

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December, 1999.

## 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.

## SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operations by geographical markets for the year ended 31st December, 1999 is as follows:

	Turnover HK\$'000	Contribution to profit from operations HK\$'000
United States	749,994	75,034
Europe	208,504	37,278
Australia	34,975	5,011
South America	23,956	1,754
Others	49,237	3,357
	<u>1,066,666</u>	<u>122,434</u>
Finance costs		(1,556)
Investment income		<u>11,656</u>
Profit from ordinary activities before taxation		<u>132,534</u>

An analysis of the Group's turnover and contribution to profit from operations by products for the year ended 31st December, 1999 is as follows:

	Turnover HK\$'000	Contribution to profit from operations HK\$'000
Strollers	740,805	65,350
Beds	124,330	13,610
Soft goods	95,320	24,889
Others	106,211	18,585
	<u>1,066,666</u>	<u>122,434</u>
Finance costs		(1,556)
Investment income		<u>11,656</u>
Profit from ordinary activities before taxation		<u>132,534</u>

## 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 31%. 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.

## SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 1999 are set out in note 35 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31st December, 1999 are set out in the consolidated income statement on page 25 of the financial statements.

An interim dividend of HK3 cents per share amounting to HK\$21,786,000 was paid to the shareholders during the year. The directors have resolved to recommend the payment of a final dividend of HK6 cents per share, with an alternative to the shareholders to elect to receive such dividend (or part thereof) in scrip form to be satisfied by the allotment of new shares in the Company, credited as fully paid, in lieu of such entitlement. The total dividend to which shareholders are entitled is HK\$43,605,000, which has been deducted from the profit for the year.

## RESERVES

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

## FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years is set out on page 64 of the financial statements.

## INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired land and buildings of approximately HK\$40.7 million, plant and machinery of approximately HK\$8.2 million and other assets amounting to approximately HK\$19.5 million to expand and upgrade the manufacturing facilities of the Group.

In addition, during the year, the Group transferred certain properties with net book value of approximately HK\$12.1 million from leasehold land and buildings to investment properties. 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 12 and 13 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 21 to the financial statements.

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

## BORROWINGS AND INTEREST CAPITALISED

Bank borrowings of the Group which are repayable within one year or on demand are classified as current liabilities. Details of and a repayment analysis of the bank borrowings of the Group as at 31st December, 1999 are set out in note 20 to the financial statements.

No interest was capitalised by the Group during the year.

## 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

Mr. Leung Man Fai

Mr. Tse Chi Man (appointed on 1st February, 1999 and resigned on 1st December, 1999)

### Non-executive directors:

Mr. Chen Jo Wan

Mr. Tsai Joseph Chung

Mr. Lin John Sian-zu

### Independent non-executive directors:

Mr. Ng Ching Wo

Mr. Lim Pat Wah Patrick

In accordance with clause 87 of the Company's bye-laws, Messrs. Chen Hsing Shin, Leung Man Fai and Tsai Joseph Chung 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, 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, 1999, 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		Number of share options of the Company held as	
	Personal interest	Family interest (Note)	Personal interest	Family interest (Note)
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	47,052,900	—	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. Ng Ching Wo	—	—	500,000	—
Mr. Lim Pat Wah Patrick	—	—	500,000	—

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.

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, 1999.

#### 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.

#### 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 transaction.

#### SUBSTANTIAL SHAREHOLDERS

At 31st December, 1999, 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, 1999.

#### 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\$40,000.

#### CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 1999 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the Company did not form its audit committee until 26th April, 1999 due to the time required for the arrangement of the formation of audit committee.

The audit committee comprises 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 the audit 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.

#### 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, 18th April, 2000