

## Directors' Report

The directors present their first report and the audited financial statements of the Company from 18th November, 1998 (date of incorporation) to 31st December, 1998 and of the Group for the year ended 31st December, 1998.

### GROUP REORGANISATION

The Company was incorporated in Bermuda on 18th November, 1998 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended).

In December 1998, the Company and its subsidiaries (hereinafter collectively referred to as the "Group") underwent a group reorganisation (the "Group Reorganisation") to rationalise its structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Details of the Group Reorganisation are set out in the paragraph headed "Corporate Reorganisation" in appendix 5 of the prospectus issued by the Company dated 8th December, 1998 and a summary is set out in note 1 to the financial statements.

The shares of the Company have been listed on the Stock Exchange with effect from 18th December, 1998.

### 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 37 to the financial statements.

### SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to operating profit by geographical markets for the year ended 31st December, 1998 was as follows:

	Turnover HK\$'000	Contribution to operating profit HK\$'000
United States	640,962	57,349
Europe	184,976	31,832
Australia	42,674	6,087
South America	33,283	4,407
Others	57,815	5,810
	<hr/> 959,710	<hr/> 105,485
Less: Interest expenses (net)		<hr/> 807
Profit from ordinary activities before taxation		<hr/> <hr/> 104,678

## SEGMENTAL INFORMATION (continued)

An analysis of the Group's turnover and contribution to operating profit by products for the year ended 31st December, 1998 was as follows:

	Turnover HK\$'000	Contribution to operating profit HK\$'000
Strollers	736,810	64,686
Beds	85,279	11,894
Soft goods	61,453	13,841
Others	76,168	15,064
	<hr/> 959,710	<hr/> 105,485
Less: Interest expenses (net)		<hr/> 807
Profit from ordinary activities before taxation		<hr/> <hr/> 104,678

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 68% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 29%.

The aggregate purchases attributable to the Group's five largest suppliers during the year comprised approximately 34% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 9%.

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 suppliers or customers of the Group.

## SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 1998 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, 1998 are set out in the consolidated profit and loss account on page 31 of the annual report and in the accompanying notes to the financial statements.

The directors do not recommend the payment of a final dividend and propose that the profits for the year be retained.

## RESERVES

Movements in the reserves during the year of the Group and the Company are set out in note 25 to the financial statements.

## FINANCIAL SUMMARY

A summary of the results of the Group for the four years ended 31st December, 1998 is set out on page 66 of the financial statements.

## FIXED ASSETS

During the year, the Group acquired land and buildings of approximately HK\$12.7 million, plant and machinery of approximately HK\$15.1 million and other fixed assets amounting to approximately HK\$11.0 million to expand and upgrade the manufacturing facilities of the Group.

The Group's leasehold land and buildings were revalued at 31st December, 1998. The revaluation resulted in a surplus over book values amounting to HK\$30,312,000, which has been credited directly to the property revaluation reserve. A deficit of HK\$2,288,000 has been charged to the profit and loss account.

Details of these and other movements during the year in fixed assets of the Group are set out in note 10 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

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

Details of the Company's share option scheme are set out in note 24 to the financial statements. No share options were granted by the Company during the year.

## BORROWINGS AND INTEREST CAPITALISED

Bank borrowings of the Group which are repayable within one year or on demand are classified as current liabilities as set out in note 16 to the financial statements. A repayment analysis of the bank borrowings are set out in note 22 to the financial statements.

No interest was capitalised by the Group during the year.

## DIRECTORS

The directors of the Company during the period since incorporation and up to the date of this report were:

### Executive Directors:

Mr. Huang Ying Yuan (Chairman)	(appointed on 20th November, 1998)
Mr. Tsang Yat Kiang (Vice Chairman)	(appointed on 20th November, 1998)
Mr. Chen Hsing Shin (Vice Chairman)	(appointed on 20th November, 1998)
Madam Huang Chen Li Chu	(appointed on 20th November, 1998)
Mr. Leung Man Fai	(appointed on 20th November, 1998)
Mr. Tse Chi Man	(appointed on 1st February, 1999)

### Non-Executive Directors:

Mr. Chen Jo Wan	(appointed on 20th November, 1998)
Mr. Tsai Joseph Chung	(appointed on 20th November, 1998)
Mr. Lin John Sian-zu	(appointed on 20th November, 1998)

### Independent Non-Executive Directors:

Mr. Ng Ching Wo	(appointed on 20th November, 1998)
Mr. Lim Pat Wah Patrick	(appointed on 20th November, 1998)

In accordance with clauses 86(2) and 87 of the Company's bye-laws, Messrs. Tsang Yat Kiang, Tse Chi Man, Lin John Sian-zu and Ng Ching Wo 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 are subject to retirement by rotation in accordance with the Company's bye-laws.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company. Other than the service agreements of Messrs. Leung Man Fai and Tse Chi Man, all are 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.

Mr. Leung Man Fai has entered into a service agreement with the Company for one year commencing 1st December, 1998 which can be terminated by either party by three months' prior written notice.

Mr. Tse Chi Man has entered into a service agreement with the Company for one year commencing 1st February, 1999 which can be terminated by either party by three months' prior written notice.

## DIRECTORS' SERVICE CONTRACTS (continued)

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

At 31st December, 1998, 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)
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 Jo Wan	47,052,900	—

Note: 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.

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, 1998.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme as detailed in note 24 to the financial statements, 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.

## CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Details of the 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 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 36 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 transaction.

## SUBSTANTIAL SHAREHOLDERS

At 31st December, 1998 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 shareholders 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	11.32%

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, 1998.

## 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.

## **DONATIONS**

During the year, the Group made charitable and other donations amounting to approximately HK\$1,007,000.

## **CORPORATE GOVERNANCE**

The Company has complied, since the listing of its shares on the Stock Exchange to 31st December, 1998, with those paragraphs of the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, with which it is required to report compliance. On 26th April, 1999, the Company established an Audit Committee comprised of Messrs. Ng Ching Wo and Lim Pat Wah Patrick, the independent non-executive directors and Mr. Chen Jo Wan, a non-executive director. In establishing the terms of reference for this committee, the directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

## **ACCOUNTING POLICIES**

The financial statements of the Group have been prepared in accordance with applicable standard accounting practices in Hong Kong.

## **AUDITORS**

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation on 18th November, 1998. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board

**Huang Ying Yuan**

*Chairman*

Hong Kong, 4th May, 1999