercial operations of a new business. Such expenses are deferred where they are directly related to placing the new business into commercial operation, and to the extent that they are expected to be recovered from future revenue. The expenditure is charged to the profit and loss account, on a straight line method, over a period of five years from the date of commencement of commercial operations of the new business.

Investments

Investments held on a long-term basis are stated at cost less provision for permanent diminution in value, if necessary.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchases and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less cost of completion and the estimated costs necessary to make the sale.

Research and development costs

Expenditure on research and development is charged to the profit and loss account in the period in which it is incurred.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the term of the relevant lease.

Foreign currencies

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

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

Taxation

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

Retirement benefits scheme

The pension costs charged in the profit and loss account represent the contributions payable in respect of the current year to the Group's defined contribution scheme.

Cash equivalents

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

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

	1998	1997
	HK$'000	HK$'000
	(Note 1)	*(Note 1)*
Profit from ordinary activities before taxation has been arrived at after charging:		
Interest on:		
Bank borrowings wholly repayable within five years	**2,175**	2,482
Bank borrowings not wholly repayable within five years	**225**	271
Other borrowings	**2,249**	—
	4,649	2,753
Research and development expenses:		
Design fees	**—**	34,542
Service fees	**1,455**	—
In-house research and development expenses *(note)*	**15,749**	—
	17,204	34,542
Auditors' remuneration	**1,434**	1,169
Amortisation of pre-operating expenses	**408**	408
Deficit arising on revaluation of leasehold land and buildings	**2,288**	—
Depreciation and amortisation of fixed assets	**10,392**	8,757
Loss on disposal of fixed assets	**6**	3,352
Loss on winding up of an unlisted subsidiary	**902**	—
Provision for deposit paid on acquisition of certain property interests	**2,482**	—
Rental payments in respect of properties under operating leases	**3,244**	3,240
Retirement benefits scheme contributions, net of forfeited contributions of HK$5,000 (1997: HK$6,000)	**156**	145
and after crediting:		
Bank interest income	**2,971**	1,138
Other interest income	**871**	—
Rental income from letting properties under operating leases, net of negligible outgoings	**351**	339

Note: The in-house research and development expenses included an amortisation of intellectual property rights of HK$5,995,000.

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	1998	1997
	HK$'000	HK$'000
	(Note 1)	*(Note 1)*
Directors' fees	**—**	—
Other emoluments		
Executive directors		
Salaries and other benefits	**5,467**	4,984
Performance related incentive bonus	**8,000**	8,049
Retirement benefits scheme contributions	**22**	20
Non-executive directors		
Salaries and other benefits	**83**	578
Retirement benefits scheme contributions	**—**	8
Independent non-executive directors	**17**	—
	13,589	13,639

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

	1998	1997
Nil to HK$1,000,000	**6**	3
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,000,001 to HK$4,500,000	**—**	1
HK$4,500,001 to HK$5,000,000	**1**	—
	10	7

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The five highest paid individuals of the Group included four (1997: four) directors for the year ended 31st December, 1998, details of whose emoluments are set out in (a) above. The emoluments of the remaining individual are as follows:

	1998	1997
	HK$'000	HK$'000
	(Note 1)	*(Note 1)*
Salaries and other benefits	**499**	697
Performance related incentive bonus	**853**	—
	1,352	697

During each of the two years ended 31st December, 1998, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the two years ended 31st December, 1998, none of the directors has waived any emoluments.

6. TAXATION

	1998 HK$'000 *(Note 1)*	1997 HK$'000 *(Note 1)*
The charge comprises:		
Hong Kong Profits Tax		
Current year	**620**	1,080
Overprovision in prior years *(note)*	**(3,300)**	—
	(2,680)	1,080
Overseas taxation		
Other regions in the People's Republic of China (the "PRC")	**5,417**	587
Other jurisdictions	**1,013**	1,058
	6,430	1,645
Deferred taxation *(note 26)*		
Current year	**45**	46
Attributable to a change in tax rate	**(5)**	—
	40	46
	3,790	2,771

Note: The overprovision of Hong Kong Profits Tax represents a reverse of tax provision made in previous years in respect of an offshore claim which was finalised during the year.

Hong Kong Profits Tax is calculated at 16% (1997: 16.5%) of the estimated assessable profit for the year.

