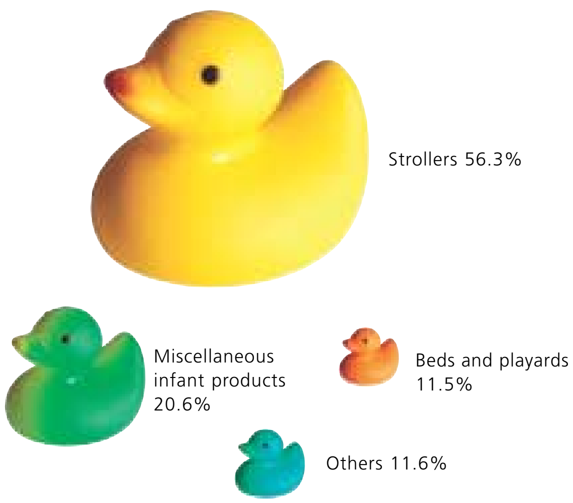
Management Discussion and Analysis

Turnover by Product

For the year ended 31st December

2003



2002

OVERVIEW

The Group recorded a consolidated turnover of HK$1,149.9 million in 2003, an increase of 12.3% over the previous year. The Group's global strategy, which emphasises a diversified market portfolio, together with an expanded product mix proved to be essential during a challenging period.

Turnover was boosted by the increasing outsourcing trend among key European customers. At the same time, production of battery-operated ride-on cars for a premium US customer opened a new source of revenue and further strengthened the Group's fundamentals.

As a result of the Iraqi War and its ensuing effects on the global economy, the Group faced a challenging operating environment last year. The high rise in oil price last year led to the soaring costs of most oil-related materials. The Group's gross margin was inevitably hampered by the increased costs of plastics and metal tubes, resulting in a drop from 31.4% in 2002 to 27.4% last year. Taking into account the property revaluation deficit of HK$5.2 million and the unrealised holding loss on other investments of HK$8.3 million, the Group reported a net profit of HK$81.2 million (2002: HK$92.4 million) in the year under review. Despite, the Group managed to maintain an EBITDA of HK$146.1 million as compared with HK$144.0 million in 2002.

GLOBAL SALES & MARKETING STRATEGY

Stroller, a necessity in many developed countries and also the Group's core product, recorded a mild growth of 4.5% over 2002. Sales revenue amounted to HK$647.4 million and contributed 56.6% to the Group's total turnover. A total of 3.3 million units were sold in 2003.

However, as a result of reduced household travel stemming from the Iraqi War and the yet soft economic condition, sales of the Group's second largest product category, beds and playards, which are most desirable for travelling with children, decreased 9.1%, amounting to HK$132.6 million.

Performance of miscellaneous infant products, which included mainly soft goods, high chairs, bouncers and walkers, etc., was encouraging in 2003, posting an increase of 21.8% in turnover. Sales of this category amounted to HK$236.9 million and was contributing to a greater portion of the Group's total turnover.

Lerado is dedicated to strengthen its leading position by developing and broadening its income sources. In the year under review, leveraging on its strong design and manufacturing capability, the Group successfully negotiated with a new and potential US customer for the manufacture of battery-operated ride-on cars on an ODM basis. Shipment commenced in mid 2003 and satisfactory performance was achieved in its first year of production under an improving economic prospect which encouraged the consumption of toys. Furthermore, commencement of production of infant car seats in late 2003 is expected to further diversify and solidify the Group's revenue model and serve as another growth engine in the medium term.

Geographically, all of the Group's markets showed rebound and recorded growth in different extents. The yet soft US market showed a mild increase of 4.3% in turnover to HK$603.4 million, contributing over 50% to the Group's total sales.

Attributed to the Group's efforts in developing a globally balanced market mix and its notable capability, together with the increased outsourcing production trend in Europe taking advantage of the favourable exchange rates, the Europe market registered a 17.9% sales growth over 2002 to HK$286.7 million and accounted for 24.9% of the Group's total turnover in 2003.

The Group continued to enjoy growing income from Australia, South America and other markets which accounted for 4.6%, 4.7% and 13.2% of the consolidated turnover respectively. In addition, to maintain presence of the Group's own brand, 'Angel', in the PRC and to achieve higher operational efficiency, the Group restructured its distribution network. By continuously refining its strategy in the PRC market, the Group can better concentrate its resources to strengthen the "Angel" brand and to capture opportunities arising from the flourishing economy. On retail side, due to reshuffle of tenant mix in the shopping mall in Shenzhen, the Group's one-stop infant products shop, "Peek-a-boo", was closed in April 2003.

CAPITAL EXPENDITURE

HK$72.0 million was spent on capital expenditure in 2003, including production facilities for the new product lines of infant car seats and battery-operated ride-on cars. In addition, the Group allocated part of its extended plant for its major clients for customised product line purpose in response to the market trend for higher confidentiality. Such production facility planning will be continued in order to provide more attentive services and to foster closer relationship with its long-term clients. In addition, the reorganised floor plan also benefits the Group from further enhanced operation efficiency and raises productivity.

WORKFORCE

As at 31st December, 2003, the Group had a dedicated workforce of over 7,200 staff members, of which 7,000 worked in the PRC production sites. Employees' remuneration is consistent with the industry practice. Apart from basic salaries, discretionary bonus and contribution to retirement funds are 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 had a total cash and bank balance of HK$95.1 million as at 31st December, 2003, with the majority of which in Hong Kong and US currencies. After deducting total borrowings of HK$15.3 million, the Group recorded a net cash balance of HK$79.8 million as compared to HK$124.8 million as at 31st December, 2002. The borrowings, bearing interest at prevailing market rates, were short term bank loans due within one year. At 31st December, 2003, The Group's gearing ratio, expressing as total bank borrowings to shareholders' fund, was 0.02 (2002: 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 31st December, 2003, the Group had net current assets of HK$225.5 million (2002: HK$221.6 million) and a current ratio of 1.8 (2002: 2.0). Trade receivable turnover and inventory turnover were 58.9 days (2002: 63.5 days) and 46.2 days (2002: 44.5 days) respectively.

CHARGES ON GROUP ASSETS

As at 31st December, 2003, other receivables of HK$34.8 million were pledged to a bank to secure bank borrowings of HK$15.3 million.

EXCHANGE RISK EXPOSURE AND CONTINGENT LIABILITIES

The Group's sales are principally denominated in US dollars while purchases are transacted 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, 2003, the Group had no significant contingent liabilities.