

Notes to the Financial Statements

For the year ended 31st December, 1999

1. GENERAL

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

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

The companies in the Group underwent a group reorganisation in preparation for the listing of the Company's shares on the Stock Exchange in December 1998. Details of the group reorganisation are set out in the prospectus of the Company dated 8th December, 1998. The comparative financial statements of the Group for the year ended 31st December, 1998 were prepared on the basis as if the Company had always been the ultimate holding company of the Group. In the opinion of the directors of the Company, the comparative financial statements, prepared on this basis, present fairly the state of affairs, the results and cash flows of the Group as a whole.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company adopted, for the first time, the following Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants ("SSAP"(s)):

| | |
|------------------|--|
| SSAP 1 (Revised) | Presentation of financial statements |
| SSAP 2 (Revised) | Net profit or loss for the period, fundamental errors and changes in accounting policies |
| SSAP 24 | Accounting for investments in securities |

SSAP 1 (Revised) and SSAP 2 (Revised) are concerned with the presentation and disclosure of financial information. The presentation in the current year's financial statements has been modified in order to conform with the requirements of those standards. Comparative amounts have been restated in order to achieve a consistent presentation. In particular, additional analyses of income and expenditure have been presented.

In addition, the description of various components in the financial statements and the terminology used has been updated to reflect the terminology of the new standards.

None of the amendments outlined above has affected the results for the current or prior periods.

SSAP 24 has introduced a new framework for the classification of investments in securities. In adopting SSAP 24, the Group has selected the benchmark treatment for securities other than held-to-maturity securities.

Under SSAP 24, investments in securities are now classified as held-to-maturity (carried at amortised cost less provision for irrecoverable amounts), investment securities (carried at cost less impairment) and other investments (carried at fair value, with valuation movements dealt with in the income statement). In prior years, the Group's investments were classified either as long-term (carried at cost less provision for permanent diminution in value) or short-term (carried at the lower of cost and net realisable value). The adoption of SSAP 24 has no significant impact on the financial statements of the Group for the current or prior periods.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

Goodwill

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

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

Investment in subsidiaries

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

Investment in subsidiaries is included in the Company's balance sheet at cost less any impairment loss.

Turnover

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

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

Investment properties

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

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

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

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

Property, plant and equipment

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

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

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

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

| | |
|-----------------------------------|--|
| Leasehold land and buildings | 2% or the remaining period of the lease or land use rights, if shorter |
| Leasehold improvements | 10–20% |
| Plant and machinery | 10–20% |
| Furniture, fixtures and equipment | 20–33⅓ % |
| Motor vehicles | 20–50% |

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalisation of borrowing costs

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

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

Intellectual property rights

Intellectual property rights are stated at cost less amortisation and provision for 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 income statement, 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 in securities are recognised on a trade-date basis and are initially measured at cost.

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

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

Operating leases

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

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

Taxation

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

Retirement benefits scheme

The pension costs charged in the income statement represent the contributions payable in 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 OPERATIONS

| | 1999 HK\$'000 | 1998 HK\$'000 |
|--|------------------|------------------|
| Profit from operations has been arrived at after charging: | | |
| Research and development expenses | | |
| Service fees | — | 1,455 |
| In-house research and development expenses (note) | 19,197 | 9,754 |
| | <u>19,197</u> | <u>11,209</u> |
| Staff costs | | |
| Basic salaries and allowances | 99,151 | 78,707 |
| Bonus | 25,007 | 22,939 |
| Retirement benefit scheme contributions, net of forfeited contributions of HK\$1,000 (1998: HK\$5,000) | 187 | 178 |
| | <u>124,345</u> | <u>101,824</u> |
| Auditors' remuneration | 1,412 | 1,434 |
| Amortisation of intellectual property rights | 5,995 | 5,995 |
| Amortisation of pre-operating expenses | 409 | 408 |
| Deficit arising on revaluation of leasehold land and buildings | 649 | 2,288 |
| Depreciation and amortisation of property, plant and equipment | 15,252 | 10,392 |
| Write off of intellectual property rights | 109 | — |
| Loss on disposal of property, plant and equipment | 8,552 | 6 |
| 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 | 3,638 | 3,244 |

4. PROFIT FROM OPERATIONS (continued)

Note: The in-house research and development expenses included research and development staff costs:

| | 1999 HK\$'000 | 1998 HK\$'000 |
|-------------------------------|------------------|------------------|
| Basic salaries and allowances | 9,347 | 4,286 |
| Bonus | — | 2,438 |
| | <u>9,347</u> | <u>6,724</u> |

These research and development staff costs have been included in the item staff costs above.

