

The directors present their annual report and the audited financial statements for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its major subsidiaries are engaged in the design, manufacture and trading of infant products. The principal activities of the subsidiaries are set out in note 35 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 67% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 25%. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 30% of the total purchase 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.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31st December, 2000 are set out in the consolidated income statement on page 27 of the financial statements.

An interim dividend of HK3 cents per share amounting to HK\$21,807,000 was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK8 cents per share to the shareholders on the register of member on 20th May, 2001 amounting to HK\$57,977,000.

FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years ended 31st December, 2000 and of the assets and liabilities of the Group as at 31st December, 1998, 1999 and 2000 is set out on page 60 of the financial statements.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired leasehold land and buildings of approximately HK\$4.7 million, plant and machinery of approximately HK\$23.5 million and other assets amounting to approximately HK\$11.5 million to expand and upgrade the manufacturing facilities of the Group.

The Group revalued its investment properties and leasehold 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 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 AND SHARE OPTIONS

Details of movements during the year in the share capital of the Company are set out in note 21 to the financial statements.

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Details of the Company's share option scheme are set out in note 22 to the financial statements.

RESERVES

Movements in the reserves during the year of the Group and the Company are set out in note 23 to the financial statements.

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. Leung Man Fai

Non-executive directors:

Mr. Chen Jo Wan
 Mr. Lin John Sian-zu
 Mr. Tsai Joseph Chung (resigned on 29th March, 2001)
 Madam Chan Lai Sha Liza (appointed on 29th March, 2001)

Independent non-executive directors:

Mr. Lim Pat Wah Patrick
 Mr. Ng Kwun Wan (appointed on 15th August, 2000)
 Mr. Ng Ching Wo (resigned on 15th August, 2000)

In accordance with clauses 86 and 87 of the Company's bye-laws, Mr. Chen Jo Wan, Mr. Ng Kwun Wan, Madam Huang Chen Li Chu and Madam Chan Lai Sha Liza 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 Mr. Leung Man Fai, has entered into a service agreement with the Company for a period of three years commencing on 1st December, 1998 and will continue thereafter unless and until terminated by either party by three months' prior written notice.

Save as disclosed above, 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 SHARES AND SHARE OPTIONS

At 31st December, 2000, 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") and the share options were as follows:

	Number of ordinary shares held as		Number of share options of the Company held as	
	Personal interest	Family interest (Note 1)	Personal interest (Note 2)	Family interest (Note 1)
Mr. Huang Ying Yuan	101,187,360	42,102,180	4,000,000	3,000,000
Mr. Tsang Yat Kiang	58,815,720	—	3,500,000	—
Mr. Chen Hsing Shin	94,105,800	—	3,500,000	—
Madam Huang Chen Li Chu	42,102,180	101,187,360	3,000,000	4,000,000
Mr. Chen Jo Wan	11,763,225	—	2,500,000	—
Mr. Leung Man Fai	—	—	2,500,000	—
Mr. Tsai Joseph Chung	—	—	1,000,000	—
Mr. Lin John Sian-zu	—	—	1,000,000	—
Mr. Lim Pat Wah Patrick	—	—	500,000	—

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) The share options in relation to 500,000 shares of the Company granted to Mr. Ng Ching Wo were lapsed upon his resignation as director on 15th August, 2000. Other than this, there were no movements in share options during the year.

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, exercisable from 1st January, 2000 to 17th August, 2009.

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, 2000.

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 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.

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CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Details of the discloseable connected transactions for the year are set out in note 34 to the financial statements. Save as disclosed therein:

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

In accordance with the conditions agreed with the Stock Exchange with respect to the connected transactions, the independent non-executive directors have reviewed the connected transactions set out in note 34 to the financial statements 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 agreement governing such transactions.

SUBSTANTIAL SHAREHOLDERS

At 31st December, 2000, 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 following shareholder had an interest of 10% or more in the share capital of the Company:

Name of shareholder	Number of shares	Percentage
Investor AB	81,527,040	11.22%

Other than as disclosed above, 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, 2000.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2000 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, 2001