MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2002, the Group recorded an unaudited turnover of HK$312,047,000 representing a decrease of approximately 22.7% when compared with the corresponding period in the previous year of HK$403,776,000. The decrease in turnover was mainly due to the Group's major export country – U.S.A. Since last year's "911" terrorist attack, the economy has been persistently sluggish with uncertain factors. Consequently, several major customers have taken more conservative procurement strategies. As a result of the decline in turnover, the Group recorded an unaudited net loss from ordinary activities attributable to shareholders of HK$9,425,000 representing a decrease of 335.0% when compared with a net profit from ordinary activities attributable to shareholders of HK$4,010,000 in the last corresponding period.

During the period under review, Europe and the U.S. remained the Group's largest markets and accounted for approximately 52.6% and 40.2% (corresponding period in 2001: 42.6% and 50.4%) of the Group's turnover respectively.

During the period under review, the Group incurred general and administrative expenses for HK$62,476,000, representing an increase of 16.6% when compared with the corresponding period in the previous year of HK$53,564,000. The increase in these expenses was mainly due to the consulting fee and restructuring expenses incurred for the European operations and accounting adjustments.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows, banking facilities and issues of new shares. As at 30 June 2002, the Group had aggregate available banking facilities of HK$382,299,000, of which HK$255,000,000 was utilized and subject to floating market rates. The Group's cash and bank balance at that date amounted to HK$26,620,000 (31 December 2001: HK$17,937,000), denominated in United States dollars, Hong Kong dollars, Euros and Renminbi.

The Group has further improved its working capital through financial arrangement and prudent financing policy. As at 30 June 2002, the Group's current ratio and quick ratio were 0.93 and 0.54 (31 December 2001: 0.81 and 0.46) respectively. The Group continues to implement prudent financing policy. In the forthcoming months' peak delivery season, the group's working capital will be further increased.

As at 30 June 2002, the Group's total borrowings amounted to HK$261,819,000 (31 December 2001: HK$225,399,000) which included short-term and long-term borrowings of HK$183,520,000 and HK$78,299,000 respectively, with a gearing ratio, defined as total borrowings as a percentage of total assets, of 38.6% (31 December 2001: 37.9%).

Placement of New Shares

In January 2002 and April 2002, the Group placed new shares to several independent investors and obtained proceeds for working capital of approximately HK$45,414,000. According to the long-term strategies set by the Board of Directors, the Group has utilized the proceeds in operating activities. The Group has prudently utilized the proceeds in operating activities to facilitate long-term strategies set by the Board of Directors.

Foreign Exchange Exposure

The Group's major revenue was denominated in United States dollars and Euros; banking facilities repayment and purchase were made essentially with the corresponding currencies and Renminbi. During the period under review, the currencies were stable, thus the Group was exposed to relatively low risks of foreign exchange fluctuations. In order to better manage the foreign exchange exposure, the management periodically reviews exchange rates of major currencies. When necessary, the Group will arrange foreign exchange contracts to hedge against foreign exchange risks.

Capital Expenditure

The Group incurred a total of capital expenditure of HK$17,720,000 during the six months ended 30 June 2002, which included: (1) HK$6,343,000 for expanding the manufacturing plants in China; (2) HK$4,670,000 for acquiring machinery, office and production equipment in China; (3) HK$5,764,000 for acquiring machinery and equipment in Europe; and (4) HK$943,000 for acquiring other fixed assets.

Contingent Liability

As at 30 June 2002, the Group had contingent liability of HK$2,332,000 (31 December 2001: HK$13,529,000) for bills discounted with recourse.

Charges on Assets

As at 30 June 2002, certain assets of the Group with aggregate carrying value of HK$284,231,000 (31 December 2001: HK$174,300,000) were pledged to secure loan facilities utilized by the Group.

Employees and Remuneration Policies

As at 30 June 2002, the Group had a total of 6,348 employees. Total staff cost incurred during the six months ended 30 June 2002 amounted to approximately HK$73,635,000. The Group offers a comprehensive remuneration and benefit package to its employees, and remuneration policies are reviewed by the management on a regular basis.

