

The directors present their annual report and the audited financial statements for the year ended 31st December, 2003.

## 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, 2003 are set out in the consolidated income statement on page 22.

An interim dividend of HK2 cents per share amounting to HK\$14,327,000 was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK5 cents per share to the shareholders on the register of members on 19th May, 2004.

## 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.

## 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. Chen An-Hsin

Mr. Leung Man Fai

Mr. Tsang Yat Kiang (*Vice Chairman*) (resigned on 11th November, 2003)

### Non-executive director:

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

### Independent non-executive directors:

Mr. Lim Pat Wah Patrick

Mr. Ng Kwun Wan

In accordance with clause 87 of the Company's bye-laws, Madam Huang Chen Li Chu and Mr. Ng Kwun Wan 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 Mr. 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, 2003, 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			Approximate % of the issued share capital	Share options
	Beneficial owner	Other interests	Total		
Mr. Huang Ying Yuan	104,153,360	Spouse interest of 43,336,180 (Note 1)	147,489,540	20.40	7,000,000 (Note 3)
Mr. Chen Hsing Shin	96,805,800	—	96,805,800	13.39	3,500,000
Madam Huang Chen Li Chu	43,336,180	Spouse interest of 104,153,360 (Note 1)	147,489,540	20.40	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
Mr. Chen Jo Wan	1,391,225	—	1,391,225	0.19	—

*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 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.

## 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, 2003	Exercised during the year	Outstanding at 31st December, 2003
Mr. Huang Ying Yuan	18th August, 1999	4,000,000	—	4,000,000
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. Tsang Yat Kiang	18th August, 1999	3,500,000	(3,500,000)	—
Mr. Chen Jo Wan	18th August, 1999	2,500,000	(2,500,000)	—
Mr. Lim Pat Wah Patrick	18th August, 1999	500,000	(500,000)	—
		19,500,000	(6,500,000)	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.

Share options were exercised on various dates from 21st October, 2003 to 24th October, 2003. The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised during such period ranged from HK\$1.30 to HK\$1.31.

### 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

During the year, the Group made purchases of fabrics and sponge and plastic parts of HK\$197,000 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 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 Listing Rules.

## Substantial Shareholders

As at 31st December, 2003, 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	50,720,000	Corporate interest ( <i>Note</i> )	7.0%
Value Partners Limited	50,720,000	Investment manager	7.0%
Templeton Investment Counsel, LLC	35,965,968	Investment manager	5.0%

*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, 2003.

## Donations

During the year, the Group made charitable and other donations amounting to HK\$70,000.

## 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 56% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 22% 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, 2003 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*

15th April, 2004