5. FINANCE COSTS

| | 1999 HK\$'000 | 1998 HK\$'000 |
|--|------------------|------------------|
| Interest on: | | |
| Bank borrowings wholly repayable within five years | 369 | 2,175 |
| Bank borrowings not wholly repayable within five years | 1,187 | 225 |
| Other borrowings | — | 2,249 |
| | <u>1,556</u> | <u>4,649</u> |

6. INVESTMENT INCOME

| | 1999 HK\$'000 | 1998 HK\$'000 |
|------------------------|------------------|------------------|
| Bank interest income | 9,675 | 2,971 |
| Other interest income | 1,609 | 871 |
| Property rental income | 372 | 351 |
| | <u>11,656</u> | <u>4,193</u> |

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

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

| | 1999 HK\$'000 | 1998 HK\$'000 |
|--|------------------|------------------|
| Directors' fees | — | — |
| Other emoluments | | |
| Executive directors | | |
| Basic salaries and allowances | 8,193 | 5,467 |
| Bonus | 12,500 | 8,000 |
| Retirement benefits scheme contributions | 35 | 22 |
| Non-executive directors | | |
| Basic salaries and allowances | 72 | 83 |
| Independent non-executive directors | | |
| Basic salaries and allowances | 221 | 17 |
| | <u>21,021</u> | <u>13,589</u> |

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

| | 1999 Number of directors | 1998 Number of directors |
|--------------------------------|--------------------------------|--------------------------------|
| Nil to HK\$1,000,000 | 5 | 6 |
| HK\$1,500,001 to HK\$2,000,000 | 2 | 1 |
| HK\$2,000,001 to HK\$2,500,000 | 1 | — |
| HK\$2,500,001 to HK\$3,000,000 | — | 1 |
| HK\$3,500,001 to HK\$4,000,000 | 1 | 1 |
| HK\$4,500,001 to HK\$5,000,000 | 1 | 1 |
| HK\$6,500,001 to HK\$7,000,000 | 1 | — |
| | <u>11</u> | <u>10</u> |

During the year, 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 during the year.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The five highest paid individuals of the Group for the year end 31st December, 1999 were all directors while the five highest paid individuals of the Group for the year ended 31st December, 1998 included four directors, details of whose emoluments are set out in (a) above. The emoluments of the remaining individual for the year ended 31st December, 1998 was as follows:

| | 1999 HK\$'000 | 1998 HK\$'000 |
|-------------------------------|------------------|------------------|
| Basic salaries and allowances | — | 499 |
| Bonus | — | 853 |
| | <u>—</u> | <u>1,352</u> |

8. INCOME TAX EXPENSE

| | 1999 HK\$'000 | 1998 HK\$'000 |
|---|------------------|------------------|
| The charge comprises of: | | |
| Hong Kong Profits Tax | | |
| Current year | 300 | 620 |
| Overprovision in prior years (<i>note</i>) | (198) | (3,300) |
| | <u>102</u> | <u>(2,680)</u> |
| Overseas taxation | | |
| Other regions in the People's Republic of China (the "PRC") | 6,345 | 5,417 |
| Other jurisdictions | 942 | 1,013 |
| | <u>7,287</u> | <u>6,430</u> |
| Deferred taxation (<i>note 24</i>) | | |
| Current year | — | 45 |
| Attributable to a change in tax rate | — | (5) |
| | <u>—</u> | <u>40</u> |
| | <u>7,389</u> | <u>3,790</u> |

Note: The overprovision of Hong Kong Profits Tax for the year ended 31st December, 1998 represented a reverse of tax provision made in previous years in respect of an offshore claim which was finalised in that year.

8. INCOME TAX EXPENSE (continued)

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

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

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

Details of deferred taxation are set out in note 24.

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

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit attributable to shareholders of HK\$125,146,000 (1998: HK\$100,888,000), a profit of HK\$65,310,000 (1998: HK\$1,143,000) has been dealt with in the financial statements of the Company.

