

## ► Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December, 2002.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its major subsidiaries are engaged in the design, manufacture and trading of infant products. The activities of principal subsidiaries are set out in note 37 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31st December, 2002 are set out in the consolidated income statement on page 22.

An interim dividend of HK2 cents per share amounting to HK\$14,449,000 was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK6 cents per share to the shareholders on the register of member on 21st May, 2003.

### INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

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

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

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

### SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 24 to the financial statements. The directors considered that the repurchases may, depending on the circumstances, result in an increase in earnings per share of the Group.

### DIRECTORS

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

#### Executive directors:

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

(appointed on 21st March, 2002)

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### Non-executive directors:

Mr. Chen Jo Wan	
Mr. Lin John Sian-Zu	(resigned on 12th August, 2002)
Madam Chan Lai Sha Liza	(resigned on 12th August, 2002)

### Independent non-executive directors:

Mr. Lim Pat Wah Patrick  
Mr. Ng Kwun Wan

In accordance with clause 87 of the Company's bye-laws, Messrs. Chen Hsing Shin and Leung Man Fai retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

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

### DIRECTORS' SERVICE CONTRACTS

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

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

### DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

	Number of ordinary shares held as		
	Personal interest	Family interest (Note 1)	Corporate interest (Note 2)
Mr. Huang Ying Yuan	101,187,360	42,102,180	—
Mr. Tsang Yat Kiang	58,815,720	—	—
Mr. Chen Hsing Shin	94,105,800	—	—
Madam Huang Chen Li Chu	42,102,180	101,187,360	—
Mr. Chen An-Hsin	—	—	35,289,675
Mr. Chen Jo Wan	11,763,225	—	—
Mr. Ng Kwun Wan	1,000,000	—	—

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Notes:

1. The family interest represents the shares held by the spouse of Mr. Huang Ying Yuan and Madam Huang Chen Li Chu, respectively. Madam Huang Chen Li Chu is the wife of Mr. Huang Ying Yuan.
2. Mr. Chen An-Hsin beneficially owns the entire interest of Gold Field Business Ltd., which in turn owns 35,289,675 ordinary shares in the Company.

Save as disclosed above and other than certain nominee shares in the subsidiaries held by certain directors in trust for the Company, none of the directors or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance at 31st December, 2002.

### SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 25 to the financial statements.

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

Category 1: Directors	Date of grant	Number of share options of the Company		
		Outstanding at 1st January, 2002	Lapsed/ cancelled during the year	Outstanding at 31st December, 2002
Mr. Huang Ying Yuan	18th August, 1999	4,000,000	—	4,000,000
Mr. Tsang Yat Kiang	18th August, 1999	3,500,000	—	3,500,000
Mr. Chen Hsing Shin	18th August, 1999	3,500,000	—	3,500,000
Madam Huang Chen Li Chu	18th August, 1999	3,000,000	—	3,000,000
Mr. Leung Man Fai	18th August, 1999	2,500,000	—	2,500,000
Mr. Chen Jo Wan	18th August, 1999	2,500,000	—	2,500,000
Mr. Lin John Sian-Zu	18th August, 1999	1,000,000	(1,000,000)	—
Mr. Lim Pat Wah Patrick	18th August, 1999	500,000	—	500,000
Total directors		20,500,000	(1,000,000)	19,500,000
<b>Category 2: Employees</b>				
Total employees	1st February, 1999	282,000	(282,000)	—
Total all categories		20,782,000	(1,282,000)	19,500,000

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Details of specific categories of options are as follows:

Date of grant	Vesting period	Exercise period	Exercise price HK\$
1st February, 1999	6 months	1st August, 1999 — 31st January, 2002	0.68
18th August, 1999	4.5 months	1st January, 2000 — 17th August, 2009	1.26

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

### CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group made purchases of fabrics and sponge and plastic parts of HK\$1,189,000 from Yojin Industrial Corporation, a company in which Mr. Huang Ying Yuan and Madam Huang Chen Li Chu, directors of the Company, have beneficial interests. In accordance with the conditions agreed with the Stock Exchange with respect to the connected transactions, the independent non-executive directors have reviewed the above connected transactions and in their opinion, these transactions entered into by the Group were:

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

Details of other discloseable connected transactions for the year are set out in note 36 to the financial statements. Save as disclosed therein:

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

### SUBSTANTIAL SHAREHOLDERS

At 31st December, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2002.

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### **DONATIONS**

During the year, the Group made charitable and other donations amounting to HK\$596,000.

### **PRE-EMPTIVE RIGHTS**

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

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

Other than the repurchase by the Company of certain of its shares on the Stock Exchange as described in note 24 to the financial statements, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year.

### **MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 65% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 28% of total sales. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 25% of the total purchases of the Group.

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

### **CORPORATE GOVERNANCE**

The Company has complied throughout the year ended 31st December, 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### **AUDITORS**

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

On behalf of the Board

**Huang Ying Yuan**

*Chairman*

10th April, 2003