REVIEW OF RESULTS

The Group's consolidated turnover for year 2001 was HK$709.2 million, representing a decline of 41% as compared to that of year 2000. Average gross profit margin of the Group increased slightly to 33%.

Loss attributable to shareholders for year 2001 amounted to HK$42.8 million, the first loss making year since the Group listed its share in year 1998, which was mainly due to the reasons that the Group invested heavily on developing new distribution channels, brand names and product research and development ("R & D"). In the past two years, the Group made several acquisitions, and the U.S. and European subsidiaries are currently at the stage of growth.

For year 2001, the U.S. and Europe remained the Group's largest markets.

Sales to the United States amounted to HK$399.4 million (Year 2000: HK$844.2 million), representing 56% of the Group's total turnover. Owing mainly to the global recession that unfurled at the end of year 2000 and the "911" terrorist attack that simultaneously traumatized the U.S. economy, the consumer spending dropped significantly, which subsequently made the U.S. turnover dropped by 53%, as compared to that of year 2000.

Sales to Europe amounted to HK$245.0 million (2000: HK$257.1 million), representing 35% of the Group's total turnover. During the European market's peak season from March to May in 2001, the exceptionally cold and rainy weather and strong market competition had made the European turnover dropped slightly by 5%, as compared to that of year 2000.

FINANCIAL AND MANAGEMENT REVIEW

Cost Control

For year 2001, the Group endeavoured to minimize cost of sales and maximize gross profit margin through the continuous search for new suppliers and negotiation with existing suppliers for more favourable terms. The Group's gross profit rose slightly from 31% in year 2000 to 33% in year 2001 for the following reasons :

(1) Better terms of purchase offered by suppliers;

(2) Lowering of the price of certain raw materials following the downturn of the global economy;

(3) Successful mastery by the Group, after years of experience in product development, of the application of relevant technologies to more effectively control production costs.

Liquidity, Financial Resources and Finance Cost

The Group finances its operation with internally generated cash flows, banking facilities and issues of new shares. As at 31 December 2001, the Group had aggregate available banking facilities of HK$391.0 million, of which HK$216.3 million was utilized. The Group's cash and bank balance at that date amounted to HK$17.9 million. This together with unutilized banking facilities will enable the Group to fund its operation needs.

As at 31 December 2001, the Group's current ratio and quick ratio were 0.81 and 0.46 respectively. At that date, the Group's total borrowing amounted to HK$225.4 million (HK$292.8 million as at 31 December 2000) which included short-term borrowing and long-term borrowing of HK$179.5 million and HK$45.9 million respectively, with a gearing ratio, defined as total borrowing as percentage of total assets, of 38% (42% as at 31 December 2000).



During year 2001, the Group incurred total finance costs of HK$21.7 million (Year 2000: HK$22.0 million).

Confronted with severe challenges and uncertain economic factors, the Group continues to be prudent in financial management. Before the end of year 2002, the Group expects to raise its current ratio and continues to reduce its gearing ratio.

Capital Expenditure

The Group incurred a total of capital expenditure of HK$65.4 million in year 2001, which included: 1. HK$33.9 million for expanding the manufacturing plants in China; 2. HK$11.1 million for acquiring machinery, office and production equipment in China; 3. HK$9.6 million for acquiring machinery and equipment in Europe; and 4. HK$10.8 million for acquiring other fixed assets.

Placements of New Shares

In view of the loss incurred this year and the need to cope with future development plans, and with the continuous support from major banks and shareholders, the Group decided to place new shares to bring in additional capital. The first placing of new shares was accomplished in early January 2002, generating a total of HK$22.0 million, which would be used for the following purposes:

(1) HK$8.0 million for investment in new projects in the PRC and the United States;

(2) HK$8.0 million for the expansion of the Group's production facilities in the PRC;

(3) HK$6.0 million as additional operational funds for the Group.

As for the second placing, Stock Exchange on 18 April 2002 granted the listing of, and permission to deal in shares. 78,000,000 new shares had been allotted on 24 April, 2002 which had generated a total of HK$23.4 million. Proceeds from the offer would be used for the following purposes:

(1) HK$6.0 million for capital investment in raw materials and distributioin networks;

(2) HK$9.0 million for establishing assembly line in Italy and expanding production facilities in the PRC;

(3) HK$4.0 million for the R&D of new products; and

(4) HK$4.4 million for purchasing new raw materials and operation funds for the Group.

Proceeds obtained from the aforesaid new-share placements will directly and effectively increase cash flow, enhance the capital base and lower the debt ratio. In the long-term, the Group will strive to diversify financing channels through banks and the capital market and maintain an appropriate gearing ratio to ensure stability of its capital structure.

Foreign Exchange Exposure

For year 2001, the Group's major revenue was denominated in US dollar, Euro and Deutch Mark; banking facilities repayment and purchase were made essentially with the corresponding currencies and Renminbi. During the year under review, the currencies were relatively stable. The Group was exposed to very low risks of exchange fluctuations. Following the full circulation of the Euro in the market in early 2002, the Group's exchange risks in the European market have been reduced accordingly.