10. DIVIDENDS

| | 1999 HK\$'000 | 1998 HK\$'000 |
|---|------------------|------------------|
| Interim dividend of HK3 cents (1998: nil) per share | 21,786 | — |
| Proposed final dividend of HK6 cents (1998: nil) per share, with a scrip form option | 43,605 | — |
| Dividends paid by a subsidiary of the Company to its then shareholders prior to the group reorganisation referred to in note 1 | — | 37,456 |
| | <u>65,391</u> | <u>37,456</u> |

11. EARNINGS PER SHARE

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

| | 1999 | 1998 |
|---|------------------------|------------------------|
| Profit attributable to shareholders and earnings for the purposes of the basic and diluted earnings per share | <u>HK\$125,146,000</u> | <u>HK\$100,888,000</u> |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 721,959,671 | 539,337,120 |
| Effect of dilutive potential ordinary shares in respect of share options | <u>3,286,784</u> | <u>N/A</u> |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | <u>725,246,455</u> | <u>N/A</u> |

12. INVESTMENT PROPERTIES

| | THE GROUP HK\$'000 |
|---|-----------------------|
| VALUATION | |
| Transfer from leasehold land and buildings during the year and at 31st December, 1999 | <u>12,400</u> |
| ACCUMULATED DEPRECIATION AND AMORTISATION | |
| Transfer from leasehold land and buildings during the year | 262 |
| Adjustment on valuation | <u>(262)</u> |
| At 31st December, 1999 | <u>—</u> |
| NET BOOK VALUES | |
| At 31st December, 1999 | <u>12,400</u> |
| At 31st December, 1998 | <u>—</u> |

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

12. INVESTMENT PROPERTIES (continued)

Investment properties were revalued at 31st December, 1999 by American Appraisal Hongkong Limited, an independent property valuer, on an open market value existing use basis. This valuation gave rise to a revaluation surplus of HK\$262,000 which has been credited to investment property revaluation reserve.

13. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|--|--|---------------------------------------|------------------------------------|---|-------------------------------|---|-------------------|
| THE GROUP | | | | | | | |
| COST OR VALUATION | | | | | | | |
| At 1st January, 1999 | 111,236 | 3,068 | 56,417 | 14,219 | 7,150 | 2,044 | 194,134 |
| Exchange realignment | 218 | 1 | 157 | 24 | 15 | 6 | 421 |
| Additions | 40,702 | 2,929 | 8,194 | 13,008 | 2,009 | 1,623 | 68,465 |
| Transfer | 2,294 | — | — | — | — | (2,294) | — |
| Transfer to investment properties | (12,400) | — | — | — | — | — | (12,400) |
| Adjustment on valuation | (6,108) | — | — | — | — | — | (6,108) |
| Disposals | — | — | (8,444) | (1,058) | — | — | (9,502) |
| At 31st December, 1999 | 135,942 | 5,998 | 56,324 | 26,193 | 9,174 | 1,379 | 235,010 |
| Comprising: | | | | | | | |
| At cost | — | 5,998 | 56,324 | 26,193 | 9,174 | 1,379 | 99,068 |
| At valuation — 1999 | 135,942 | — | — | — | — | — | 135,942 |
| | 135,942 | 5,998 | 56,324 | 26,193 | 9,174 | 1,379 | 235,010 |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 1st January, 1999 | — | 1,105 | 15,909 | 6,179 | 4,038 | — | 27,231 |
| Exchange realignment | 28 | — | 54 | 13 | 8 | — | 103 |
| Provided for the year | 5,884 | 634 | 4,673 | 3,084 | 977 | — | 15,252 |
| Transfer to investment properties | (262) | — | — | — | — | — | (262) |
| Adjustment on valuation | (5,650) | — | — | — | — | — | (5,650) |
| Eliminated on disposals | — | — | (183) | (758) | — | — | (941) |
| At 31st December, 1999 | — | 1,739 | 20,453 | 8,518 | 5,023 | — | 35,733 |
| NET BOOK VALUES | | | | | | | |
| At 31st December, 1999 | 135,942 | 4,259 | 35,871 | 17,675 | 4,151 | 1,379 | 199,277 |
| At 31st December, 1998 | 111,236 | 1,963 | 40,508 | 8,040 | 3,112 | 2,044 | 166,903 |

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

| | 1999 HK\$'000 | 1998 HK\$'000 |
|---|------------------|------------------|
| Held in Hong Kong under long leases | 37,800 | 12,400 |
| Held in the PRC under medium-term land use rights | 98,142 | 98,836 |
| | <u>135,942</u> | <u>111,236</u> |

A leasehold building of the Group with net book value HK\$742,000 (1998: HK\$936,000) as at 31st December, 1999 was revalued by the directors at approximately its carrying value.

