Management Discussion and Analysis

INDUSTRY OVERVIEW

A PROMISING OUTLOOK

At the dawn of a new millenium, overall birth rate in developed countries went up in 1999. The growth trend is expected to continue in Year 2000, with demand for infant and pre-school products expected to rise in the next few years.

Another factor contributing to market growth is the increasing average household income in developed countries as a larger population of women enters the workforce, fostering a stronger spending sentiment in general. Parents are becoming more concerned with quality, safety and innovative features of infant products rather than simply the price. In addition, longer life expectancy has nurtured a group of grandparents who are most generous with their grandchildren. Higher-priced products, with innovative value-added features, are therefore gaining wider market acceptance. All these add up to a favourable operating environment for the Group. With our wealth of experience and acute market sense, we are well positioned to capitalise on every arising opportunity.

REMARKABLE SALES PERFORMANCE

Lerado is engaged in the production of four main types of products:

- Strollers;
- Beds;
- Soft goods, such as soft carriers and car seat covers; and
- Other accessories, such as bouncers, door gates, bed rails and battery operated ride-on cars

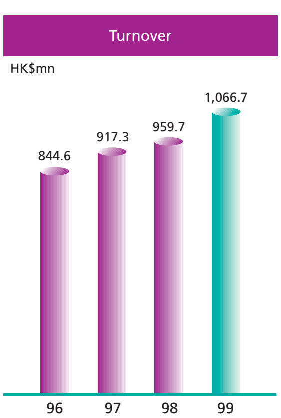
Among the four main product categories, strollers continue to contribute to the highest proportion of turnover during the year under review. Stroller sales amounted to HK$740.8 million, accounting for 69.5% of the total turnover.

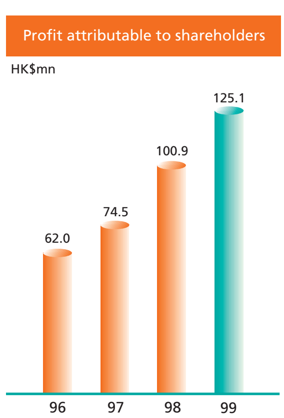
Lerado enjoys a leading position in the production of strollers, especially in the US market. For the year ended 31st December, 1999, the Group sold a total of 3.4 million pieces of strollers worldwide, 2.6 million pieces of which were shipped to the US.

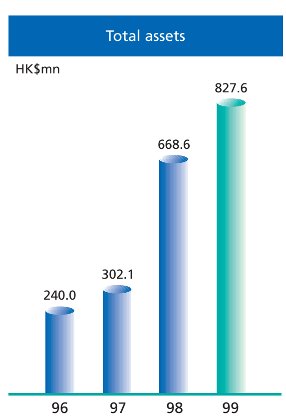
To fully utilise our capacity, both in terms of production facility and expertise, we intend to increase the proportion of higher-priced strollers to maximise return.

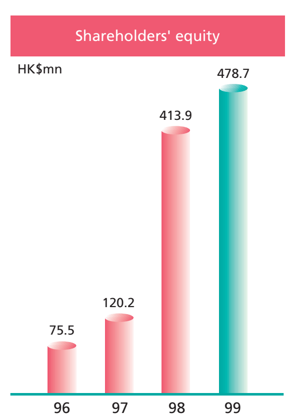
Beds followed strollers to be the second largest revenue contributor. Turnover rose by 45.8% to HK$124.3 million, accounting 11.7% of the total turnover.

With the trial production and introduction of new products such as feeding bottles and nipples, battery operated ride-on cars, we will gradually broaden our source of revenue, benefiting the long-term development of the Group.









WIDENED PROFIT MARGIN ATTRIBUTABLE TO EFFECTIVE COST CONTROL

With our continued effort in cost control, we have successfully widened our gross profit margin from 27.5% in 1998 to 28.4% in the year under review. By placing bulk orders, we enjoy the economies of scale and higher bargaining power in dealing with suppliers. Since we are in a good financial position, we are able to obtain cash discounts from suppliers by early settlement.

STRONG CAPABILITIES IN RESEARCH & DEVELOPMENT

We have placed strong emphasis on R&D during the year under review and devoted 1.8% of the total turnover to develop a series of innovative and price competitive products. Small as the percentage may seem, it amounted to HK$19.2 million. During the year under review, 44 patents were newly registered, with over a further of 110 applications submitted in various countries.

We have a diversified product portfolio, including different models of strollers, beds, soft goods and accessory products. Taking strollers as an example, we have over 200 models with retail prices ranging from approximately US$20–345. Such a wide range of products coupled with an extensive sales network in over 50 countries enables us to tap into opportunities in almost every potential market.

In addition to conventional infant products, we have also launched three new models of battery operated ride-on cars. As product safety is always our top priority, all these models are of superior quality, meeting international safety standards. Depending on market response, we will continue to design new models.

EFFICIENT SALES AND MARKETING

During the year under review, our goods, either in our own brand name or produced under the brand name of other manufacturers, were sold to over 80 customers worldwide, including brand name owners, importer and trading agents. It is worth noting that the top five infant brands in the US continue to be among our customers.

As for the PRC, an emerging market with attractive growth potential, we have made further inroads to develop the brand awareness of our "Angel" brand. Despite the economic slowdown in South America and Australia, we will also seize every up-and-coming opportunity in these countries.

AHEAD OF COMPETITION

Most of our customers are in sophisticated markets such as the US and Western Europe. We compete with our competitors, the majority of which are based in Europe and PRC, mainly in terms of product quality, design, features, and safety. Our mainland production plant is located strategically next to a number of raw materials suppliers, thus enabling us to establish an efficient supplier network that speeds up production. Our efforts in cost control allow us to produce quality products at a lower cost, enabling us to retain our competitiveness to European produced products even after transportation costs. With our innovation in product design and features, strict monitor of quality and safety and continued efforts in cost control, our products have firmly established its competitive edge in the market and cannot be easily replaced by other manufacturers.

RAPID EXPANSION

To cope with our rapid expansion and to take advantage of adjustment in property prices, we have relocated our headquarters to a new office with salesable floor area of 6,000sq.ft located at Shun Tak Centre in Hong Kong.

Over the years, we have gained recognition 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.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERINGS

The net proceeds from the Group's initial public offerings in 1998 have been utilized according to the plans as mentioned in our prospectus dated 8th December, 1998. Apart from the HK$52 million set aside to meet the Group's general capital requirements, a total of HK$26 million, up to 31st December, 1999, were applied to upgrade the Group's existing production facilities and to purchase new machinery and mouldings for capacity expansion, as well as for the production of battery operated ride-on cars. In addition, HK$39 million were used to repay bank borrowings. The remaining balance of the proceeds will be further utilized according to schedule.

YEAR 2000 ISSUE

The Group's compliance program regarding Year 2000 compliance efforts has been disclosed previously in the 1999 Annual Report. The program was completed on schedule with all the critical system of the Group being Year 2000 compliant. The Group has successfully passed through the millenium rollover, with smooth transition on the major critical dates of 31st December, 1999 and 29th February, 2000. The Group does not expect any significant problem which may arise from the Year 2000 Issue.

The Group has, within our budget for the Year 2000 Issue, incurred approximately HK$1.9 million. This comprised mainly acquisitions of new computer hardware and software, which are treated as capital expenditure and are amortized over their expected useful lives. The Group has no further material commitment relating to this issue.