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

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

The Group's subsidiaries established in the PRC are exempt from PRC income tax for the two/three years commencing from their first profit making year of operation and are entitled to 50% relief from PRC income tax for the following three/four years as approved by the relevant PRC tax authorities.

Details of deferred taxation are set out in note 26.

6. TAXATION (continued)

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

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit attributable to shareholders of approximately HK$100,888,000, a profit of approximately HK$1,143,000 has been dealt with in the financial statements of the Company.

8. DIVIDENDS

	1998	1997
	HK$'000	HK$'000
	(Note 1)	*(Note 1)*
Dividends paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation as described in note 1 above	**37,456**	29,600

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31st December, 1998 is based on the profit attributable to shareholders of HK$100,888,000 and on the weighted average of 539,337,120 shares that would have been in issue throughout the year as if the Company had been the holding company of the Group since the beginning of the year.

The calculation of the basic earnings per share for the year ended 31st December, 1997 is based on the profit attributable to shareholders of HK$74,517,000 and on the 504,590,371 shares in issue immediately preceding the placing and new issue of 180,000,000 shares referred to in note 23.

10. FIXED ASSETS

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP							
COST OR VALUATION							
At 1st January, 1998 *(note 1)*	70,333	1,679	41,346	10,593	6,603	7,411	137,965
Exchange realignment	(5)	—	(3)	—	—	(1)	(9)
Additions	12,657	1,531	15,144	4,109	547	4,852	38,840
Transfers	10,207	—	—	—	—	(10,207)	—
Surplus on valuation	18,044	—	—	—	—	—	18,044
Disposals	—	(142)	(70)	(483)	—	(11)	(706)
At 31st December, 1998	111,236	3,068	56,417	14,219	7,150	2,044	194,134
Comprising:							
At cost	—	3,068	56,417	14,219	7,150	2,044	82,898
At valuation — 1998	111,236	—	—	—	—	—	111,236
	111,236	3,068	56,417	14,219	7,150	2,044	194,134
DEPRECIATION AND AMORTISATION							
At 1st January, 1998 *(note 1)*	7,158	693	11,726	4,685	3,178	—	27,440
Exchange realignment	(1)	—	(1)	—	—	—	(2)
Provided for the year	2,823	554	4,251	1,904	860	—	10,392
Adjustment on valuation	(9,980)	—	—	—	—	—	(9,980)
Eliminated on disposals	—	(142)	(67)	(410)	—	—	(619)
At 31st December, 1998	—	1,105	15,909	6,179	4,038	—	27,231
NET BOOK VALUES							
At 31st December, 1998	111,236	1,963	40,508	8,040	3,112	2,044	166,903
At 31st December, 1997 *(note 1)*	63,175	986	29,620	5,908	3,425	7,411	110,525

10. FIXED ASSETS (continued)

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

	1998	1997
	HK$'000	HK$'000
Held in Hong Kong under long leases	**12,400**	8,460
Held in the PRC under medium-term land use rights	**98,836**	54,715
	111,236	63,175

A leasehold building of the Group with net book value amounted to HK$936,000 as at 31st December, 1998 were revalued by the directors as approximately its carrying amount.

The remaining leasehold land and buildings of the Group were revalued at 31st December, 1998 by American Appraisal Hongkong Limited, an independent property valuer, on an open market value basis. The valuer is not connected with the Group. The deficit on revaluation of HK$2,288,000 has been charged to the profit and loss account and the surplus of HK$30,312,000 has been credited to property revaluation reserve.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation at HK$83,212,000 (1997: HK$63,175,000).

The Group has no interest capitalised during the year (1997: nil).

11. INTEREST IN SUBSIDIARIES

	HK$'000
Unlisted shares, at cost	244,660
Amount due from a subsidiary	157,471
	402,131

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

Details of the Company's subsidiaries at 31st December, 1998 are set out in note 37.