The remaining leasehold land and buildings of the Group were revalued at 31st December, 1999 by American Appraisal Hongkong Limited, an independent property valuer not connected to the Group. The leasehold land and buildings in Hong Kong were valued at open market value basis, the building and structures in the PRC were valued at depreciated replacement cost basis and the land portions in the PRC were valued by reference to the standard land prices in Guangdong Province and Shanghai for private treaty grant determined by local land administration bureau.

The deficit on revaluation of HK\$649,000 (1998: HK\$2,288,000) has been charged to the income statement and the surplus of HK\$191,000 (1998: HK\$30,312,000) has been credited to property revaluation reserve.

If the leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated amortisation at HK\$108,815,000 (1998: HK\$83,212,000).

The Group had no interest capitalised during the year (1998: nil).

The Company did not have any property, plant and equipment.

14. INTEREST IN SUBSIDIARIES

| | 1999 HK\$'000 | 1998 HK\$'000 |
|-------------------------------|------------------|------------------|
| Unlisted shares | 244,660 | 244,660 |
| Amounts due from subsidiaries | 165,536 | 157,471 |
| | <u>410,196</u> | <u>402,131</u> |

The carrying value of the unlisted shares is based on the directors' estimate of the underlying net assets of the subsidiaries attributable to the Group at the time these subsidiaries were acquired by the Company pursuant to the group reorganisation referred to in note 1.

Details of the Company's subsidiaries at 31st December, 1999 are set out in note 35.

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

15. INTELLECTUAL PROPERTY RIGHTS

| | 1999 HK\$'000 | 1998 HK\$'000 |
|--------------------------|------------------|------------------|
| COST | | |
| At 1st January | 89,119 | — |
| Acquired during the year | — | 89,119 |
| Write off | (137) | — |
| | <u>88,982</u> | <u>89,119</u> |
| At 31st December | 88,982 | 89,119 |
| AMORTISATION | | |
| At 1st January | 5,995 | — |
| Provided for the year | 5,995 | 5,995 |
| Eliminated on write off | (28) | — |
| | <u>11,962</u> | <u>5,995</u> |
| At 31st December | 11,962 | 5,995 |
| NET BOOK VALUE | <u>77,020</u> | <u>83,124</u> |

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

16. PRE-OPERATING EXPENSES

| | THE GROUP | |
|---------------------------------|------------------|------------------|
| | 1999 HK\$'000 | 1998 HK\$'000 |
| COST | | |
| At 1st January at 31st December | 2,042 | 2,042 |
| AMORTISATION | | |
| At 1st January | 1,633 | 1,225 |
| Provided for the year | 409 | 408 |
| At 31st December | 2,042 | 1,633 |
| NET BOOK VALUE | — | 409 |

17. OTHER INVESTMENT

The other investment represents an unlisted investment of 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.

Subsequent to 31st December, 1999, the Group disposed of its entire interest at a consideration of approximately HK\$469,000.

18. 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.

In December 1997, 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 on or before 31st December, 1999:

- (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 in accordance with the relevant PRC laws and regulations.

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

18. LONG-TERM RECEIVABLE (continued)

Pursuant to a supplementary deed entered into by both parties on 1st March, 2000, the subscription date has been extended to 31st December, 2000. 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, 2000 or if the Group does not exercise the subscription right on the expiry of the subscription period, the advance (together with any unpaid portion of the remaining balance as stated above) or the convertible note together with any accrued and unpaid interest will become repayable on demand.

