Management Discussion and Analysis

OVERVIEW

The gloomy and uncertain economic climate posted a lot of challenges for most business sectors in 2002. Just when signs of recovery began to appear in the middle of the year, the economic situation reversed under the shadow of war and the port strike in the West Coast in the US. As an inevitable result of hampered consumers' confidence, the Group recorded a decline in both turnover and net profit.

Consolidated turnover dropped 8.4% over last year to approximately HK$1,024.3 million while profit attributable to shareholders decreased 12.1% to approximately HK$93.1 million. The greater decline in net profit was mainly attributable to the increase in sales and administration expenses resulting from the development and expansion of the sales network in marketing the Group's "Angel" branded products in the PRC.

Nonetheless, the Group managed to continue to improve its gross profit margin to 31.4% from 29.4% in the prior year through improved management efficiency and increased sourcing of raw materials from the PRC. Full year results of the vertical integration through acquiring the majority stake in a stroller wheel factory in July 2001 also contributed to the improvement of the Group's gross margin.

RATIONALISED PRODUCT STRATEGY

Under a cloudy economic outlook, consumers remained cautious in their consumption habit favouring the basic and less costly consumer items yet keeping their interest in premium brands for safety and quality assurance. As such, after discussion with major customers who are mainly renowned infant and baby brands, the Group launched a series of new models of strollers with less sophisticated designs and more basic features at more affordable prices to capture the majority market demand.

Through switching from middle-high to middle-end strollers offered at an average selling price of 6–10% lower, the Group maintained a sales volume of 3.1 million units during the difficult times when consumers' confidence was low, sustaining its leading position in the stroller market.

PRODUCT PERFORMANCE

The Group's four major categories of products, namely strollers, beds and playards, soft goods, and others, maintained a similar proportion in their sales as that of last year. During the year, strollers remained as the Group's core product, sales of which dropped by 6.3% and accounted for 60.5% of total turnover. Sales of foldable beds and playards, which are most desirable for traveling with children and are relatively costly, was further affected by the weak economic climate and accounted for 14.2% of the turnover. Unlike baby strollers which are considered as necessities, the sales of soft goods and other accessory products such as high chairs, bouncers, walkers, etc., were hit even harder, representing 7.4% and 17.9% of total turnover respectively.

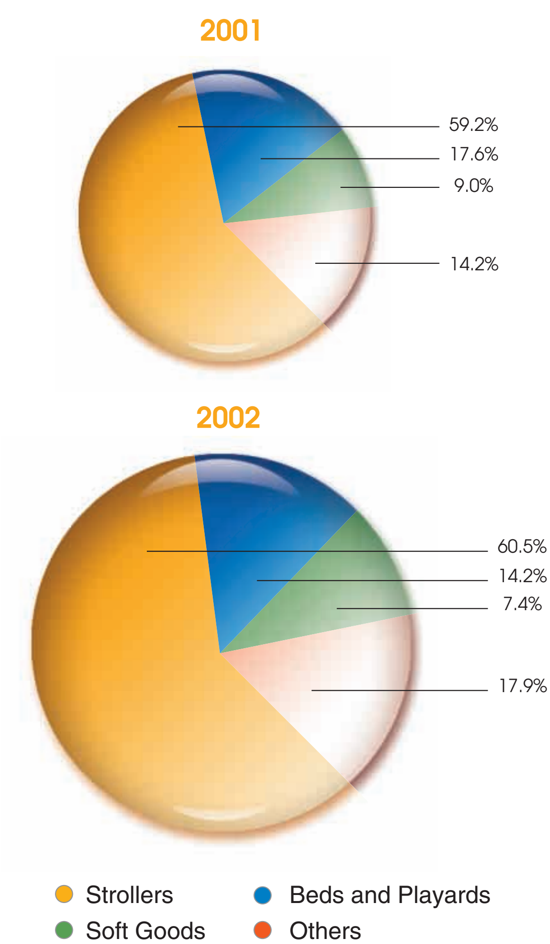
PERFORMANCE IN DIFFERENT GEOGRAPHICAL AREAS

The Group continued to maintain a stable client base in different markets worldwide. During the year,

Management Discussion and Analysis

Turnover by Product

For the year ended 31st December



the US market continued to be the Group's major source of income and reported a sales of HK$578.7 million, accounting for 56.5% of total turnover and a drop of 12.9% compared with the previous year. Contribution from the Europe, the Group's second largest market, declined 9.2% from last year to HK$243.2 million and took up 23.7% of total turnover. The decline was attributable to the slowdown in the outsourcing trend in Europe as customers were more inclined to retain their own production lines under the gloomy situation so as to allow greater flexibility in production schedule and responsiveness to market situation. Nonetheless, the Group believes that the outsourcing trend will still be the mainstream in the future considering the lower cost of production and expects the trend to resume when the economy becomes stable.

In the meanwhile, the Group continued to generate revenue from South America, Australia and other markets which accounted for 2.5%, 4.1% and 13.2% to the consolidated turnover respectively.

EXPLORATION INTO NEW MARKETS

Although China sales contribute to just a small percentage of the Group's turnover, we believe the market could be full of potential. During the year, the Group moved a step forward in exploring the PRC market by opening its first "Peek-a-boo" shop in Shenzhen in September 2002.

Management Discussion and Analysis

In the meantime, the Group kept its pace in developing the sales network across the country for its "Angel" brand. During the year, additional marketing and administrative expenses have been incurred in the expansion. The Group will closely monitor its operations in the PRC and constantly review and adjust the strategy under this challenging market situation.

EXPANDED PRODUCTION PLANT

To better equip ourselves to fully tap on the opportunities when the economy revives, the Group commenced an expansion plan in 2001 to construct additional production facilities at a site with a total area of approximately 124,000 sq. m. The close proximity between the existing plant and the new facilities allow them to share common resources and hence maximise their production efficiency. Phase one of the expansion, covering a gross floor area of 14,000 sq.m., was completed and commenced production in early 2002, while phase two of 21,000 sq.m. is now pending machinery installation. The Board believes that the whole new site will be sufficient for the Group's development in the next few years.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2002, the Group had a total workforce of 6,500 in Hong Kong, Taiwan and the PRC, including approximately 6,300 employees in the PRC production sites and a strong research and development department of 140 employees.

Apart from basic salaries, discretionary bonus and contribution to retirement funds were provided for staff in Hong Kong, Taiwan and the PRC. Share options may also be granted to staff with reference to the individual's performance.

LIQUIDITY & FINANCIAL RESOURCES

The Group maintains a healthy and solid balance sheet providing strong support to its working capital requirement and capital commitments. As at 31st December, 2002, the Group had total cash and bank balances of HK$125.8 million, with the majority of which in Hong Kong and US currencies. Bank borrowings, bearing interests at prevailing market rates, were maintained at a low level of HK$1.0 million for working capital purpose of a non-wholly owned PRC subsidiary which had pledged a leasehold property as security for the loan. Gearing ratio, expressing as total bank borrowings to shareholders' fund, was kept at a low level of 0.001. The Board is in the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditure.

As at the balance sheet date, the Group had net current assets of HK$221.6 million and an improved current ratio of 1.99 (2001: 1.70). Stock turnover stayed steady at 30.5 days.

EXCHANGE RISK EXPOSURE AND CONTINGENT LIABILITIES

The Group's sales are principally denominated in US dollars while the purchases are transacted mainly in HK dollars, Renminbi and New Taiwanese dollars. The Group believes that the exchange risk exposure is minimal.

The Group had no material contingent liabilities as at 31st December, 2002.