



To Our Shareholders,

The turnover of Peaktop for the year ended 31 December 2001 was HK\$709.2 million, representing a 41% decline as compared to the corresponding period in 2000. This was the first financial year in which the Group recorded a loss since its listing in January 1998. The net loss attributable to shareholders was HK\$42.8 million.

### REVIEW OF RESULTS

The Group was confronted with severe challenges because of global economic recession. The main reasons attributed to the loss in 2001 were:

- (1) Impact of the "911" incident on the global economy led to the sudden decline in or last-minute cancellation of sales orders, particularly with USA, being the Group's principal market.
- (2) Peaktop used to engage mainly in OEM business. To enhance its market leadership for the long-term, Peaktop started to actively invest in the expansion of its overseas sales network in USA, Australia, Italy, Germany and other regions of Europe. This strategy was initiated two years ago, with a view to reducing the proportion of its OEM business and creating opportunities for marketing Peaktop branded products through its own market distribution channels. Peaktop anticipated that considerable loss was inevitable during the initial two to three years upon the establishment or merger of its overseas subsidiaries, as they had to adapt to the Group's overall strategy. As the loss was anticipated in the original plan to establish or merge overseas subsidiaries, it was regarded as initial investment made by Peaktop to develop its own brand name and overseas distribution outlets. These investments have not deviated from the Group's core direction and development strategy.

- (3) The Group's original backbone operations in Asia, including Taiwan, Hong Kong and Mainland China, continued to sustain profit and development in spite of the difficult economic environment.

#### MAJOR EVENTS IN 2001

- (1) Having a total construction area of 133,781 square meters, the construction of the giftware factory in Shenzhen, PRC, was fully completed in 2001. Building Ownership Certificates relevant to buildings of the 68,138-square-meter factory were obtained on 1 February 2002. The existing production facilities can satisfy the development needs in the few years to come.
- (2) Having a total construction area of 22,269 square meters, the construction of the water-pump factory in Zhongshan, China was completed at the end of 2001. And the Land and Property Certificate of the factory was granted on 31 January 2002.
- (3) Sunterra, LLC, a joint-investment company, was established in the US by the Group in collaboration with LR Nelson Corporation ("Nelson") at the end of November 2001 to offer in North America one-stop-shop sales and promotional services for pond and gardening products designed and manufactured by Peaktop.
- (4) Private placement to several independent investors in the equity market by the Group at the end of December 2001. 66,710,000 ordinary shares with a par value of HK\$0.10/share were issued at the beginning of January 2002, generating approximately HK\$22,000,000 in capital.

On 18 April 2002, The Stock Exchange of Hong Kong Limited ("the Stock Exchange") granted its permission to deal and trade the new shares being placed pursuant to the Group's second placing. 78,000,000 new shares had been allotted on 24 April, 2002 and thus new share capital of HK\$23,400,000 was generated.

- (5) To accommodate the rapid growth of the Group, Peaktop used to finance part of its long-term investment with self-generated funds and short-term loans. Upon concerted efforts, in March and April 2002, Peaktop mortgaged its buildings in Shenzhen and Zhongshan that had respectively been granted ownership certificates for long-term bank loans in order to improve the structure and yield of working capital.
- (6) The Group closed all production lines in Germany and shifted the production to Mainland China and to the newly established water pump production lines in Italy. The Group's subsidiary in Italy now plays a dual role: being a manufacturing facility as well as a design, research and development ("R&D") center. Peaktop has invested heavily in R&D, including expenditure incurred



in the transfer of production technology from Germany to China, and costs incurred during the last two years in the R&D of water pumps and aquaria. At present, the R&D of more than 50 different types of water pumps and aquaria is expected to be completed before the end of April 2002 with all international safety recognitions obtained and tests passed. It is anticipated that mass production will formally commence in May 2002. By then, a new wave of excitement will be brought to the market.

### EXPANDING OVERSEAS SALES NETWORKS FOR THE GROUP'S BRANDED PRODUCTS

#### **Silkroadgifts Inc. (USA)**

Silkroadgifts, a subsidiary established in USA for the purpose of developing sales channels for the Group, is not only just one of the Group's sales outposts in the American market but also one of the major product design and R&D centers located the closest to the US market and customers. Fully integrated with manufacturing units in China, Silkroadgifts can provide customers with more innovative and high-quality products. The turnover of Silkroadgifts for the coming year is expected to grow three times, and Peaktop is confident of this subsidiary's promising future.

#### **Sunterra LLC (USA)**

To more proactively master the US market and expand our garden lifestyle business, the Group collaborated with Nelson, a highly reputable company and market leader in the North American market of garden irrigation products. Peaktop and Nelson resolved to jointly invest in the establishment of Sunterra in November 2001, for the purpose of selling pond and gardening products manufactured by the Group in North America. Through combining the principal resources of Nelson and Peaktop, that is, Nelson's strong relationship with large chain stores and its specialty counter sales concept and the Group's manufacturing technology, not only will pond and gardening products manufactured by the Group gradually penetrate the US market, other products of the Group will also be offered to large customers. I am fully confident of our collaboration and investment.

