MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2003, the Group's unaudited turnover was HK$413,200,000, representing an increase of 32.4% when compared with the corresponding period in the previous year of HK$312,000,000. The increase in turnover was mainly attributed to the significant growth in the Group's sales in Europe and the U.S.. During the period under review, the economic environment in Europe and the U.S. demonstrated a significant improvement as compared with the corresponding period in the previous year. Consumer sentiments had revived and a number of the Group's major customers had increased their purchase volume from the Group.

Following the increase in turnover and a series of cost control measures, during the period under review, the Group successfully turned around and recorded an unaudited net profit from ordinary activities attributable to shareholders of HK$1,800,000 (corresponding period in 2002: net loss HK$9,500,000).

During the period under review, Europe and the U.S. remained the Group's largest selling markets and accounted for 53.2% and 35.6% (corresponding period in 2002: 52.6% and 40.2%) of the Group's turnover respectively.

Selling, General and Administrative and Other Operating Expenses

During the period under review, the Group incurred total selling expenses of HK$74,000,000, representing 17.9% of total turnover (corresponding period in 2002: HK$55,900,000, representing 17.9% of total turnover). The increase in total selling expenses was mainly due to the increase in total turnover, leading to the increase in direct selling costs, e.g. freight and promotion expenses.

During the period under review, the Group incurred total general and administrative expenses of HK$68,300,000, representing 16.5% of the turnover (corresponding period in 2002: HK$62,500,000, representing 20.0% of the turnover). Total general and administrative expenses increased mainly due to the increase in rental and insurance expenses.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Selling, General and Administrative and Other Operating Expenses (continued)

During the period under review, the Group incurred other operating expenses of HK$6,100,000 (corresponding period in 2002: HK$700,000), mainly consisting of provision for doubtful debts and provision for other receivables. The Group has implemented a series of effective credit control measures to minimise provisions for accounts receivable.

Share of Loss of an Associate

During the period under review, the Group shared a loss of HK$1,400,000 attributable to Sunterra, LLC, a joint venture company in the United States.

Liquidity, Financial Resources and Finance Costs

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 30 June 2003, the Group had aggregate available banking facilities of HK$336,100,000 (As at 31 December 2002: HK$330,100,000), of which HK$266,800,000 (As at 31 December 2002: HK$274,400,000) was utilized and subject to floating market rates. The Group's cash and bank balances at that date amounted to HK$36,600,000 (As at 31 December 2002: HK$34,800,000), denominated in United States dollars, Hong Kong dollars, Euros and Renminbi. This together with unutilized banking facilities will enable the Group to fund its operational needs.

As at 30 June 2003, the Group's current ratio and quick ratio were 84% and 44% respectively (As at 31 December 2002: 86% and 45% respectively). At that date, the Group's total borrowing amounted to HK$285,200,000 (As at 31 December 2002: HK$281,800,000), which included short-term borrowing and long-term borrowing of HK$226,700,000 and HK$58,500,000 respectively (As at 31 December 2002: HK$204,900,000 and HK$76,900,000 respectively). Total borrowing amount increased due to the shareholders' loan of HK$11,700,000 from the two existing directors and related parties. As at 30 June 2003, the Group's gearing ratio, defined as total borrowing as percentage of total assets, was 41% (As at 31 December 2002: 43%).

Total financial costs incurred by the Group for the six months ended 30 June 2003 was HK$9,900,000 (corresponding period in 2002: HK$9,800,000). The Group continues to implement prudent financing policy to reduce short-term borrowing as far as possible in order to ensure that the Group will not be affected by short-term uncertainties.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Capital Expenditure

The Group incurred a total capital expenditure of HK$12,900,000 for six months ended 30 June 2003, which included: HK$1,800,000 for expanding the manufacturing plants in the PRC, HK$4,100,000 for acquiring machinery and equipment in PRC, HK$4,300,000 for acquiring machinery, office and production equipment in Europe, HK$2,700,000 for acquiring other fixed assets.

Shareholders' Loans and Placement of New Shares

In order to strengthen the Group's financial situation, the Company entered into shareholders' loan agreements of HK$11,700,000 with the existing director, Mr. Lin Chun Kuei and Jade Investment (owned by the existing director, Mr. Ng Kin Nam and his spouse) on 20 June 2003 and 24 June 2003 respectively. The captioned loan was agreed by the lenders and approved by the Stock Exchange to capitalize as issued capital on 4 July 2003 and 28 August 2003 respectively. The relevant shares were issued to the relevant parties on 29 August 2003.

For the six months ended 30 June 2003, the Group has utilized HK$3,500,000 out of the captioned amount. The remaining portion has been deposited at the Group's bank account of one of the major banks.

Foreign Exchange Exposure

During the period under review, the Group's major revenue was denominated in United States dollars and Euros, while banking facilities repayment and purchase were made essentially in the corresponding currencies and Renminbi, thus establishing a natural hedge. During the period under review, the Group was exposed to relatively low risks of exchange fluctuations. To further reduce exchange risks, the Group has utilized foreign exchange hedging tools and will continue to closely monitor exchange rate movements.

Contingent Liability

As at 30 June 2003, the Group had contingent liability of HK$5,300,000 (As at 31 December 2002: HK$6,500,000) for bills discounted with recourse.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Charges on Assets

As at 30 June 2003, certain assets of the Group with aggregate carrying value of HK$268,300,000 (As at 31 December 2002: HK$234,800,000) were pledged to secure loan facilities utilized by the Group.

