OVERVIEW

The global economic slowdown, which was further aggravated by the September 11 incident, resulted in a softening demand in middle to high-end infant and pre-school products, in the US market in particular. With customers reducing their inventory level and consumers hesitating in their spending on up-market infant products, the Group's turnover decreased slightly by 5.3%, amounting to HK$1,117.9 million.

The Group experienced a larger decline of its net profit to HK$105.9 million, representing a drop of 17.5% over that of 2000. This decrease was mainly attributable to the HK$6.4 million deficit arising from the revaluation of the Group's properties and the HK$8.5 million impairment loss of the Group's intellectual property rights. Nonetheless, The Group managed to improve its gross profit margin by 1.6% to 29.4% through raising its management efficiency and confining production cost by increasing the sourcing of raw materials in the PRC without compromising the quality.

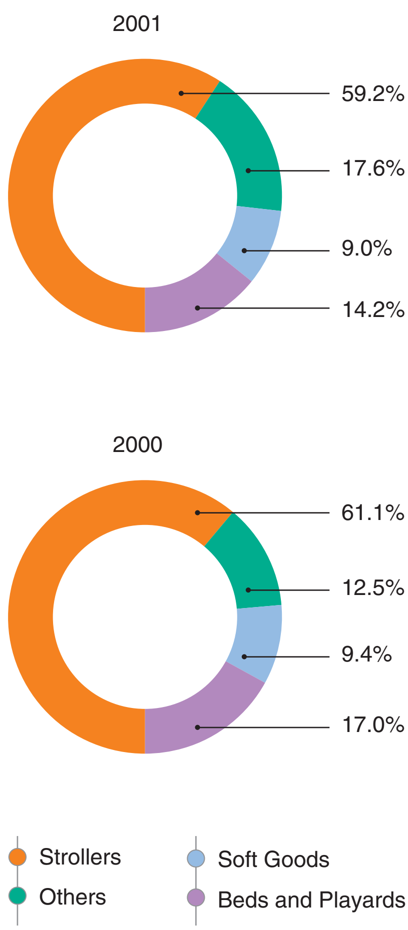
DIVERSIFIED PRODUCT PORTFOLIO

The Group's core products, namely strollers, soft goods, beds and playards, contributed 59.2%, 9.0% and 14.2% to total turnover respectively. While the global economic slowdown dampened the sales of strollers and soft goods by 8.2% and 9.9% respectively, the September 11 incident also led to a decline in the number of flight passengers and subsequently a further drop of 20.7% in the sales of foldable playards which are most desirable for travelling with children. In response to the market needs during the economic downturn in the US, the Group flexibly adjusted its product strategy by focusing more on the middle market instead of the middle-high market.

Leveraging on its strength in producing high quality ODM strollers, the Group met with further success in its launch of other accessory products such as high chairs, bouncers, walkers, etc, and achieved growth of 33.7% over 2000, representing 17.6% of the Group's total turnover.

Apart from constantly advancing the development of traditional products, the Group is always on the lookout for new growth potentials. The Group's nursery products, such as feeding bottles and nipples, have achieved great development with encouraging response received from clients. The Group

Turnover by Product
For the year ended 31st December



will continue to explore this market sector striving to bring greater contribution to the Group in the future.

The Group's battery operated ride-on cars under its own brand are gaining wider acceptance in the PRC market and continue to report stable growth. However, its development in the US market failed to meet the Group's expectation, largely due to the slow acceptance of a new brand in the US and consumers' prudent spending pattern under the adverse economic condition. Having considered the costly nature of this product and the economic low tide in the US market at present, the Group has adjusted its strategy and decided to sell the ride-on cars through agents but may consider to market its own brand when the economy revives.

EFFECTIVE SALES & MARKETING

Over the years, with its reliability and commitment to supreme quality, the Group has already established a trustful and loyal business relationship with its customers which include many major international infant and pre-school product brands. To strategically diversify its revenue sources globally, the Group has been pro-actively developing the Europe markets. European sales accounted for 24.0% of the Group's total turnover, compared with only 19.5% three years ago.

The Group is always on the lookout for growth. With the World Bank estimating an average annual GDP growth of 7.4% in the PRC from 2000 to 2004, the country is set to be the locomotive for future economic growth and provides a big arena for the Group's long-term development. With its foresight in capturing the growing consumption power of the huge nation, the Group has been marketing its infant and pre-school products under its own brand "Angel" in department stores in the PRC since 1995 and is gaining wider market acceptance. Currently, the Group has a network of over 250 sales points in 73 cities in the country.

In response to the changing market trend, cooperation with Step2 was terminated in October 2001 under mutual agreement for better development of the two companies.

EXPANDED OFFICE AND PRODUCTION PLANT

For the expansion of Zhongshan production site, the Group bought a piece of land of approximately 124,000 sq.m. for HK$15.4 million. First phase of the construction work covered, amongst others, factory buildings with gross floor area of 14,100 sq.m., and was completed in early 2002 at a construction cost of approximately HK$19.1 million. The new plant is now used for the production of battery-operated ride-on cars and some of the Group's other products. The Board believes that the piece of land will be sufficient for the Group's expansion in the next five years.

In addition, the Group bought a piece of land adjacent to its existing Taiwan office through the acquisition of a then wholly-owned subsidiary of the Group for the expansion of its R&D division.

INVESTMENTS

In July 2001, the Group exercised its right in a convertible note to convert the loan into a 52% equity interest in a major supplier of stroller wheels and parts. Such vertical integration further strengthened the Group's leading position by allowing it to achieve timely delivery with greater quality assurance.

As reviewed in the interim report, the Group obtained an 8% equity interest in a PRC company which was engaged in transgenic engineering for a consideration of HK$21.1 million. The Group also invested HK$53.2 million in a jointly controlled entity (the "JCE") for project investment. Due to the change of the economic environment, the JCE has not commenced business and remains inactive. In view of such, the JCE decided to return a substantial portion of the injected sums to the Group before the balance sheet date.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2001, the Group employed approximately 6,900 staff members including about 6,600 working in the PRC production sites and 140 in the R&D department. The Group remunerates its employees by reference to the prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time staff.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a sound financial position and a solid balance sheet. As at 31st December, 2001, the Group had total cash and bank balances of HK$101.3 million, a majority of which were in Hong Kong and US dollars. Bank borrowings were maintained at a low level at HK$4.4 million, with gearing ratio (expressed as total bank borrowings to shareholders' fund) maintained at 0.01. No hedging arrangement had been made during the year as the Group's exposure to foreign exchange fluctuation was insignificant. The Board is in the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure.

As at the balance sheet date, the Group had net current assets of HK$185.8 million and a current ratio of 1.7. Stock turnover was 30.6 days.

As at 31st December, 2001, the net proceeds of approximately HK$161 million raised from the Group's initial public offering in 1998 were fully utilised as scheduled except that a balance of HK$13 million, which was budgeted for the establishment of sales offices in the US for the marketing of battery-operated ride-on cars under the Group's own brand, remained unused. Due to the slow development progress and the unfavourable US economy, the Board has decided to set aside the said balance for working capital purpose.