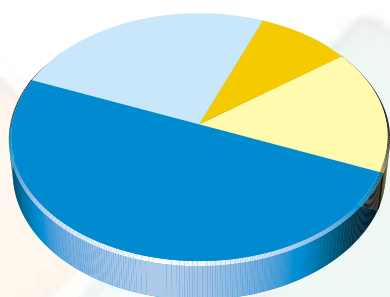


Management Discussion and Analysis

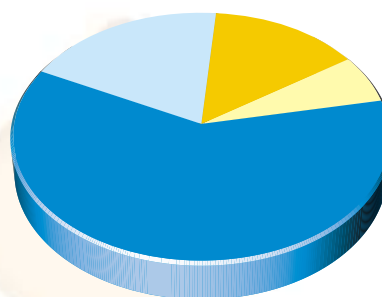
Turnover by Product

2004



● Strollers	50.0%
● Miscellaneous infant products	25.0%
● Beds and playards	8.9%
● Others	16.1%

2003



● Strollers	56.3%
● Miscellaneous infant products	20.6%
● Beds and playards	11.5%
● Others	11.6%

Note: Miscellaneous infant products include soft goods, car seats, high chairs, bouncers and walkers, etc.

FINANCIAL REVIEW

The Group recorded a consolidated turnover of HK\$1,271.0 million for the year ended 31st December, 2004, an increase of 10.5% over last corresponding year, as a result of our product diversification strategy.

While our core product, strollers, remained flat in sales of HK\$636.0 million and sales of beds and playards decreased by 14.7% to HK\$ 113.2 million due to reduced household travel, miscellaneous infant products recorded sales of HK\$317.7 million, representing a growth of 34.1%.

Apart from the increase in sales of other products such as high chairs and bed rails, the successful launch of our OEM infant car seats served as a key contributor of the rise in the sales of miscellaneous infant products.

During the year under review, our ODM battery-operated ride-on cars were well accepted in the markets like the US and Australia, thus boosting sales of the product category of “others”, which includes also spare parts processing and plastic toys, etc. Turnover of this category amounted to HK\$204.2 million, representing an increase of 53.5% over the previous year.

On the production side, the sharp rise of raw material price, especially plastics and metals which accounted for two-third of our cost of materials used, added great pressure to our production costs. Our gross margin was inevitably narrowed down to 21.5% from 27.4% of last year. Net profit for the year dropped correspondingly to HK\$69.1 million from HK\$81.2 million of last year.

PROPERTY REVALUATION

At the year end, a revaluation was performed on the Group’s land and buildings and investment properties. The net surplus arising from the revaluation amounting to HK\$11.2 million was credited to the income statement.

INVESTMENTS

Having reviewed the financial position and future plans of Shanghai Tao Tao Transgenic Engineering Co., Ltd, in which the Group had an 8% unlisted equity interest since 2001, a provision of HK\$9.7 million was made against this investment during the year under review.

The jointly controlled entity, E-1 SkyTech Investment Company Limited, which remained inactive since 2001, had completed its legal procedures of dissolution during the year. Any losses arised from the dissolution had already been accounted for in prior years.

The Group had not made any investments during the year ended 31st December, 2004.



Management and Discussion Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a conservative policy in its financial management and maintains a solid financial position. The Board is in the opinion that the Group has sufficient resources to support its operations and meet its foreseeable capital expenditure.

As at 31st December, 2004, the Group had cash and bank balances, mainly in US and Hong Kong currencies, of HK\$175.6 million (2003: HK\$95.1 million) and was free of bank borrowings (2003: HK\$15.3 million). The Group's gearing ratio, expressed as total bank borrowings to shareholders' fund, thus dropped to zero from 0.02 of 2003.

As at 31st December, 2004, the Group had net current assets of HK\$298.3 million (2003: HK\$225.5 million) and an improved current ratio of 2.4 compared with 1.8 in 2003. Trade receivable and inventory turnover were 55 days (2003: 59 days) and 49 days (2003: 46 days) respectively.

EXCHANGE RISK EXPOSURE AND CONTINGENT LIABILITIES

The sales of the Group are mainly denominated in US dollars and purchases are mainly in HK dollars, Renminbi and New Taiwanese dollars. The Group does not foresee significant risk in exchange rate fluctuation and no financial instruments have been used for hedging purposes.

As at 31st December, 2004, the Group had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2004, the group employed a total workforce of over 6,800 staff members, of which 6,650 worked in the PRC production sites. The remaining worked in the marketing, R & D and other administrative departments in our Hong Kong and Taiwan offices. Apart from basic salaries, discretionary bonus and contribution to retirement funds, share options may also be granted to staff with reference to the individual's performance.