

Chairman's Statement



Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I hereby present the annual report of Peaktop International Holdings Limited and its subsidiaries ("the Group") for the year ended 31 December 2002.

During the financial year ended 31 December 2002, the Group recorded a turnover of HK\$667,000,000, representing a drop of 6% as compared to the corresponding period in last year. Net loss attributable to shareholders was HK\$38,600,000; decreased by 10% when compared to 2001.

BUSINESS REVIEW

In 2002, market sentiments were yet to make a full recovery, causing customers in North America to slow down their orders and adopt more conservative strategies. The impact of the "9-11" incident in 2001 on the Group's operations was more severe and profound than envisaged. As U.S.A. and Europe are the Group's major export markets, the procurement approach and method of these markets has exerted considerable pressure on our operations in terms of coordinating our sales networks and the production bases in China and Italy.

The Group's efforts in re-positioning itself from its original OEM core business to investing in the expansion of its overseas sales network had come to certain fruition. The losses and burdens sustained in the process declined gradually. The merits of the overall realignment of operations are expected to materialize in 2003, which will bring benefits to the Group. In particular, after the restructuring of the US-based subsidiary, Silkroadgifts, Inc., in mid 2002, the new operating team had been able to bring into full play of its proximity to major chain stores in North America based on its existing foundation. As such, the interaction and coordination in sales and purchase transactions surpass our competitors in Asia.

Similar to previous years, we continue our efforts in product research and development. Integrating our R&D base in China as well as our strongholds in the US and Italy, we are striving to create innovative new products in 2003 that will maneuver the market and generate sales volumes and profit.

CORPORATE GOVERNANCE

The Board and the management of the Group endeavor to implement corporate management policies and enhance corporate transparency based on the operating principles of fairness, openness and impartiality. An Audit Committee is established under the Board, comprising of two independent non-executive directors. The Audit Committee convenes meeting prior to results announcement to review the contents of the announcement and the Group's compliance with relevant regulations as well as to appraise reports from the management and the auditor. The Board also reports major events of the Group regularly to the Audit Committee and seeks its advice.

PROSPECTS

Notwithstanding the prevailing economic uncertainties and challenges, the Board believes that the Group has sailed through the most difficult times. By virtue of the Group's strengths in product R&D and product diversity, it is back on the track of steady growth.

Being market-oriented and customers' needs focused, the Group will reinforce its collection and analysis of market information to ensure that we supply world-class products of good value to our customers. The Group will also strengthen its management, streamline its processes and increase its operating efficiency. The Group will strive to reduce production and operating costs in an endeavoring attempt to cope with the problem of rises in prices of raw materials and to exploit the full efficiency of its existing facilities so as to counteract the adverse impact of market competition and sluggish business conditions. Furthermore, the Group will further improve its technical competence and R&D capability with a view to creating new market demands, raising product quality, enhancing customers' satisfaction and boosting sales.

The Group will continue to pursue prudent operating strategies and to minimize capital investments with the objective of achieving a speedy turnaround and generating shareholders return.

ACKNOWLEDGEMENT

On behalf of the Board, I hereby express our appreciation to all Peaktop staff for their commitment and hard work. Also on behalf of the Group, I would like to extend our heartfelt gratitude for the trust and confidence that all our shareholders place on Peaktop and the continuous patronage from our customers, banks, business partners and suppliers.

Lin Chun Kuei

Chairman

Hong Kong, 23 April, 2003