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

19. INVENTORIES

| | THE GROUP | |
|------------------|---------------|---------------|
| | 1999 | 1998 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 36,132 | 30,115 |
| Work in progress | 17,254 | 15,027 |
| Finished goods | 12,843 | 18,971 |
| | <u>66,229</u> | <u>64,113</u> |

20. BANK BORROWINGS

| | THE GROUP | |
|--|------------------|------------------|
| | 1999 HK\$'000 | 1998 HK\$'000 |
| Bank borrowings comprise of: | | |
| Mortgage loans | 24,737 | 2,888 |
| Other bank loans | — | 33,166 |
| Bank overdraft | 792 | 1 |
| | <u>25,529</u> | <u>36,055</u> |
| Analysed as: | | |
| Secured | 24,737 | 2,888 |
| Unsecured | 792 | 33,167 |
| | <u>25,529</u> | <u>36,055</u> |
| The bank borrowings are repayable as follows: | | |
| Within one year or on demand | 2,429 | 33,355 |
| More than one year, but not exceeding two years | 1,816 | 209 |
| More than two years, but not exceeding five years | 6,666 | 786 |
| More than five years | 14,618 | 1,705 |
| | <u>25,529</u> | <u>36,055</u> |
| Less: Amount repayable within one year or on demand and shown under current liabilities | <u>(2,429)</u> | <u>(33,355)</u> |
| Amount due after one year | <u>23,100</u> | <u>2,700</u> |

21. SHARE CAPITAL

| | Number of ordinary shares | Amount HK\$'000 |
|--|---------------------------------|--------------------|
| <i>Authorised:</i> | | |
| Shares of HK\$0.10 each: | | |
| — on incorporation on 18th November, 1998 | 1,000,000 | 100 |
| — increase on 2nd December, 1998 pursuant to the group reorganisation referred to in note 1 | 999,000,000 | 99,900 |
| | <hr/> | <hr/> |
| At 31st December, 1998 and at 31st December, 1999 | 1,000,000,000 | 100,000 |
| | <hr/> | <hr/> |
| <i>Issued and fully paid:</i> | | |
| — issue in consideration for the acquisition of the entire share capital of the previous holding company of the Group | 2,000,000 | 200 |
| — placing of new shares to professional and institutional investors and issue of new shares to the public on 7th December, 1998 | 180,000,000 | 18,000 |
| — issue by capitalisation of share premium account | 538,000,000 | 53,800 |
| | <hr/> | <hr/> |
| At 31st December, 1998 | 720,000,000 | 72,000 |
| — exercise of share options | 6,330,000 | 633 |
| | <hr/> | <hr/> |
| At 31st December, 1999 | 726,330,000 | 72,633 |
| | <hr/> | <hr/> |

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

22. SHARE OPTION SCHEME

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

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

| Date of grant | Exercisable period | Exercise price per share HK\$ | Granted during the year | Number of shares to be issued upon exercise of the share options | | Balance at 31.12.1999 |
|---------------|--------------------|-------------------------------------|----------------------------|---|---------------------------|--------------------------|
| | | | | Exercised during the year | Lapsed during the year | |
| 1.2.1999 | 1.8.1999–31.1.2002 | 0.68 | 7,606,000 | (6,330,000) | (328,000) | 948,000 |
| 18.8.1999 | 1.1.2000–17.8.2009 | 1.26 | 22,000,000 | — | — | 22,000,000 |

Consideration received by the Company or the Group for options granted during the year was negligible.

Notes to the Financial Statements
For the year ended 31st December, 1999

23. RESERVES

| | Share premium HK\$'000 | Contributed surplus HK\$'000 | Special reserve HK\$'000 | Investment property revaluation reserve HK\$'000 | Property revaluation reserve HK\$'000 | Statutory surplus reserve fund HK\$'000 | Enterprise expansion fund HK\$'000 | Translation reserve HK\$'000 | Accumulated 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 10) | — | — | — | — | — | — | — | — | (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 |
| Premium arising from issue of shares | 3,672 | — | — | — | — | — | — | — | — | 3,672 |
| Revaluation surplus on investment properties | — | — | — | 262 | — | — | — | — | — | 262 |
| Revaluation surplus on leasehold land and buildings | — | — | — | — | 191 | — | — | — | — | 191 |
| Profit for the year | — | — | — | — | — | — | — | — | 125,146 | 125,146 |
| Dividends (note 10) | — | — | — | — | — | — | — | — | (65,391) | (65,391) |
| Transfer of reserves | — | — | — | — | — | 4,653 | — | — | (4,653) | — |
| Exchange differences arising from translation of the financial statements of overseas operations | — | — | — | — | — | — | — | 354 | — | 354 |
| At 31st December, 1999 | 93,230 | — | 38,510 | 262 | 30,503 | 8,983 | 817 | 463 | 233,334 | 406,102 |
| 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) |
| Contribution 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 |
| Premium arising from issue of shares | 3,672 | — | — | — | — | — | — | — | — | 3,672 |
| Profit for the year | — | — | — | — | — | — | — | — | 65,310 | 65,310 |
| Dividends (note 10) | — | — | — | — | — | — | — | — | (65,391) | (65,391) |
| At 31st December, 1999 | 93,230 | 244,461 | — | — | — | — | — | — | 1,062 | 338,753 |