12. INTELLECTUAL PROPERTY RIGHTS

	THE GROUP HK$'000
COST	
Acquisition during the year and at 31st December, 1998	89,119
AMORTISATION	
Provided for the year and at 31st December, 1998	5,995
NET BOOK VALUES	
At 31st December, 1998	83,124

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

13. PRE-OPERATING EXPENSES

	THE GROUP HK$'000
COST	
At 1st January, 1998 and at 31st December, 1998 *(note 1)*	2,042
AMORTISATION	
At 1st January, 1998 *(note 1)*	1,225
Provided for the year	408
At 31st December, 1998	1,633
NET BOOK VALUES	
At 31st December, 1998	409
At 31st December, 1997 *(note 1)*	817

14. LONG-TERM INVESTMENT

The unlisted investment is stated at cost and represents a 10% interest in the capital of 中山市公共保税倉有限公司, which is registered in the PRC and engaged in storage business.

The directors are of the opinion that the investment is worth at least its carrying value.

15. LONG-TERM RECEIVABLE

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

At 31st December, 1997, the advance was classified as an amount due from a related company as three of the directors of the Company, Messrs. Huang Ying Yuan, Tsang Yat Kiang and Chen Hsing Shin, have beneficial interests in the company. The advance was unsecured, interest free and repayable on demand (note 19).

During the year, the above directors disposed of their interests in Glory Time and since then Glory Time and Zhong Shan Sun Red were no longer related companies of the Group. The terms of the advance were commenced to charge interest at a rate of 10% per annum.

In December 1998, a subsidiary of the Company entered into a deed with Glory Time whereby, among other things, the Group will subscribe to a convertible note in the amount of US$2,002,000 (approximately HK$15.5 million) and the subscription money payable for the note will be set off against part of the existing advance to Glory Time to the satisfaction of the following conditions by Glory Time:

(i) completion of acquisition by Glory Time of the remaining 60% interest in Zhong Shan Sun Red;

(ii) Zhong Shan Sun Red being registered as a foreign wholly-owned enterprise; and

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

The remaining balance, will be repayable by Glory Time on or before the Group subscribes to the convertible note or 31st December, 1999, whichever is earlier.

The above conditions have to be fulfilled on or before 31st December, 1999. The convertible note will bear interest at 7% per annum and can be converted in whole into 52% of the issued shares of Glory Time at any time from the issue of the convertible note up to a period of two years thereafter, and can be extended for another two years at the Group's option. Should Glory Time be unable to fulfil the conditions stated above on or before 31st December, 1999 or if the Group does not exercise the conversion right on the expiry of the conversion period, the advance (together with any unpaid portion of the remaining balance as stated above) or the convertible note together with any accrued and unpaid interest will become repayable on demand.

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

16. NET CURRENT ASSETS

	THE GROUP 1998 HK$'000	THE GROUP 1997 HK$'000 *(Note 1)*	THE COMPANY 1998 HK$'000
CURRENT ASSETS			
Inventories *(note 17)*	**64,113**	79,065	—
Debtors, deposits and prepayments	**125,063**	70,722	**5,183**
Amount due from a director *(note 18)*	—	316	—
Amounts due from related companies *(note 19)*	—	17,914	—
Dividend receivable from a subsidiary	—	—	**2,140**
Taxation recoverable	—	348	—
Bank balances and cash	**212,667**	22,358	—
	401,843	190,723	**7,323**
CURRENT LIABILITIES			
Creditors and accrued charges	**212,180**	107,083	**2,292**
Amounts due to directors *(note 20)*	—	23,990	—
Amount due to a related company *(note 21)*	—	2,764	—
Dividend payable	—	31,185	—
Taxation payable	**6,251**	6,243	—
Bank borrowings due within one year *(note 22)*	**33,355**	4,643	—
	251,786	175,908	**2,292**
NET CURRENT ASSETS	**150,057**	14,815	**5,031**

17. INVENTORIES

	THE GROUP 1998 HK$'000	THE GROUP 1997 HK$'000 *(Note 1)*
Raw materials	**30,115**	38,957
Work in progress	**15,027**	22,798
Finished goods	**18,971**	17,310
	64,113	79,065

The cost of inventories recognised as an expense during the year was HK$695,740,000 (1997: HK$694,107,000).

18. AMOUNT DUE FROM A DIRECTOR

Details of the amount due from a director at the balance sheet date is as follows:

	THE GROUP		
	Balance at 31.12.1998 HK$'000	Balance at 1.1.1998 HK$'000 (Note 1)	Maximum amount outstanding during the year HK$'000
Tsang Yat Kiang	—	316	367

The amount was unsecured, interest free and was fully settled during the year.

