

Directors' report

The directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31st December, 2004 are set out in the consolidated income statement on page 20.

An interim dividend of HK2 cents per share amounting to HK\$14,457,000 was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK 3.5 cents per share to the shareholders on the register of members on 7th June, 2005.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

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

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

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

SHARE CAPITAL

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

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

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DIRECTORS

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

Executive directors:

Mr. Huang Ying Yuan (*Chairman*)

Mr. Chen Hsing Shin (*Vice Chairman*)

Madam Huang Chen Li Chu (*Vice Chairman*)

Mr. Leung Man Fai

Mr. Chen An-Hsin (resigned on 1st March, 2005)

Non-executive director:

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

Independent non-executive directors:

Mr. Lim Pat Wah Patrick

Mr. Huang Zhi Wei (appointed on 30th September, 2004)

Mr. Yang Yu Fu (appointed on 30th September, 2004)

Mr. Ng Kwun Wan (resigned on 30th September, 2004)

Pursuant to clause 86 of the Company's bye laws, Mr. Huang Zhi Wei and Mr. Yang Yu Fu, being directors appointed during the year, shall hold office only until the next following annual general meeting after their appointments and will therefore retire at the forthcoming annual general meeting, being eligible, offer themselves for re-election.

In accordance with clause 87 of the Company's bye-laws, Mr. Lim Pat Wah Patrick 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 director 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 and will continue thereafter unless and until terminated by either party by three months' prior written notice.

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

DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2004, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange

pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) contained in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), were as follows:

Long positions in shares and underlying shares of the Company

Name of director	Number of shares held as		Total	Approximate % of the issued share capital	Share options
	Beneficial owner	Other interests			
Mr. Huang Ying Yuan	104,153,360	Spouse interest of 43,336,180 (Note 1)	147,489,540	20.43	7,000,000 (Note 3)
Mr. Chen Hsing Shin	96,805,800	—	96,805,800	13.41	3,500,000
Madam Huang Chen Li Chu	43,336,180	Spouse interest of 104,153,360 (Note 1)	147,489,540	20.43	7,000,000 (Note 4)
Mr. Chen An-Hsin	—	Corporate interest of 36,689,675 (Note 2)	36,689,675	5.08	—
Mr. Leung Man Fai	—	—	—	—	2,500,000

Notes:

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

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

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SHARE OPTIONS

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

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

Director	Date of grant	Number of share options of the Company outstanding at 1st January, 2004 and 31st December, 2004
Mr. Huang Ying Yuan	18th August, 1999	4,000,000
Mr. Chen Hsing Shin	18th August, 1999	3,500,000
Madam Huang Chen Li Chu	18th August, 1999	3,000,000
Mr. Leung Man Fai	18th August, 1999	2,500,000
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		13,000,000

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

The Group had made sales of infant products, toys and other products of HK\$4,328,000 to 好萊兒嬰兒用品有限公司, a company in which Huang Tien Cheng, a brother of Mr. Huang Ying Yuan, has beneficial and controlling interests.

The above transactions are regarded as connected transactions pursuant to Chapter 14 of the Listing Rules. Particulars of these and other discloseable connected transactions are disclosed in note 35 to the financial statements.

The independent non-executive directors have reviewed the above connected transactions and confirm that 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.

Save as disclosed therein and in note 35 to the financial statements:

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

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long position in shares and underlying shares of the Company

Name of substantial shareholder	Number of shares	Capacity	Approximate % of the issued share capital
Mr. Cheah Cheng Hye	57,768,000	Corporate interest (<i>Note</i>)	8.0%
Value Partners Limited	57,768,000	Investment manager	8.0%
Templeton Investment Counsel, LLC	43,339,968	Investment manager	6.0%
OCM Emerging Markets Funds, LP	38,122,000	Investment manager	5.3%

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 31st December, 2004.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$112,000.

PRE-EMPTIVE RIGHTS

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 47.2% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 18.0% of total sales. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 30% of the total purchases of the Group.

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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.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the directors and authorised by the shareholders in the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 24 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2004.

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

14th April, 2005