Employees

As at 30 June 2003, the Group had a total of 6,344 employees. Total staff costs incurred during the six months ended 30 June 2003 amounted to approximately HK$77,200,000 (corresponding period in 2002: HK$73,600,000). The Group offers a comprehensive remuneration policies which are reviewed by the management on a regular basis.

The Company adopts a share option scheme which complies with the requirements of the new rules of Chapter 17 of the Listing Rules.

Business Review

The Severe Acute Respiratory Syndrome ("SARS") epidemic had affected the Group's purchase orders in the second quarter of the year. Some of the customers had even cancelled their planned business trips to the Group's production bases in China, directly impacting on the Group's performance for the second quarter of the year. Notwithstanding this, pursuant to the restructuring of the Group's operations and re-deployment of resources, which had been ongoing for over a year, significant improvements had been achieved. During the period under review, the overall performance of the Group's overseas subsidiaries was particularly encouraging, making remarkable profit.

During the period under review, the gross profit margin of the Group was 37.0% (corresponding period in 2002: 36.1%). The slight increase in the gross profit margin was mainly due to the increase in sales to the European markets that offered higher gross profit margin. Meanwhile, the management continued to adopt effective measures to maintain reasonable gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Prospects and Outlook

With the ending of the Iraq war and the SARS epidemic in Asia under control, customers have returned to the Group's manufacturing plants in China to discuss about new product development and the placing of purchase orders. Consequently, the Group was able to secure substantial purchase orders, delivery of which would be within the next couple of months. At the same time, the Group had successfully developed a new line of indoor water fountains incorporating electronic and composite materials, which has been launched in the market in the third quarter of the year.

Reorganisation of the Group's overseas subsidiaries would continue in the year. Non-performing subsidiaries would be thoroughly revamped. It is envisaged that some of the restructuring plans would be implemented within the year.

In conclusion, based on the various promising factors, the management believes that the Group has overcome its most difficult period. The Group is expected to sustain the momentum in its business growth, and achieve profitability. With the continuous support 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.

DIRECTORS' INTERESTS

As at 30 June 2003, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

	Number or attributable number of Shares held and nature of interests		
Name of Director	**Personal**	**Corporate**	**Family**
Mr. Lin Chun Kuei *(Note 1)*	35,873,200	–	–
Mr. Lin Chun Fu	33,690,800	–	–
Mr. Andree Halim *(Note 2)*	–	102,300,000	–
Mr. Ng Kin Nam *(Note 3)*	23,157,200	10,359,800	7,601,000
Mr. He Jing Guang	8,013,720	–	–
Dr. Gunter Michael Denk *(Note 4)*	16,760,000	–	4,364,800

DIRECTORS' INTERESTS (continued)

Notes:

1. On 29 August 2003, 39,000,000 new shares were allotted to Mr. Lin Chun Kuei in accordance with a Capitalization Agreement between Mr. Lin and the Company.

2. The entire issued share capital of KMP Atlantic Limited is beneficially owned as to 90% by KMP Equities Holding Ltd., which entire issued share capital is in turn owned as to 50% each by Mr. Anthoni Salim and Mr. Andree Halim. Accordingly, Mr. Andree Halim is deemed to be interested in the 102,300,000 Shares beneficially owned by KMP Atlantic Limited.

3. Jade Investment is the beneficial owner of 10,359,800 Shares. The entire issued share capital of Jade Investment is beneficially owned as to 50% each by Mr. Ng Kin Nam and Ms. Angeleslao Jocelyn O., the spouse of Mr. Ng Kin Nam. Accordingly, Mr. Ng Kin Nam is deemed to be interested in the 10,359,800 Shares beneficially owned by Jade Investment.

   Mr. Ng Kin Nam is also deemed to be interested in the 7,601,000 Shares beneficially owned by Ms. Angeleslao Jocelyn O..

   On 29 August 2003, 78,000,000 new shares were allotted to Jade Investment in accordance with a Capitalization Agreement between Jade Investment and the Company. Mr. Ng Kin Nam is deemed to be interested in the 78,000,000 new shares beneficially owned by Jade Investment.

4. Dr. Gunter Michael Denk is the beneficial owner of 16,760,000 Shares and is deemed to be interested in the 1,091,200 Shares beneficially owned by Ms. Angelika Denk, his spouse, and the 3,273,600 Shares beneficially owned by Miss Corinna Denk, his daughter under the age of 18.

   Miss Corinna Denk has attained the age of 18 in August 2003.

In addition to the above, certain directors hold shares in certain subsidiaries of the Company, in a non-beneficial capacity, solely for the purpose of complying with minimum company membership requirement.

DIRECTORS' INTERESTS (continued)

Save as disclosed herein, at 30 June 2003, none of the Directors nor the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Apart from as disclosed under the headings "Directors' interests" and "Share option scheme", at no time during the six months ended 30 June 2003 were rights to acquire benefits by means of the acquisition of shares in or debt securities of the Company granted to any director or chief executive or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company adopts a share option scheme which complies with the requirements of the new rules of Chapter 17 of the Listing Rules.

During the six months ended 30 June 2003, no options had been granted by the Company under the share option scheme.