19. AMOUNTS DUE FROM RELATED COMPANIES

Details of the amounts due from related companies are as follows:

		THE GROUP		
	Interested directors	Balance at 31.12.1998 HK$'000	Balance at 1.1.1998 HK$'000 *(Note 1)*	Maximum amount outstanding during the year HK$'000
Yojin Industrial Corporation	Huang Ying Yuan Huang Chen Li Chu	—	3,719	3,750
Glory Time	Huang Ying Yuan Tsang Yat Kiang Chen Hsing Shin	—	14,195	17,728
		—	17,914	

During the year, the respective directors disposed of their interests in Glory Time, and since then it was no longer a related company of the Group. The amount due from Glory Time of HK$15,867,000 is classified under long-term receivable. Details are set out in note 15.

The amount due from Yojin Industrial Corporation was unsecured interest free and was fully settled during the year.

20. AMOUNTS DUE TO DIRECTORS

The amounts were unsecured, interest free and were fully repaid during the year.

21. AMOUNT DUE TO A RELATED COMPANY

The amount was unsecured, interest free and was fully repaid during the year.

22. BANK BORROWINGS

	THE GROUP	
	1998	1997
	HK$'000	HK$'000
		(Note 1)
Bank borrowings comprise:		
Mortgage loan	**2,888**	—
Other bank loans	**33,166**	4,643
Bank overdraft	**1**	—
	36,055	4,643
Analysed as:		
Secured	**2,888**	—
Unsecured	**33,167**	4,643
	36,055	4,643
The bank borrowings are repayable as follows:		
Within one year or on demand	**33,355**	4,643
More than one year, but not exceeding two years	**209**	—
More than two years, but not exceeding five years	**786**	—
More than five years	**1,705**	—
	36,055	4,643
Less: Amount repayable within one year or on demand and shown under current liabilities *(note 16)*	**(33,355)**	(4,643)
Amount due after one year	**2,700**	—

23. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Authorised:		
Shares of HK$0.10 each	1,000,000,000	100,000
Issued and fully paid:		
Shares of HK$0.10 each	720,000,000	72,000

The Company was incorporated on 18th November, 1998 with an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.10 each, all of which were allotted and issued at nil paid on 20th November, 1998.

Pursuant to written resolutions of the then sole shareholder of the Company held on 2nd December, 1998 to effect the Group Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange, the following movements in the authorised and issued share capital of the Company took place:

(i) the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of an additional 999,000,000 shares of HK$0.10 each; and

(ii) the directors of the Company were authorised to allot and issue a total of 1,000,000 shares of HK$0.10 each, credited as fully paid, together with 1,000,000 shares of HK$0.10 each issued at nil paid on 20th November, 1998, to the then shareholders of Lerado Group Limited, the previous holding company of the Group, as consideration for the acquisition of the entire share capital of Lerado Group Limited.

The 1,000,000 shares issued at nil paid on 20th November, 1998 were credited as fully paid.

An amount of HK$200,000 credited to the contributed surplus account of the Company arising from the issue of the 2,000,000 shares in exchange for the entire shares in Lerado Group Limited as mentioned above was applied in paying up in full at par value the 2,000,000 shares which were issued and alloted nil paid.

Pursuant to another written resolution which was passed on 7th December, 1998:

(i) the Company, by means of placing of new shares to selected professional and institutional investors and issue of new shares to the public, issued 142,000,000 shares and 38,000,000 shares, respectively, of HK$0.10 each for cash at HK$1.00 per share; and

23. SHARE CAPITAL (continued)

(ii) an amount of HK$53,800,000 was capitalised from the share premium account arising from the share offer mentioned in (i) above in paying up in full at par 538,000,000 shares of the Company for allotment and issue to shareholders on the register of members at the close of business on 8th December, 1998 in proportion (as nearly as possible without involving fractions) to their then existing holdings.

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

The share capital at 31st December, 1997 as shown in the consolidated balance sheet represented 1,000,000 ordinary shares of HK$0.01 each in the share capital of Lerado Group Limited.

24. SHARE OPTION SCHEME

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

No options under the scheme were granted or exercised during the year and no options were outstanding at 31st December, 1998.

On 1st February, 1999, options to subscribe for 7,606,000 shares were granted to certain full time employees of the Group at an option price of HK$0.68 per share.

25. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Special reserve HK$'000	Property revaluation reserve HK$'000	Statutory surplus reserve fund HK$'000	Enterprise expansion reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
THE GROUP									
At 1st January, 1998 *(note 1)*	—	—	—	—	481	817	220	118,649	120,167
Premium arising from issue of shares by a subsidiary before the Group Reorganisation	38,699	—	—	—	—	—	—	—	38,699
Special reserve arising from the Group Reorganisation:									
— share premium of a subsidiary transferred to special reserve	(38,699)	—	38,699	—	—	—	—	—	—
— difference between the aggregate nominal amount of the share capital of subsidiaries acquired and the nominal amount of the share capital issued by the Company in the acquisition	—	—	(189)	—	—	—	—	—	(189)
Premium arising from public issue of shares	162,000	—	—	—	—	—	—	—	162,000
Share issue expenses	(18,642)	—	—	—	—	—	—	—	(18,642)
Capitalisation of share premium account to pay up in full of 538,000,000 shares	(53,800)	—	—	—	—	—	—	—	(53,800)
Revaluation surplus on leasehold land and buildings	—	—	—	30,312	—	—	—	—	30,312
Realised on winding up of a subsidiary	—	—	—	—	—	—	(300)	—	(300)
Profit for the year	—	—	—	—	—	—	—	100,888	100,888
Dividends *(note 8)*	—	—	—	—	—	—	—	(37,456)	(37,456)
Transfer of reserves	—	—	—	—	3,849	—	—	(3,849)	—
Exchange differences arising from translation of the financial statements of overseas operations	—	—	—	—	—	—	189	—	189
At 31st December, 1998	89,558	—	38,510	30,312	4,330	817	109	178,232	341,868
THE COMPANY									
Premium arising from public issue of shares	162,000	—	—	—	—	—	—	—	162,000
Share issue expenses	(18,642)	—	—	—	—	—	—	—	(18,642)
Capitalisation of share premium account to pay up in full of 538,000,000 shares	(53,800)	—	—	—	—	—	—	—	(53,800)
Contributed surplus arising from the Group Reorganisation	—	244,461	—	—	—	—	—	—	244,461
Profit for the year	—	—	—	—	—	—	—	1,143	1,143
At 31st December, 1998	89,558	244,461	—	—	—	—	—	1,143	335,162

25. RESERVES (continued)

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

The contributed surplus represents the difference between the consolidated shareholder's 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.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at 31st December, 1998 consisted of contributed surplus and retained profits totalling HK$245,604,000.

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

The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiaries, if any, and can be applied in conversion into capital by means of a capitalisation issue.

The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of a capitalisation issue.

The amount transferred to the staff welfare and incentive bonus fund in the statutory accounts of the PRC subsidiaries has been adjusted in the consolidated financial statements as an operating expense as in the opinion of the directors, this fund will be used to pay incentive bonus and other benefits to the PRC subsidiaries' employees.

26. DEFERRED TAXATION

	THE GROUP	
	1998	1997
	HK$'000	HK$'000
		(Note 1)
Balance brought forward	**221**	180
Charge for the year *(note 6)*	**40**	46
Exchange realignment	**(1)**	(5)
Balance carried forward	**260**	221

At the balance sheet date, the major components of the deferred taxation liability of the Group are as follows:

	1998	1997
	HK$'000	HK$'000
		(Note 1)
Tax effect of timing differences because of:		
Excess of tax allowance over depreciation charged in the financial statements	**260**	180
Other timing differences	**—**	41
	260	221

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

Other than the above, the Group and the Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

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

	1998 HK$'000 (Note 1)	1997 HK$'000 (Note 1)
Profit from ordinary activities before taxation	104,678	77,288
Interest income	(3,842)	(1,138)
Interest on bank and other borrowings	4,649	2,753
Loss on disposal of fixed assets	6	3,352
Loss on winding up of an unlisted subsidiary	902	—
Rental income	(351)	(339)
Depreciation and amortisation	10,392	8,757
Amortisaton of intellectual property rights	5,995	—
Deficit arising on revaluation of leasehold land and buildings	2,288	—
Amortisation of pre-operating expenses	408	408
Decease (increase) in inventories	14,952	(11,585)
Increase in debtors, deposits and prepayments	(54,031)	(24,432)
Decrease (increase) in amounts due from related companies	2,184	(12,469)
Increase in creditors and accrued charges	104,815	30,366
(Decrease) increase in amount due to a related company	—	2,034
Net cash inflow from operating activities	193,045	74,995

