

## Chairman's Statement



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the strength of the  
worldwide baby  
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our Company.

Dear Shareholders,

This is the first year we are reporting our financial and operational results to public shareholders. I am pleased to present to you our results which, despite a generally difficult environment in the Asian economies, reflect the strength of the worldwide baby products market and our Company.

### Financial Results

Our audited consolidated turnover for the year ended 31st December, 1998 was HK\$959.7 million, an increase of 4.6% over the 1997 figure. Net profit amounted to HK\$100.9 million with a growth rate of 35.4% over 1997. This represents earnings per share of HK18.71 cents (1997: HK14.77 cents).

Our balance sheet is solid. As of 31st December, 1998, the Group has bank balances and cash of HK\$212.7 million. This is mainly attributable to the HK\$161 million in net proceeds which we raised in our initial public offerings on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18th December, 1998.

As stated in the prospectus in connection with our listing, the Board of Directors will not recommend a final dividend in respect of the year ended 31st December, 1998.





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#### Successful Listing in 1998

The shares of the Company were successfully listed on the Stock Exchange on 18th December, 1998. It is worthy to note that in terms of funds raised by the initial public offerings, the Group ranked one of the top five floatations last year. Through listing, the Group entered a new phase in its development. We were very pleased that in spite of pessimistic market sentiments caused by the Asian financial turmoil, the Group's initial public offerings was warmly received by the general public.

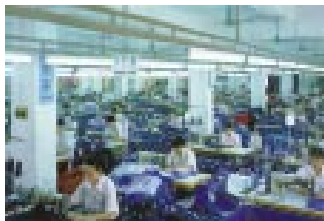
#### Market Review

For the year ended 31st December, 1998, the US remained our largest market, accounting for 66.8% of our total turnover. Our sales to the US increased by 8.3% over 1997. Although the annual number of births in the US has not seen significant growth over the past few years, the average household spending per child has increased. According to the Juvenile Products Manufacturers Association in the US, retail sales for juvenile products have been increasing for the past five years.

The above trend is also applicable to developed countries in Europe, our second largest market. For the year ended 31st December, 1998, sales to Germany, France and other European countries (mainly including Netherlands, Switzerland, Belgium, Austria, Greece, Norway, Italy, Spain and Turkey) amounted to HK\$185.0 million, representing 19.2% of the Group's total sales. Our products are price competitive to local European products (even taking into consideration our transportation costs) due to high production costs of European manufacturers.

During the year, we began to sell our products in the PRC under the "Angel" brand name through distributors in Shandong, Hebei, Jiangsu and Fujian. In Guangzhou, these "Angel" products are sold through our own sales team. The large PRC market and low stroller penetration rate offer an exciting potential for us.

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### Growth Prospects

Since we have been occupying a dominant share of the baby stroller market in the US, many of our shareholders are probably interested to know what additional growth can be gained in the US. The Group's stroller sales for the US grew 8.3% in 1998 and we expect steady growth in the next few years. In addition, we see opportunities to achieve long-term ODM and OEM relationships with new customers which, if successful, would further increase our market share in the US.

When we look beyond the US, our penetration in the European and emerging markets are still far from saturation. In 1998, our sales to Europe amounted to HK\$185.0 million, representing 19.2% of the Group's turnover. We are also developing existing and new customer relationships in South America, which currently only account for 3.5% of our total sales. We are planning to expand our market share in these regions.

In the PRC, we are distributing strollers under our own brand name, "Angel", currently in five major cities. We see very bright opportunities in the PRC market. At the same time, we are taking a step-by-step approach as we solidify our brand name and ensure that we develop strong relationships with wholesalers and retailers.

In addition to baby strollers, we design and manufacture baby beds and playyards, walkers, high chairs, bouncers and soft goods. These products account for 23.2% of our total sales in 1998 and we expect they will continue to contribute to our business in the future.

Over the past 10 years, we have developed core strengths in innovative design and efficient manufacturing. We see great opportunities in leveraging our strengths over a wider range of baby and pre-school product lines where our customers look for value-added production. We are actively developing new products, particularly in the pre-school category. For example, we have developed and commenced production of battery operated ride-on cars, currently for the Japanese market on an OEM basis. The US battery operated ride-on car market is about US\$219 million in retail value in 1998, and we see good prospects in establishing ourselves as a major player. Products such as high chairs and walkers are introduced and well received by the market as well.

### Our Competitive Advantages

Our main competitive advantages are:

- Our design and R&D capabilities allow us to be several steps ahead of our purely OEM competitors. In 1998, we successfully launched over 100 models of new products. We owned more than 100 registered patents for over 70 product features. We had also made 62 patent applications in various jurisdictions.
- We have a low cost manufacturing base and a team of well-trained factory staff in the PRC, and we have honed our production processes to high efficiency standards.
- We have cultivated a number of companies, physically located nearby our factory to supply us with key components. This forms a major barrier to entry as a new player may have access to cheap labor but not cheap sourcing of components. Physical proximity to our loyal suppliers has also reduced our stock cycle.

## Chairman's Statement

- Product quality and safety standards are crucial in the infant product manufacturing business. Having been in this business for over 10 years, we have established the trust of our existing customers and brought high credibility to potential customers.

### Gratitude

On behalf of the Board, I wish to thank all of our employees for their hard work and loyalty, and our customers for putting their trust in our capabilities. We also wish to extend our thanks to you, our shareholders, for your ongoing support.

**Huang Ying Yuan**  
*Chairman*

Hong Kong, 4th May, 1999

