On behalf of the Board of Directors, I am pleased to present the Annual Report 2001 of the Company and its subsidiaries (the "Group") containing the results for the financial year ended 30 April 2001 ("FY2001").

RESULTS

Notwithstanding the tough market conditions and increasingly competitive environment, the Group was able to maintain the turnover at last year level. The consolidated turnover of the Group for the FY2001 was HK$753 million, representing a slight decrease of 0.7% from the consolidated turnover of HK$758 million in the previous financial year ("FY2000"). The Group's operating loss before taxation was HK$24 million. (FY2000: Loss of HK$65 million). Loss per share for FY2001 amounted to 0.69 cents, compared to the adjusted loss per share of 2.78 cents for FY2000 (restated for the Rights Shares and Bonus Shares issued on 17 November 2000).

DIVIDENDS

No dividend was declared or paid by the Company for the financial year ended 30 April 2001 (FY2000: Nil).

BUSINESS REVIEW

The China market excluding Hong Kong (the "PRC market") accounted for 52% of the Group's turnover during the year under review, an approximately 7% increase as compared to last year. On the other hand, turnover attributed to the Hong Kong market dropped from 53% of the Group's turnover in FY2000 to 45% in the year.

Manufacturing and trading of office furniture, which contributed approximately 83% of the Group's turnover in FY2001, remained the core business of the Group. The sales of kitchen cabinet accounted for approximately 7% of the Group's turnover whereas the trading of building materials accounted for 10%.

In terms of office furniture sales, the moderate expansion of the PRC market contrasted clearly with the shrinkage of the Hong Kong market. This was vividly evidenced by an increase of HK$48 million in sales turnover in the PRC market (representing a growth of 17% compared to last year) against a drop of HK$44 million in the Hong Kong market (representing a drop of 14% compared to last year).

Recorded sales from our kitchen cabinet division decreased by 31% due to the postponement of deliveries requested by our customers to match with delayed property development projects caused by the stagnant market condition of the residential property market in Hong Kong.

Due to the slow recovery of the Hong Kong economy and the obvious slowdown of the US economy, the overall market sentiment in Hong Kong was unfavourable to the consumer goods market. Besides, customers' requirements towards price, quality, service, and design of products were more stringent than ever and customers became more and more cost conscious. The adverse market conditions coupled with "copycats" problem have triggered a fierce competition and further squeezed the profit margin.

Not surprisingly, the "copycats" problem was more serious in the Mainland China. The adverse impact of the "copycats", both to the Group's financial and brand loyalty, has hindered the growth of office furniture sales of the Group in the PRC market. Accordingly, we have placed a lot of resources with a view to strike out all "copycats" identified.

In addition, continuous expansion of dealership network is considered the right move in the PRC market in order to maintain the Group's leading position in the industry. To date, the Group has franchise businesses in over 50 prominent cities in different provinces of China, from Haikou in the South to Haerbin in the North, and Shanghai in the East to Chengdu in the West.

To improve price competitiveness while maintaining quality, we have adopted effective measures in supply chain management and continued to source raw materials at reasonable price without compromising the quality.

In August 2000, the Group's wholly-owned subsidiary, Rising Top Limited, acquired 16.5% interests in iD Innovation ("iDI"). iDI is a private company specializing in designing and producing CD and DVD in different shapes and sizes known as iD card. It has recently produced the iD cards for the Beijing's bid to host the 2008 Olympic Game. It has also procured contracts from several theme parks in China and some big orders in Japan and overseas. The Board considers iDI is at the developing stage and in view of the growing market potential, iDI should be able to attain a profitable position in next few years.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's major source of funds was cash flows generated from its operating activities and financing from the banks and shareholders.

The net proceeds of the Rights Issue of approximately HK$49 million which was intended to be used for the business project in the Mainland China – the "Total Office Solution (TOS)" has substantially been held as bank deposit during the year. Due to the unfavourable market sentiments resulted from the downturn of the Internet business and the delay of China's accession to the World Trade Organisation ("WTO"), the Board has slowed down the project development in order to avoid unnecessary business risk.

The directors continued to closely monitor the Group's borrowings to ensure that these have been maintained at an acceptable level. The gearing ratio as measured by total bank borrowings to shareholders' funds was 11% for the year (FY2000: 26%). As at the balance sheet date, the Group's total cash on hand amounted to

HK$86 million (FY2000: HK$93 million) and total bank borrowings was HK$60 million (FY2000: HK$124 million). The bank borrowings were secured by bank deposits of HK$6 million (FY2000: nil) and legal charges on the properties of the Group with an aggregate net book value of HK$182 million (FY2000: HK$181 million). The directors consider that the ability of the Group to repay all its debt remains excellent.