28. WINDING UP OF A SUBSIDIARY

Net assets transferred to a group company:

	1998	1997
	HK$'000	HK$'000
	(Note 1)	*(Note 1)*
Fixed assets	**8,970**	—
Bank balances and cash	**12**	—
Creditors and accrued charges	**(39)**	—
Amount due to a director	**(1,807)**	—
Minority interests	**(5,759)**	—
Net assets	**1,377**	—
Translation reserve realised on winding up of the subsidiary	**(300)**	—
Loss on winding up of the subsidiary	**(902)**	—
	175	—

Satisfied by:

Net assets transferred to a group company	**7,136**	—
Cash repayment to minority shareholder of the subsidiary on winding up	**(6,961)**	—
	175	—

Analysis of the outflow of cash and cash equivalents in connection with the winding up of a subsidiary:

Cash repayment to minority shareholder of the subsidiary on winding up	**(6,961)**	—

The subsidiary liquidated during the year did not make a substantial contribution to the net cash flows of the Group.

29. MAJOR NON-CASH TRANSACTION

In accordance with a deed entered into by the Company with Glory Time during the year, a receivable of HK$15,867,000 from Glory Time was reclassified from amounts due from related companies to long-term receivable *(note 15).*

30. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK$'000	Bank loans, excluding bank overdraft HK$'000	Amounts due to directors HK$'000	Amount due to a related company HK$'000	Minority interests HK$'000
Balance at 1st January, 1998 *(note 1)*	10	4,643	23,990	2,764	5,759
Proceeds from issue of shares before Group Reorganisation	38,699	—	—	—	—
Eliminated on Group Reorginisation	(38,709)	—	—	—	—
Proceeds from public issue of shares	180,000	—	—	—	—
Share issue expenses	(18,642)	—	—	—	—
Issue of shares in respect of acquisition of subsidiaries	200	—	—	—	—
Bank loans raised	—	41,700	—	—	—
Repayment during the year	—	(10,290)	(24,001)	(2,764)	—
Winding up of a subsidiary *(note 28)*	—	—	—	—	(5,759)
Exchange realignment	—	1	11	—	—
Balance at 31st December, 1998	161,558	36,054	—	—	—

31. LEASE COMMITMENTS

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

	THE GROUP	
	1998	1997
	HK$'000	HK$'000
		(Note 1)
Operating leases which expire:		
Within one year	**659**	200
Over five years	**1,911**	1,907
	2,570	2,107

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

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

32. CAPITAL COMMITMENTS

	THE GROUP	
	1998	1997
	HK$'000	HK$'000
		(Note 1)
Capital expenditure authorised but not contracted for in respect of acquisition of fixed assets	**2,300**	—
Capital expenditure contracted for but not provided in the financial statements in respect of:		
— acquisition of certain property interests	**—**	15,007
— acquisition of fixed assets	**629**	4,165
	629	19,172

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

33. PLEDGE OF ASSETS

At 31st December, 1998, certain of the Group's leasehold properties with an aggregate carrying value of HK$4,700,000 (1997: HK$8,640,000) were pledged to a bank to secure general banking facilities granted to the Group. At 31st December, 1998, facilities amounting to HK$2,888,000 were utilised while at 31st December, 1997, no facility was utilised.

34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY
	1998	1997	**1998**
	HK$'000	HK$'000	**HK$'000**
		(Note 1)	
Bills discounted with recourse	**5,491**	14,708	—

35. RETIREMENT BENEFITS SCHEME

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

The retirement benefits cost charged to profit and loss account represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contribution, the contributions payable by the Group are reduced by the amount of forfeited contributions.