23. 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 referred to in note 1.

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.

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.

The Company's reserves available for distribution to shareholders at 31st December, 1999 consisted of contributed surplus and accumulated profits totalling HK\$245,523,000 (1998: HK\$245,604,000).

24. DEFERRED TAXATION

| | THE GROUP | |
|------------------------------|------------------|------------------|
| | 1999 HK\$'000 | 1998 HK\$'000 |
| Balance brought forward | 260 | 221 |
| Exchange realignment | — | (1) |
| Charge for the year (note 8) | — | 40 |
| | <hr/> | <hr/> |
| Balance carried forward | 260 | 260 |

At the balance sheet date, the major components of the deferred taxation liability of the Group related entirely to the tax effect of timing differences attributable to the excess of tax allowances over depreciation charged in the financial statements.

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

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

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

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

| | 1999 HK\$'000 | 1998 HK\$'000 |
|---|------------------|------------------|
| Profit from ordinary activities before taxation | 132,534 | 104,678 |
| Interest income | (11,284) | (3,842) |
| Interest on bank and other borrowings | 1,556 | 4,649 |
| Loss on disposal of property, plant and equipment | 8,552 | 6 |
| Write off of intellectual property rights | 109 | — |
| Loss on winding up of an unlisted subsidiary | — | 902 |
| Provision for deposit paid on acquisition of certain property interests | — | 2,482 |
| Rental income | (372) | (351) |
| Depreciation and amortisation of property, plant and equipment | 15,252 | 10,392 |
| Amortisation of intellectual property rights | 5,995 | 5,995 |
| Deficit arising on revaluation of leasehold land and buildings | 649 | 2,288 |
| Amortisation of pre-operating expenses | 409 | 408 |
| (Increase) decrease in inventories | (1,947) | 14,952 |
| Increase in trade and other receivables | (90,256) | (54,329) |
| Increase in trade and other payables | 63,335 | 104,815 |
| Net cash inflow from operating activities | 124,532 | 193,045 |

26. WINDING UP OF A SUBSIDIARY

Net assets transferred to a group company:

| | 1999 HK\$'000 | 1998 HK\$'000 |
|---|------------------|------------------|
| Property, plant and equipment | — | 8,970 |
| Bank balances and cash | — | 12 |
| Trade and other payables | — | (39) |
| Amount due to a director | — | (1,807) |
| Minority interest | — | (5,759) |
| | | <hr/> |
| Net assets | — | 1,377 |
| Translation reserve realised on winding up of the subsidiary | — | (300) |
| Loss on winding up of the subsidiary | — | (902) |
| | | <hr/> |
| | — | 175 |
| | | <hr/> |
| Satisfied by: | | |
| Net assets transferred to a group company | — | 7,136 |
| Cash repayment to minority shareholder of the subsidiary on winding up | — | (6,961) |
| | | <hr/> |
| | — | 175 |
| | | <hr/> |
| 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) |
| | | <hr/> |

The subsidiary liquidated in 1998 did not make a substantial contribution to the net cash flows of the Group.

27. MAJOR NON-CASH TRANSACTION

During the year, leasehold land and buildings with net book value of HK\$12,138,000 (1998: nil) were transferred to investment properties.

