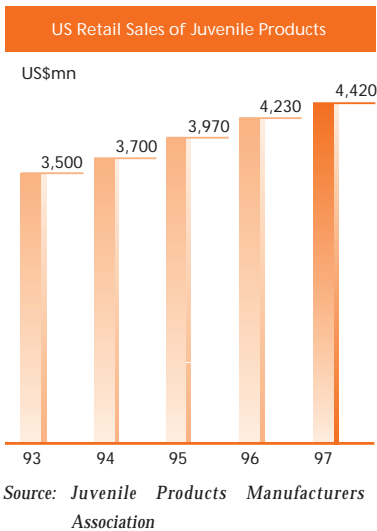




Industry Overview

Demand for infant products is traditionally dependent on the size of the infant population. However, due to the change in social trends, the decline in birth rates in the US has so far had little impact on the infant products industry. There is a growing tendency for women to have children later in life due to financial or career considerations. Women born at the end of the original baby boom period are at their prime childbearing years. These factors have led to an increase in first time mothers over the age of 30 and the number of first born babies. More importantly, these working mothers now have more spending power. The combination of older wealthier parents and more first borns means that parents can and will spend more per child than ever before. The strong US economy characterized by low inflation and a strong stock market has also provided impetus to this increase in consumption.



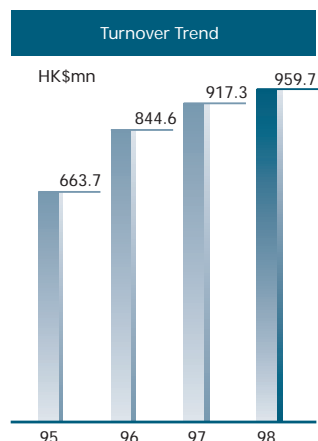
In European countries such as Germany and the United Kingdom, we also observe similar trends regarding population growth and spending patterns.

With an overall increase in household income in developed countries, parents are becoming more concerned with the quality, safety and innovative features of infant products rather than simply the price. With over 10 years of experience in the industry, we understand the core market trends and our customer needs. That is why we focus our R&D efforts on developing and refining innovative and safety focused features for our products. Many of our most popular strollers are equipped with patented features such as wheels with rotational control, handles with an orientation change feature, backrests with adjustable inclines and strollers foldable with one hand.

## Management Discussion and Analysis

### Sales Performance

The Group's net profit for the year ended 31st December, 1998 was HK\$100.9 million, an increase of 35.4% over 1997. Turnover was HK\$959.7 million, representing an increase of 4.6% over last year. Approximately 86% of the Group's sales in 1998 was on an ODM basis and 14% on an OEM basis.



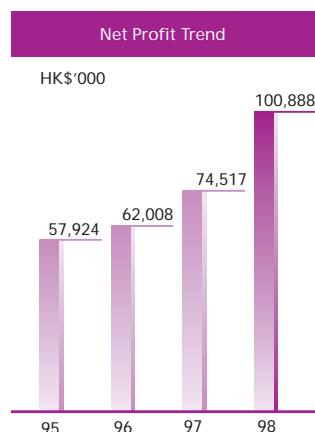
An improvement in net profit margin was noted, increasing from 8.1% in 1997 to 10.5% in 1998, mainly due to the acquisition of the R&D facilities last year. R&D expenses in 1998 represented 1.8% of the Group's turnover, a substantial decrease compared with the 3.8% in 1997.

We were also able to benefit from the Asian financial turmoil. While our revenues were in US dollar, a portion of our raw materials were denominated in New Taiwan dollar, the depreciation of which against the US dollar helped to reduce our cost of production.

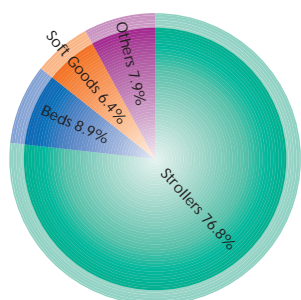
During the year, the US remained our largest market. Sales to the US in 1998 amounted to HK\$641.0 million, representing an increase of 8.3% over last year. In 1998, the Group shipped approximately 2.9 million strollers to the US. 1998 sales to Europe amounted to HK\$185.0 million, accounting for 19.2% of the Group's total turnover. The rest of the Group's sales were taken up by Australia, South America and the Asia Pacific countries.

The Group's products can be roughly divided into four categories, namely:

1. strollers;
2. beds;
3. soft goods such as soft carriers and car seat covers; and
4. other products such as bouncers, door gates and bed rails.



Turnover by Product Category (1998)

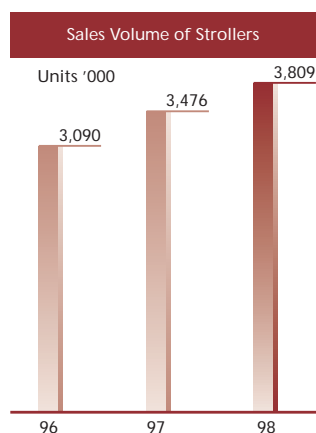


Strollers have always been Lerado's main products. In 1998, the Group sold approximately 3.8 million strollers, up from approximately 3.5 million in 1997. Stroller sales accounted for 76.8% of the Group's total turnover, amounting to HK\$736.8 million and representing an increase of 7.4% over 1997.

We currently produce over 220 models of strollers. The retail price of the Group's strollers ranges from US\$20 (HK\$155) to US\$265 (HK\$2,051). We plan to increase the proportion of high-end stroller sales in the coming year so as to better utilize our production capacity and to maximize our return.