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

36. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with the directors and the related parties in which certain directors of the Company have beneficial interests:

(a) Transactions with related parties:

Name of party	Interested directors	Nature of transactions	1998 HK$'000 (Note 1)	1997 HK$'000 (Note 1)
Discovery International Co., Ltd.	Huang Chen Li Chu	Purchase of intellectual property rights by the Group *(note iii)*	**89,119**	—
		Purchase of fixed assets by the Group *(note iii)*	**975**	—
		Interest expenses paid by the Group *(note iv)*	**2,249**	—
		Design fee paid *(note v)*	**—**	34,542
		Commission paid *(note v)*	**—**	1,885
Yojin Industrial Corporation	Huang Ying Yuan	Rental expenses paid by the Group *(note vi)*	**779**	485
	Huang Chen Li Chu	Purchase of fabrics and sponge and plastic parts by the Group *(note v)*	**279**	1,313
		Service fees paid by the Group *(note v)*	**1,455**	—
Zhong Shan Sun Red *(note i)*	Huang Ying Yuan	Sales of plastic materials by the Group *(note v)*	**1,497**	—
	Tsang Yat Kiang			
	Chen Hsing Shin	Purchase of stroller wheels by the Group *(note v)*	**1,365**	—
Chen Chin Yuan	*(note ii)*	Rental expenses paid by the Group *(note vi)*	**122**	—

36. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with directors:

Name	Nature of transactions	1998 HK$'000	1997 HK$'000
Huang Ying Yuan	Rental expenses paid by the Group *(note vi)*	**377**	337
	Purchase of property interests by the Group *(note vii)*	**187**	—
Tsang Yat Kiang	Rental expenses paid by the Group *(note vi)*	**226**	203
	Purchase of property interests by the Group *(note vii)*	**187**	—
Chen Hsing Shin	Rental expenses paid by the Group *(note vi)*	**377**	337
	Purchase of property interests by the Group *(note vii)*	**187**	—
Huang Chen Li Chu	Rental expenses paid by the Group *(note vi)*	**39**	—
Chen Jo Wan	Rental expenses paid by the Group *(note vi)*	**226**	203

At 31st December, 1998, certain banking facilities of the Group have been secured by personal guarantees provided by certain directors of the Company. The relevant banks in Hong Kong have agreed in principle that such securities will be released and, in some cases, replaced by guarantees from the Company. The facilities utilised at 31st December, 1998 was HK$41,546,000.

Notes:

i. Zhong Shan Sun Red is an associated company of Glory Time (note 15) and ceased to be classified as a related company to the Group from the time the respective directors disposed of their interests in Glory Time. Since then the transactions with Zhong Shan Sun Red were not classified as related party transactions.

ii. Chen Chin Yuan is a brother of Chen Hsing Shin.

iii. These transactions were carried out pursuant to the sale and purchase agreement entered into in January 1998.

iv. The interest was charged at 7 per cent per annum on the outstanding loan balance due to the company in respect of the transaction mentioned in item iii above.

v. These transactions were carried out at market price or, where no market price was available, at terms determined and agreed by both parties.

vi. The rentals were charged in accordance with the relevant tenancy agreements and the prevailing rent is equivalent or approximate to the market rentals as certified by an independent firm of professional property valuers or estimated by the directors at the time when the tenancy agreements were entered into.

vii. This transaction was carried out pursuant to the sale and purchase agreement entered into in April 1998.

37. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 1998 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	US$188,754 registered capital	100%	Manufacture and trading of strollers
Lerado China Limited	British Virgin Islands	HK$5,000 ordinary shares	100%	Investment holding and trading of strollers in Taiwan
Lerado Group Limited	British Virgin Islands	HK$10,702 ordinary shares	100%	Investment holding
Lerado H.K. Limited	Hong Kong	HK$5,000 ordinary shares	100%	Trading of strollers in Hong Kong and Taiwan
Lerado International Limited	British Virgin Islands	HK$5,000 ordinary shares	100%	Investment holding
Lerado Overseas Limited	British Virgin Islands	HK$5,000 ordinary shares	100%	Provision of purchasing and marketing services in Taiwan
Link Treasure Limited	British Virgin Islands	US$5,000 ordinary shares	100%	Provision of research and development services in Taiwan
Shanghai Lerado Daily Article Co., Ltd.	PRC	US$1,465,000 registered capital	100%	Manufacture and trading of strollers
中山隆順日用制品有限公司	PRC	US$5,103,991 registered capital	100%	Manufacture and trading of strollers
中山市隆成日用制品有限公司	PRC	US$2,700,000 registered capital	100%	Manufacture and trading of strollers

Notes:

i. The Company directly holds the interest in Lerado Group Limited, all other interests shown above are indirectly held by the Company.

ii. The principal activities are carried out in place of incorporation/establishment except as otherwise stated under principal activities above.

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