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

| | Share capital and premium HK\$'000 | Bank borrowings, excluding bank overdraft HK\$'000 | Amounts due to a directors HK\$'000 | Amount due to a related company HK\$'000 | Minority interest HK\$'000 |
|--|---|---|--|---|----------------------------------|
| At 1st January, 1998 | 10 | 4,643 | 23,990 | 2,764 | 5,759 |
| Proceeds from issue of shares before group reorganisation | 38,699 | — | — | — | — |
| Eliminated on group reorganisation | (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 26) | — | — | — | — | (5,759) |
| Exchange realignment | — | 1 | 11 | — | — |
| At 31st December, 1998 | 161,558 | 36,054 | — | — | — |
| Proceeds from issue of shares | 4,305 | — | — | — | — |
| Bank loans raised | — | 25,500 | — | — | — |
| Repayment during the year | — | (36,817) | — | — | — |
| Issue of shares in a subsidiary to minority shareholders | — | — | — | — | 77 |
| Minority share of results for the year | — | — | — | — | (1) |
| At 31st December, 1999 | 165,863 | 24,737 | — | — | 76 |

29. LEASE COMMITMENTS

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

| | THE GROUP | |
|---------------------------------------|--------------|--------------|
| | 1999 | 1998 |
| | HK\$'000 | HK\$'000 |
| Operating leases which expire: | | |
| Within one year | 1,067 | 659 |
| In the second to fifth year inclusive | 304 | — |
| Over five years | 1,916 | 1,911 |
| | <u>3,287</u> | <u>2,570</u> |

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

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

30. CAPITAL COMMITMENTS

| | THE GROUP | |
|--|--------------|--------------|
| | 1999 | 1998 |
| | HK\$'000 | HK\$'000 |
| Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment | <u>5,761</u> | <u>629</u> |
| Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment | <u>—</u> | <u>2,300</u> |

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

31. PLEDGE OF ASSETS

At 31st December, 1999, certain of the Group's leasehold properties with an aggregate carrying value of HK\$37,800,000 (1998: HK\$4,700,000) were pledged to a bank to secure general banking facilities granted to the Group. At 31st December, 1999, facilities amounting to HK\$24,737,000 (1998: HK\$2,888,000) were utilised.

32. CONTINGENT LIABILITIES

| | THE GROUP | |
|--------------------------------|-----------|----------|
| | 1999 | 1998 |
| | HK\$'000 | HK\$'000 |
| Bills discounted with recourse | 2,993 | 5,491 |

At 31st December, 1999, the Company had guarantees of approximately HK\$108.5 million (1998: nil) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company.

33. RETIREMENT BENEFITS SCHEME

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

The retirement benefits cost charged to income statement 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.

34. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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

| Name of party | Interested directors | Nature of transactions | 1999 HK\$'000 | 1998 HK\$'000 |
|-----------------------------------|--|---|------------------|------------------|
| Zhong Shan Sun Red | (note i) | Sales of plastic materials by the Group (note ii) | 8,210 | 5,075 |
| | | Purchase of stroller wheels by the Group (note ii) | 38,824 | 18,426 |
| | | Trade payable by the Group on 31st December | 1,411 | — |
| | | Trade receivable by the Group on 31st December | — | 1,065 |
| Yojin Industrial Corporation | Huang Ying Yuan | Rental expenses paid by the Group (note iii) | 879 | 779 |
| | Huang Chen Li Chu | Purchase of fabrics and sponge and plastic parts by the Group (note ii) | 307 | 279 |
| | | Service fees paid by the Group (note ii) | — | 1,455 |
| Competent Mind Limited | Huang Ying Yuen Tsang Yat Kiang Chen Hsing Shin Leung Man Fai | Consultancy fee paid by the Group (note iv) | 900 | — |
| Discovery International Co., Ltd. | Huang Chen Li Chu | Purchase of intellectual property rights by the Group (note v) | — | 89,119 |
| | | Purchase of fixed assets by the Group (note v) | — | 975 |
| | | Interest expenses paid by the Group (note vi) | — | 2,249 |
| Chen Chin Yuan | (note vii) | Rental expenses paid by the Group (note iii) | 163 | 122 |
| Lo Chih Chung | (note viii) | Other receivable by the Group on 31st December | 77 | — |

34. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with directors:

| Name | Nature of transactions | 1999 HK\$'000 | 1998 HK\$'000 |
|-------------------|---|------------------|------------------|
| Huang Ying Yuan | Rental expenses paid by the Group (note iii) | 377 | 377 |
| | Purchase of property interests by the Group (note ix) | — | 187 |
| Tsang Yat Kiang | Rental expenses paid by the Group (note iii) | 227 | 226 |
| | Purchase of property interests by the Group (note ix) | — | 187 |
| Chen Hsing Shin | Rental expenses paid by the Group (note iii) | 377 | 377 |
| | Purchase of property interests by the Group (note ix) | — | 187 |
| Huang Chen Li Chu | Rental expenses paid by the Group (note iii) | 31 | 39 |
| Chen Jo Wan | Rental expenses paid by the Group (note iii) | 227 | 226 |

(c) At 31st December, 1998, certain banking facilities of the Group were secured by personal guarantees provided by certain directors. Such personal guarantees were released during the year.

Notes:

- i. Certain directors of the Company, Messrs. Huang Ying Yuan, Tsang Yat Kiang and Chen Hsing Shin, are also the directors of Zhong Shan Sun Red. Subsequent to 31st December, 1999, they have resigned as directors of Zhong Shan Sun Red.
- ii. These transactions were carried out at market price or, where no market price was available, at terms determined and agreed by both parties.
- iii. The rentals were charged in accordance with the relevant tenancy agreements and the prevailing rent is equivalent or approximate to the market rentals as certified by an independent firm of professional property valuers or estimated by the directors at the time when the tenancy agreements were entered into.
- iv. This transaction was carried out pursuant to the service agreement entered into by both parties.
- v. These transactions were carried out pursuant to the sale and purchase agreement entered into in January 1998.
- vi. The interest was charged at 7% per annum on the outstanding loan balance due to the company in respect of the transaction mentioned in item v above.
- vii. Chen Chin Yuan is a brother of Chen Hsing Shin.
- viii. Lo Chih Chung owns 20% interest in a subsidiary of the Company. The amount due from him is unsecured, non-interest bearing and repayable on demand.
- ix. This transaction was carried out pursuant to the sale and purchase agreement entered into in April 1998.

35. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 1999 are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued share capital/registered capital held by the Company (note i) | Principal activities (note ii) |
|--|--|---|---|--|
| Acoustic Power Limited | British Virgin Islands | US\$1 ordinary shares | 100% | Investment holding |
| Angel Juvenile Products (Zhongshan) Co., Ltd. | PRC | US\$667,989 registered capital | 100% | Manufacture and trading of strollers |
| Kintop Limited | Hong Kong | HK\$2 ordinary shares | 100% | Trading of baby health care products |
| Lerado China Limited | British Virgin Islands | HK\$5,000 ordinary shares | 100% | Investment holding and trading of strollers in Taiwan |
| Lerado Group Limited | British Virgin Islands | HK\$10,702 ordinary shares | 100% | Investment holding |
| Lerado H.K. Limited | Hong Kong | HK\$5,000 ordinary shares | 100% | Trading of strollers in Hong Kong and Taiwan |
| Lerado International Limited | British Virgin Islands | HK\$5,000 ordinary shares | 100% | Investment holding |
| Lerado Overseas Limited | British Virgin Islands | HK\$5,000 ordinary shares | 100% | Provision of purchasing and marketing services in Taiwan |
| Link Treasure Limited | British Virgin Islands | US\$5,000 ordinary shares | 100% | Provision of research and development services in Taiwan |

35. PARTICULARS OF SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued share capital/registered capital held by the Company (note i) | Principal activities (note ii) |
|---|---------------------------------------|---|--|--------------------------------------|
| Peaceful Cove Limited | British Virgin Islands | US\$1 ordinary shares | 100% | Investment holding |
| Shanghai Lerado Daily Article Co., Ltd. | PRC | US\$2,469,172 registered capital | 100% | Manufacture and trading of strollers |
| Smart Global Limited | British Virgin Islands | US\$1 ordinary shares | 100% | Investment holding |
| Steady Tracker Limited | British Virgin Islands | US\$50,000 ordinary shares | 80% | Investment holding |
| ///S' / / / 0, «~f>> | PRC | US\$6,379,499 registered capital | 100% | Manufacture and trading of strollers |
| ///S' f / / 0, «~f>> | 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.