## Management Discussion and Analysis



Our second largest product category was beds, accounting for 8.9% of the Group's total turnover. Besides strollers and beds, we also design and manufacture a wide variety of innovative infant products. They include soft goods such as soft carriers, car seat covers, seat pads and diaper bags and accessory products such as bouncers, door gates, bed rails, frame carriers, bassinets, high chairs and doll strollers.

### Production Facilities

We currently own two plants in Zhongshan and Shanghai in the PRC, with approximately 66,000 square metres and 16,000 square metres respectively, employing about 5,200 workers.

The Zhongshan plant comprises 16 assembly lines for strollers and 3 assembly lines for other products. There are also 4 spray lines, a metal workshop, a punching and bending line, a sewing department, a quality control laboratory and 8 warehouses.

The production of the Shanghai plant is currently being suspended as a part of a restructuring of the Group's production facilities. We expect to recommence its operations in the second half of 1999 for the production of cost effective goods in order to achieve higher production efficiency and management effectiveness.

In 1998, a new factory with a gross floor area of approximately 1,600 square metres was completed in Zhongshan for the production of battery operated ride-on cars. This factory will have an annual production capacity of more than 100,000 battery operated ride-on cars.

### Quality Control

We have a proven track record of strict compliance with stringent and complex safety requirements in the US, Europe and other developed countries where our products are sold. As of 31st December, 1998, the Group employed a total of 187 staff in its quality control department in Zhongshan, representing an increase of 58% over last year. In addition, we provide comprehensive on-the-job training to all our workers and quality control staff to ensure that the production processes and quality control procedures are strictly followed and enforced.

As of February of last year, both Zhongshan plants were accredited with the ISO 9002 certification. Our R&D operations in Taiwan were also accredited with the ISO 9001 certification in October 1998.

We experienced negligible sales returns and complaints from our customers during the period under review.

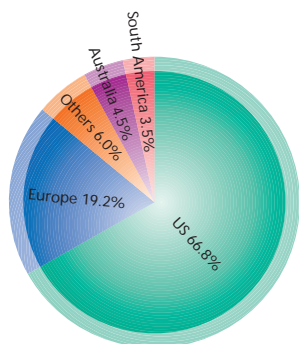
## Management Discussion and Analysis

### Research and Development

To develop innovative products and to incorporate new features into existing products have always been one of our major strengths. For the benefit of our long-term development, we believe that the ownership of an in-house R&D operation is essential. We acquired with effect from 1st January, 1998, the R&D facilities and certain patents, from our previous R&D consultants, which had provided R&D support for the Group since 1990. With the acquisition, we effectively lowered our overall R&D expenses and consolidated our position as a leading manufacturer of strollers with design capability.

As at 31st December, 1998, we owned more than 100 registered patents for over 70 product features and 62 patent applications were filed in various jurisdictions.

Turnover by Regions (1998)



### Sales and Marketing

During the year, our goods were sold to over 60 customers including brand name owners, importers and trading agents in over 40 countries. The US is our largest market. It is worthy to note that the makers of top five infant brands in US are amongst our customers. You can see most of our products in department stores and chain stores such as Toys 'R' Us, Wal-Mart and Sears in the US.

We also aim to grow our business by expanding into different market regions. For the year ended 31st December, 1998, our sales to the US and Europe accounted for 66.8% and 19.2%,

respectively, of the Group's turnover. Other markets that we concentrated our efforts on include South America.

Asian markets, especially the PRC, represent an attractive opportunity for us in the medium-to-long term. For the PRC market, we have emphasized on building brand name recognition for our "Angel" brand. We have also increased the number of wholesalers in selected major cities to enhance sales, marketing and distribution efforts.

### Competition

Most of our customers are in sophisticated markets such as the US and Western Europe, and hence, we compete mainly in terms of product quality, design, features and safety. Our main competitors for strollers are based in Europe, Japan and the PRC. Since we operate a relatively low cost production base in the PRC, our products are competitive to European products in terms of price, in addition to quality and design. As we have our own R&D capabilities, our products are also superior to other low cost PRC products in terms of quality and features.

Over the years, we have firmly established ourselves as one of the leaders in the infant products industry. Given our core competencies of strong innovative R&D and efficient manufacturing, we are well positioned to continue the expansion of our successful operations in our focused markets around the globe.



## Management Discussion and Analysis



### Use of Proceeds from Initial Public Offerings

Out of the net proceeds from initial public offerings of HK\$161 million, we have, up to date, applied HK\$39 million to repay bank borrowings and HK\$4 million to upgrade our existing production facilities and to purchase new machinery for capacity expansion.

### Year 2000 Issue

Year 2000 compliance is defined as the ability of computer systems including operating systems, applications, hardware and other related accessories to perform, function and manage data involving dates without being abnormally affected by dates spanning the period before, during and after the year 2000.

We have developed plans to address issues related to the impact on our computer systems arising from the turn of the century. We will spend approximately HK\$2.3 million on upgrading our hardware and software system. We are currently in the process of choosing a suitable consultancy firm regarding the installation of the Year 2000 compliant software. The Directors plan to finalize the upgrade plan with the chosen consultancy firm in the second quarter of 1999 and the whole process of installing the Year 2000 compliant software is expected to be completed by September 1999 and the Company will be Year 2000 compliant by the end of 1999. The financial impact of making the required systems changes is considered immaterial to the Company's financial position, results of operations and cash flows.