management discussion and analysis

Review of Results

The Group's consolidated turnover for the year 2000 was HK$1,209 million, representing a 126% increase over that of the previous year. The turnover upsurge was mainly derived from the development of new customer base in Europe and increase in orders from major customers.

Average gross profit margins of the Group increased to 31%. This was mainly attributed to the benefits of overall economies of scale and vertical integrations. Profit attributable to shareholders increased by 21% to HK$36 million. The net profit margin was lower than that of the previous year due to significant investment in marketing and distribution in relation to the Group's overseas distribution channels. Regarding this, the Group has begun to review its strategy and has prepared to adjust its business direction, to enhance its efficiency and to strengthen its performance. During 2000, the US market remained the Group's largest single market, and accounted for approximately 69% of the Group's total turnover. Sales to USA amounted to HK$844 million which was 95% more than that of the previous year. Apart from the Group's traditional product lines, water gardening and candle products launched during the year were well received in USA.

In the US, the Group continued its strategy of establishing strong relationship with large chain stores of relevant products to secure volume and stable orders. According to the Group's estimation, Peaktop is the largest supplier of tabletop fountains to the US market.

In addition, the Group acquired 90% interest in an Australian company specializing in marketing and distribution of home and garden decorative products. Although contributions from this company were relatively small when compared to the Group's overall sales, the Group's interest therein allows it to set a strong and profitable foothold in the South Pacific region.

In May 2000, the Group established its own pump manufacturing operation. The venture is building a new factory in Zhongshan, Guangdong Province, the PRC for the manufacture of water pumps. The new plant is scheduled for completion in August 2001 and will have an annual capacity of 30 million pieces of water pumps when it becomes fully operational. Throughput from the Zhongshan plant will be used for both internal consumption and external sales. The completion of the Zhongshan plant will enable the Group to become fully self-support in the supply of water pumps for its fountain products. This will also allow the Group to sell its water pumps to third parties, and for distribution through its own distribution channel to Europe. Capitalizing on awareness of the Group's brand name in Europe, the Group has begun to manufacture pump products in Zhongshan for marketing in Europe. The Group expects that the increased sales of products under its own brand name will serve to improve its operating profit and net profit margin.

Through upstream integration with the Zhongshan operation, the Group is able to lower cost and improve sales and at the same time to penetrate into the electrical appliance market. Apart from continuing

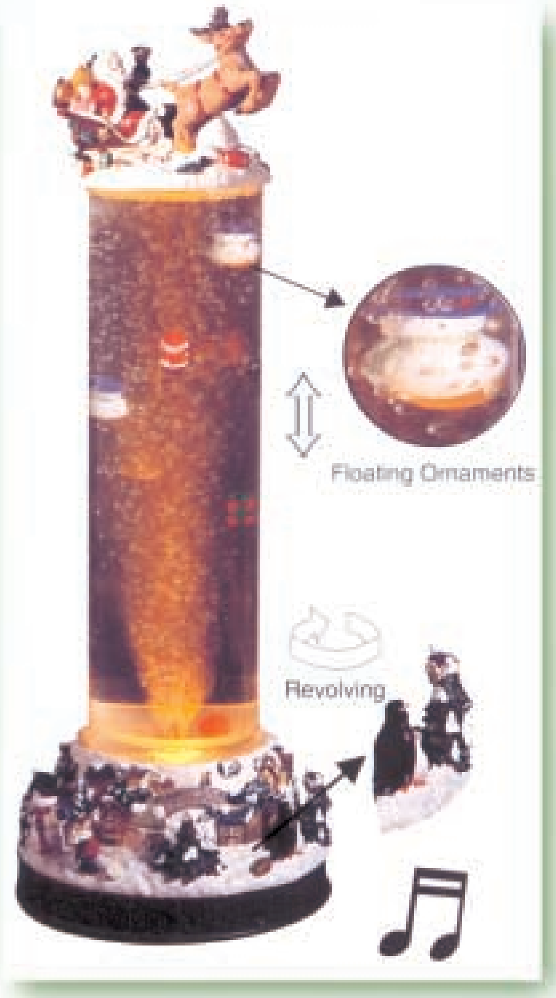
its development of latest technology and products for the water pump business, the Group will begin to develop sockets, electrical cable, adaptor and other related products.

The Group has completed the construction of a six-storey factory, adjacent to its existing facility in Baoan, Guangdong Province, the PRC. The Group's overall capacity has been increased by 25% with the inauguration of the new factory at the end of 2000. The Group has been able to enjoy higher cost efficiencies and economies of scale through its capacity expansion.

The Group believes that special features and new products are dominant forces for continuous growth and improvement of margins and this could only be possible with a strong research and development division. To meet this end, the Group has set up a R&D center in Italy, catering to the trend and need of European customers. The Group has also expanded its R&D centre in the US to support its enlarged product range and customer base. The two other R&D teams in Germany and the PRC continued to support the Group in fine-tuning of its manufacturing process and upgrading of production technology.

Development Strategy

In regard to product development, the Group will broaden the range of raw materials, for use in the manufacture of its products, to include plastic injection, metal, ceramic, and polyurethane. We will also develop products combining more than one material, as well as functional and technical products, including



products with Integrated Circuit, lighting and products with revolving functions. We aim to combine the technique of mass production with artistic craftsmanship.

We will focus on the development of plastic injection products as one of our production strategies by increasing the relative proportion of plastic components in our giftware and garden products. We will start developing innovative household product and office stationery which will be launched in 2002. We anticipate the plastic injection product line to account for a major part of the Group's total turnover in five years' time.

In the development of sales and marketing channel, we will maintain our existing OEM customers base while simultaneously developing specific program of up-scale lifestyle decoration products. These products will be marketed and distributed under the Group's own brand names as a basis for future strategic growth in international markets.

To reinforce our core competitiveness, we will focus on R&D and production efficiency by maintaining our leading position in design and development of new products. By integrating our sales and marketing strength with the R&D centers around the world, we will be able to develop products meeting customer needs. To strengthen our production facilities in the PRC, we will fine tune our logistics and supply network, and to subcontract to satellite factories to produce low-end products or components, while developing the Group into a quality control and integration center.

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We will continue to explore the possibility of establishing strategic alliance with entities that possess important distribution channels and market share, and can provide synergetic effect to the Group's products. The ideal allies should also have strong R&D capability and their own brand names, as well as products using different raw material but related to the Group's product line.

Liquidity and financial resources

The Group generally finances its operation with internally generated cash flows and banking facilities. As at 31 December 2000, the Group had aggregate banking facilities of approximately HK$375 million of which HK$284 million was utilized. The Group's cash and bank balance at that date amounted to approximately HK$37 million. This together with the unutilized banking facilities, enable the Group to discharge its debts and to fund its operation expenditure.

As at 31 December, 2000 the Group's total borrowing amounted to approximately HK$292 million; gearing ratio defined as total borrowings as a percentage of total assets at the same date was 42%.

Employees and remuneration policies

As at 31 December 2000, the Group employed a workforce of approximately 10,000. Total staff costs incurred during the year amounted to HK$192 million. The Group offers a comprehensive remuneration and benefit package to its employees and remuneration policies are reviewed by the management on a regular basis.

The Group set up a defined contribution scheme in Hong Kong on 1 December 2000 to provide retirement benefits to employees. The Group also adopts a share option scheme which structure to take into account the comparable remuneration level of the market.