At the annual general meeting of the Company held on 18 June 2002, a resolution relating to the termination of the share option scheme adopted by the Company on 20 December 1997 (the "Old Scheme") and the adoption of a new share option scheme (the "New Scheme") was passed by the shareholders of the Company. The New Scheme complies with the requirements of the new rules of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd.. The Group has already taken into account the comparable remuneration level of the market when structuring the New Scheme.

Business Review

Since the "911" incident last year, the U.S. economy was worsen. The consumers' sentiment dropped, and this situation continued till the first half of year 2002. Consequently the Group's U.S. business has been affected by general caution on inventory control amongst our customers. In particular, some customers demand for shorter lead times and quicker response. During the period under review, sales to the U.S. market dropped significantly by 38.4% to HK$125,331,000 (corresponding period in 2001: HK$203,452,000).

During the period under review, sales to the European market dropped slightly by 4.6% to HK$164,098,000 (corresponding period in 2001: HK$172,040,000). The decline in business was mainly due to the weak economy and high unemployment in Europe which directly affected the consumers' sentiment.

To lessen the impact of the global economic downturn on the Group, the management has adopted a series of effective cost control measures, including redeployment of the subsidiaries' resources through restructuring, and transfer of the water pump production lines in Germany, together with the relevant technology, to the PRC, so as to achieve the objective of "low cost and high effectiveness" and to make the products more competitive in the market. Meanwhile, the Group continues discussions with its existing suppliers for more favorable terms of purchase, with a view to increasing gross profit margin. During the period under review, the Group's overall gross profit margin was reasonably maintained at 36.1% (corresponding period in 2001: 36.7%).

Investment made in previous years for product development has come to a rewarding period. The newly developed products, such as those composed of electronic components and products made of compound materials, recorded substantial growth. The management firmly believes that, with the gradual improvement in the market atmosphere, such products will bring greater operating profits to the Group. In addition, the Group's plastic injection business also recorded very substantial growth. The Group's plastic injection products are increasingly well received by customers, who also successively request the Group to develop more new types of products so as to achieve a win-win situation. Considering the number of orders recently received, the Group's existing plastic injection machines are insufficient to meet the increasing demand and in this regard, the management expects to make a small amount of capital investment to acquire additional machines and equipment in the near future.

Operation Prospects and Future

To enhance the long-term market leadership, the Group had been proactively expanding its overseas sales network over the past two years, with a view to reducing the proportion of its OEM business, and also making efforts to establish its own brands and sales channels. With more than two years' efforts, the Group has achieved preliminary results in its sales network development, and its progress in communication with customers and product development has particularly been remarkable. Meanwhile, the losses of overseas subsidiaries were gradually reduced through continuous strengthening of management and restructuring of business, and some subsidiaries even turnaround during the period under review. The management expects that there will be a significant reduction in the total amount of losses made by the overseas subsidiaries for year 2002 and the overall results of the overseas subsidiaries will turnaround in the coming two years.

The new housing sales figures recently published by the Department of Commerce of the U.S. Government show that new housing sales, on an annualized basis, rose by 6.7% from the revised figures of 953,000 units in June to 1,017,000 units in July, a very significant increase of 15.4% as compared with the 881,000 units of the corresponding period last year. An analysis of the above favorable data shows that there is a continuously increasing demand for new housing in the U.S., which in turn accelerates the consumer demand for gardening products and giftware items. The abovementioned favorable factors have been fully reflected in the purchase orders received by the Group in the second half of year 2002, as a number of major customers repeat their orders, and the Group's production staff also worked around the clock to meet the customers' demand.

Following a significant reduction in the customers' stock level, the Group recorded a noticeable increase in the number of orders recently received and, in particular, in the exports to the U.S., which posted a much higher rate of growth than other businesses. The management believes that the second half of year 2002 will record a growth of more than 20% as compared with the period under review and the preceding year, and that such growth rate is sustainable until the next year.

In summary of all the abovementioned favorable factors, the management is very confident of the Group's future business development and expects to have bright prospects for the coming years. With the continuous supports of our shareholders, the management will continue to work together with the staff for maximizing return on the investments made for both the Group and its shareholders.