#### **Waterwerks Pty. Ltd. (Australia)**

The sales turnover of Waterwerks, the Group's sales operation in Australia for pond and garden lifestyle products, grew steadily at high speed in the past year, and it was already generating profit. The Company has wide distribution throughout Australia and New Zealand, and is a leading key supplier of Peaktop manufactured products to all mainstream and specialty sales channels.

#### **Peaktop Technologies s.r.l. (Italy)**

This is a subsidiary established in Italy at the end of 2000. Apart from its original function as a design R&D center, this subsidiary also operates as the Group's manufacturing center in Europe. In the past, many of Peaktop's products were manufactured in China and then shipped to Europe. The cost for shipping bulky products from China to overseas accounted for too high a proportion of the overall

cost. The Group therefore endeavors to combine Italian designs and moulds developed in China. And bulky products are hence manufactured in Italy and sold in Europe to lower cost and shorten delivery lead time. As compared to 2001, the sales turnover of this Italian subsidiary is expected to grow five times and turnaround in 2002.

#### **Heissner AG (Germany)**

After two years of reorganization and upon the guidance of its German consultants, Heissner, which possesses a renowned brand name synonymous with long history in Germany, moved its production lines to China and Italy. Certain types of products the sales of which accounted for just a small proportion of the total turnover were deleted, product types were reduced to just one third of their original. This had not only enabled the lowering of operation cost, but also the efficient control of operational costs and enhancement of profitability. After shedding off the burden of operation cost, the subsidiary is expected to breakeven in 2002 and within a short time thereafter, contributes profit to the Group if sales can sustain at a consistent level of growth.

### **DEVELOPMENT STRATEGY**

- (1) To ward off competitor imitation and price-war, the Group will continue to focus on the development of its business in gifts and household products :
  - (i) multi-functional products : the development of more advanced functional products such as products that comprise of mechanical structure, electronic components, rotatory motions, lighting or sound effects.
  - (ii) Products made of compound materials : materials manufactured by the Group such as resin, candles, plastic injections and water pumps will be used together with other materials that include as metal, wood and ceramics in the continuous development of reasonably-priced but high value products.
- (2) To capitalize on Peaktop's core competitiveness in water pumps, fountains, water lamps, garden decorations and filtration systems, the Group will continue to develop more garden, pond and gardening products that combine plastic injection and polyresin for new markets. Also, through specialty counter sales, the Group will endeavor to strengthen its market share and leading position with products manufactured under its own brand name.
- (3) The Group has established a plastic injection division. Premised on its R&D and design capability for gifts and household products, the Group will integrate its design capabilities in China and Italy to develop wide ranges of



plastic injection products. This will help the Group to further expand this business by supplying customers with plastic injection products and moulds.

### ■ PROSPECTS ■

Efforts spent in the last two years to create a stronghold in business expansion and product development have gradually come to fruition. After the operation reorganization, I believe that the Group has substantially rebounded from the bottom; marked improvement is projected for the coming financial year. The situation in early 2002 has gradually improved. Orders from US customers begin to stabilize. The US Consumers Confidence Index rose again to 110 in March, which was higher than market prediction and the highest since past eight months. At present, the Group endeavors to recoup rapidly the loss incurred and is confident of its ability to resume profitability. Taking the US market as an example, orders for retail products sold in the forth quarter of a year will usually be confirmed by January to February. But owing to the impact of the 911 incident, the market becomes extremely conservative and hence the order-placing period is prolonged to the end of April. However, business units of the Group are doing their best to expand the market of existing and newly acquired customers, and at the same time coordinating themselves with design and manufacturing units in Asia to continuously launch new products, with a view to penetrating every layer of the new market.

After reorganization and repositioning, the pre-defined mode and operation focus of overseas subsidiaries have successfully adapted to the Group's overall strategy. The subsidiaries are anticipated to make profits in 2002.

As for investment, Peaktop will adopt more prudent yet optimistic strategies and plans for development and continue to establish win-win strategic alliances to enable a rapid business recovery. In general, the Group will continue to adopt conservative and steady growth strategies, through product and market transformation, reinforcement of its competitive edge. The Group is committed to create more wealth for its shareholders.

### ■ ACKNOWLEDGMENT ■

On behalf of the Group, I would like to extend my heartfelt gratitude to all shareholders, customers, business associates and suppliers for their relentless support, and I wish our continuous cooperation in the coming year will lead us to remarkable results. I would also like to thank for the dedication and diligence of the Group's employees to help us manage through challenges during 2001.

**Lin Chun Kuei**

*Chairman*

Hong Kong, 25 April 2002