Part of the purchase of the Group was denominated in foreign currencies. The Group had arranged some leveraged foreign exchange trading contracts for hedging against these trade commitments.

EMPLOYEES AND REMUNERATION POLICY

As at 30 April 2001, the Group employed approximately 300 staff (30 April 2000: 360) in Hong Kong and had approximately 2,000 employees (30 April 2000: 1,800) in the Mainland China.

The Group continues to employ, promote and reward its staff based upon their performance, experience and potential. The Group also consistently adopts a policy of employment enrichment and gives opportunities to existing staff whenever possible.

In addition to the basic salary and various medical insurance plans, the Group rewards its employees by way of performance related bonuses and share option for certain qualifying employees. The Group has also established pension schemes in accordance with the Occupational Retirement Scheme Ordinance and the Mandatory Provident Fund Ordinance.

PROSPECTS

In view of the slowdown of the US economy, many US companies are looking for investment opportunities in Asian Pacific region, in particular China, as she is one of the fastest growing countries in the region. China's accession to the WTO in near future is likely to be the catalyst for these investors. These investors may bring in demand for office premises that will in turn lead to demands for office furniture and building materials.

Notwithstanding the expected opportunities, the Board however takes a pragmatic view that China's accession to the WTO will also bring challenges to the Group. Inevitably, enterprises in China including Lamex will soon face keen competition from the World's best and brightest enterprises. The Board believes that the only way for enterprises to meet this challenge is to compete on their competitive advantages. As Lamex's competitive advantages lie upon its strong manufacturing base and extensive distribution network, our future strategies will be building upon these competitive advantages by developing, manufacturing and distributing our products through our comprehensive production facilities and extensive distribution network.

Our mission of the year – "You and I Back to Back" signifies our belief that Lamex and our customers are complementary to each other. Lamex is committed to provide more ergonomically designed products so as to enable our customers to have a good working environment. On the other hand, with customers' continuous support, Lamex is able to persistently pursue market research, product development, and quality assurance and to provide innovative products to satisfy customer needs.

Nevertheless, the Board is mindful that the Hong Kong market is not expected to improve much in the coming years in light of the slow recovery of the Hong Kong economy. Competition in office furniture and kitchen cabinet industry will remain keen and we expect the profit margin may be further squeezed.

Consequently, apart from consolidating the core business, the Board considers that it is the right timing for the Group to diversify its investments and broaden its revenue base by developing new lines of business. For the benefits of the shareholders and the Company as a whole, the Board will explore other investment opportunities in different sectors.

APPRECIATION

Finally, on behalf of the Board, I would like to express our appreciation to the management team and staff for their dedicated effort and hard work to maintain the Group's leading position in office furniture industry notwithstanding the keen competition and tough market conditions.

The Board would also like to extend its sincere appreciation to the bankers, suppliers, customers, shareholders and all other business partners for their continued support to the Group during these years.

The Board announces that Mr. Kok Kin Hok, Mr. Lam Bing Sum have been appointed as executive Directors, Mr. Hou Ziqiang has been appointed as non-executive Director, Dr. Yang Shiqin, Dr. Li Jianhua and Mr. Wang Shunian have been appointed as independent non-executive Directors with effect from 8 August 2001.

The Board also announces that Ms. Chow Siu Fan, Farida, Mr. Lam, Andy Siu Wing J.P., Mr. Ng Chung Shu, Andy, Mr. Lee Kam Chee, Donald, Ms. Chan Kit Yee, Joyce and Mr. Hung Kim Yung, Dayton have resigned from the Board with effect from 8 August 2001 but will remain as directors of the respective subsidiary companies to continue managing the operation of the current business activities. I trust all of them will continue devoting their best effort for the Group.

Dato Dr. Tan Tiong Hong and Mr. Zhang Yunkun have also resigned from the Board as independent non-executive Directors with effect from 8 August 2001. On behalf of the Board, I would like to thank both of them for their contribution and services rendered to the Group in the past years.

I also take this opportunity to welcome our new Board members and wish them an excellent career in Lamex.

By Order of the Board

Kok Kin Hok
Chairman

Hong Kong, 24 August 2001