The Group will continue to discuss hedging tools with banks and simultaneously endeavor to have its primary revenue settled in US dollar or Euro to minimize exchange risks possibly faced by the entire Group owing to exchange fluctuations.

Contingent Liability

As at 31 December 2001, the Group had the contingent liability for HK$13.5 million for bills discounted with recourse.

Charges on Assets

As at 31 December 2001, certain assets of the Group with aggregate carrying value of HK$174.3 million (HK$108.2 million as at 31 December 2000) were pledged to secure loan facilities utilized by the Group.

Research and Development

In view of the continuous technological evolution, the Group invested a total of approximately HK$29.0 million in product development projects for the following items, with a view to warding off severe competitions and maintain the leading position:

(1) HK$7.0 million for garden decoration products;

(2) HK$13.0 million for household decoration products;

(3) HK$7.0 million for plastic injection products;

(4) HK$2.0 million for other products.

Regarding investment for the aforesaid projects, the Group has successfully secured customer orders amounting to more than HK$200.0 million, based on an average gross profit rate of 33%. Those projects have already brought to the Group a gross profit of more than HK$66.0 million.

Through continuous product development, the Group predicts that the return on development investment will continue to raise in year 2002.

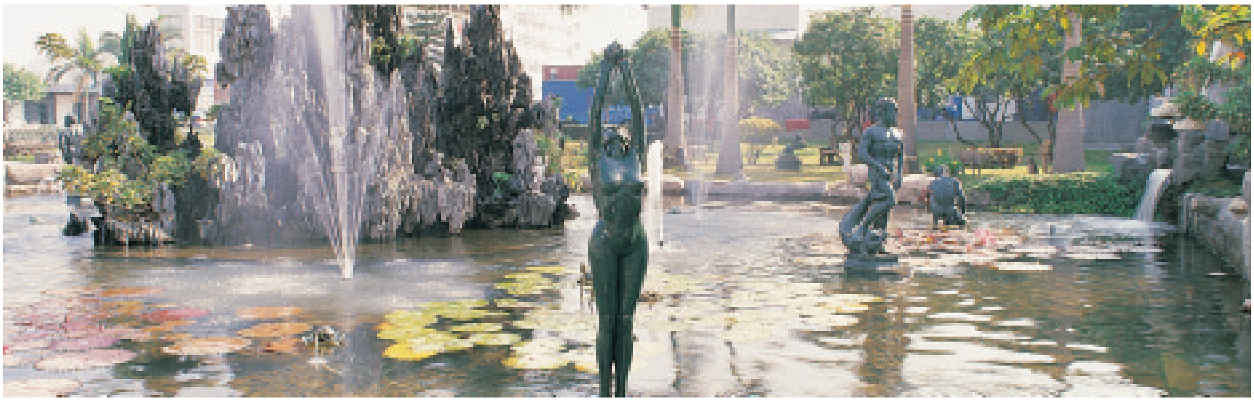
Patent

The Group acquired the patent for particular products for HK$7.5 million in early 2001 to further develop new markets. Since the acquisition, the patent has been successfully generated a sales turnover of more than HK$42.0 million and gross profit of more than HK$15.4 million.

Organizational Reform and Talent Pool

After recent exploits of internationalization, the Group gradually pools together talents with diverse cultural background and technical specializations and experiences. The advantage of a multi-cultural staff not only allows the Group to acquire the latest market information to optimize the use of skills, it also helps the Group to pursue organizational reform and management improvement plans.

During the year under review, the Group had established management headquarters both in Shenzhen and Hong Kong, under which production and sales centers as well as management control centers were created. The former is responsible for promoting the sale of the Group's OEM products, branded products and conducting activities relating to manufacturing, research and quality; the latter is responsible for group management issues. As the organizational reform is consistent with the structure of the Group's existing business units, it is hopeful that the Group's overall strategy will be implemented with higher efficiency.



EMPLOYEES

As at 31 December 2001, the Group had a total of 5,995 employees. Total staff cost incurred during the year amounted to HK$140.1 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 also adopts a share option scheme which is reviewed and revised in accordance with the latest statutory requirements. The Group has already taken into account the comparable remuneration level of the market when structuring the scheme.

PROSPECTS

In year 2001, owing to a variety of external and internal factors, the Group's turnover declined and hence losses were incurred. After various measures were implemented to control cost, improve operation efficiency, adjust the structure and direction of the Group's financial management, production and marketing, the Group's management strives to improve the overall situation of the Group, strengthen its competitive edge and increase its turnover and profitability.

The Group will develop specialty counter business, It will set up its own shop-in-shop sales counter and develop its own brand name at nationwide or worldwide renowned chain stores. It can replace products in response to market demand and according to the Group's capability in product R&D. At present, the Group is developing its speciality counter business for water gardening products at its overseas strongholds in USA, Europe and Australia.

With the continuous support of our shareholders, the Group's management will do its best to seek and maximize long-term return on investment for the Group and its shareholders.