Management Discussion and Analysis

REVIEW OF RESULTS

The Group's consolidated turnover for year 2003 was HK$820,200,000 (2002: HK$667,000,000), increased by 23% as compared to that of year 2002. Average gross profit margin was maintained at 34%, at the similar level of that of last year.

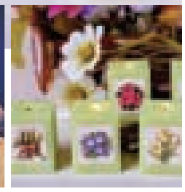
Loss attributable to shareholders for year 2003 decreased by 84% to HK$6,200,000 (2002: HK$39,400,000 (restated)). The main reasons for the loss were:

1. The outbreak of Severe Acute Respiratory Syndrome (SARS) in China and Hong Kong in March 2003 had seriously deferred customers from visiting the Group's manufacturing facilities and showrooms in China and Hong Kong for business negotiation. As a result, the order situation for the second half of the financial year was unfavourable, and certain newly developed products were unable to launch as scheduled, therefore missing the peak sales season in the second half of the year. To minimize the negative impact brought on by SARS, the Group pursued a number of contingent measures, including sending product samples to overseas customers by air freight, setting up temporary overseas showrooms and dispatching sales personnel to overseas markets for business negotiation with customers. These measures had a direct bearing on the Group's increased sales expenditure.

2. During the year under review, oil prices increased by more than 30% and this led to price increases in the Group's major raw materials, such as Polyresin, paraffin wax and plastics. As a result, the Group's actual gross profit margin was lower than expected. The Group has already reflected the growing raw material costs in the sales quotations for year 2004, which is expected to offset the cost pressure on profitability.

3. Pursuant to accounting standards, the Group made a provision of HK$7,700,000 on accounts receivable and other receivables for the year under review.

Management Discussion and Analysis



For year 2003, the United States and Europe remained the Group's largest markets.

The Group's sales to the United States increased by 16% to HK$378,800,000 (2002: HK$326,700,000), representing 46% of the Group's total turnover (2002: 49%).

The Group's sales to Europe also increased by 22% to HK$307,500,000 (2002: HK$251,800,000), representing 37% of the Group's total turnover (2002: 38%).

OVERVIEW OF SALES NETWORK

Silkroadgifts, Inc. (USA)

Silkroadgifts continued to record losses for the year under review, albeit the extent was significantly smaller than that in year 2002. After years of dedicated efforts, the company reported notable performance improvements. With a noticeable increase in orders and a strengthening of its client base with the inclusion of major international chain stores, such as Target and Avon.

Peaktop Technologies (USA), Inc. (USA)

Although the company commenced operations in the fourth quarter of year 2003, it has already been profitable. Supported by the Group's outstanding development technology, the company successfully launched and secured large amount of added-on orders for outdoor gardening products, in particular, fiber-glass planters and outdoor fountains. Recent discussions on future sales strategies with certain customers, including Lowe's Store, have confirmed the management's belief that the company will report remarkable growth and become a strong revenue driver to the Group in the coming years.

Management Discussion and Analysis

Heissner AG (Germany)

Having gone through over three years of operational restructuring, the company achieved a turnaround through stringent cost control, strict streamlining of redundant personnel and expenditure, closure of the local plant and a subsequent transfer of the production line for water gardening products to the Group's manufacturing plant in China to reduce production overheads. The management believes that the company will continue to be profitable in the coming years.

Peaktop Technologies Italy s.r.l (Italy)

During the year under review, the company reported a slight loss. As the Group's designated sales and development centre with more latitude for realizing its potential, the company is expected to return to profitability in the coming years.

Waterwerks Pty. Ltd. (Australia)

The company's business continued to prosper during the year under review and will sustain its primary focus to develop the outdoor gardening business in Australia and New Zealand.

PRODUCT DEVELOPMENT STRATEGY

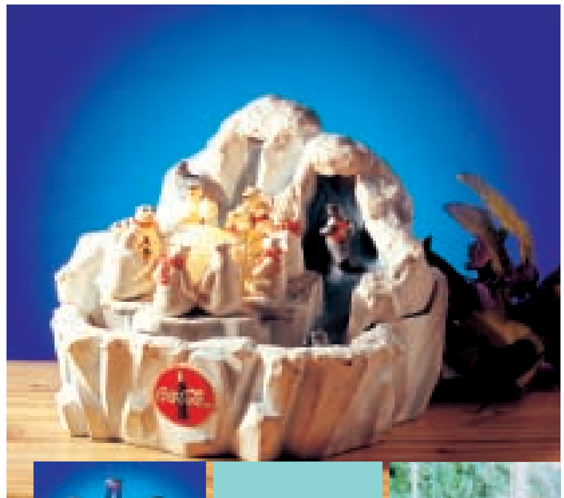
The Group will continue to expand the range of functional products and develop composite material products, and launch new products of reasonable costs that are in line with the Group's guiding concepts of pursuing industrialized production of artistic products and making industrialized products artistic.

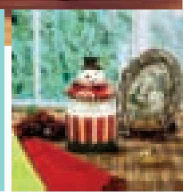
FINANCIAL AND MANAGEMENT REVIEW

Cost Control

Notwithstanding the undesirable operating environment in year 2003, the Group continued to endeavour to minimize cost of sales. Through bulk purchase and effective utilization of production technology, the Group's gross profit rose steadily from 27% in year 1999 to 34% in year 2003.

Management Discussion and Analysis





Selling, General and Administrative and Other Operating Expenses

Total selling expenses of the Group in year 2003 was HK$149,600,000, representing 18% of the total turnover (2002: HK$111,600,000, representing 17% of total turnover). The main reason for the increase in selling expenses was the increase in total turnover, which subsequently increased the research and development costs, salaries expenses for sales teams, and transportation costs.

Total general and administrative expenses of the Group for year 2003 was HK$136,700,000 (2002: HK$136,300,000), at the similar level of that of last year.

Other operating expenses of the Group in year 2003 was HK$11,700,000 (2002: HK$3,900,000 (restated)), mainly consisting of provision for doubtful debts of accounts receivable and other receivables of HK$7,700,000 (2002: HK$2,800,000). The Group has implemented a series of effective credit control measures to minimize provisions for accounts receivable.

Share of Loss of An Associate

During the year under review, the Group had to share a loss of HK$1,900,000 (2002: HK$3,500,000) attributable to Sunterra, LLC, a joint venture company in the United States before it was disposed of in July 2003.

Liquidity, Financial Resources and Finance Costs

The Group finances its operations with internally generated cash flows, banking facilities and issue of new shares. As at 31 December 2003, the Group had aggregate available banking facilities of HK$357,500,000 (2002: HK$330,100,000), of which HK$295,900,000 (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$33,700,000 (2002: HK$34,800,000), denominated in United States dollar, Hong Kong dollar, Euro and Renminbi. This together with unutilized banking facilities will enable the Group to fund its operational needs.

Management Discussion and Analysis

As at 31 December 2003, the Group's current ratio and quick ratio were 91% and 48% respectively (2002: 86% and 45% respectively). At that date, the Group's total borrowing amounted to HK$302,500,000 (2002: HK$281,800,000), which included short-term borrowing and long-term borrowing of HK$221,700,000 and HK$80,800,000 respectively (2002: HK$204,900,000 and HK$76,900,000 respectively). The increase in total borrowing was due to the long-term mortgage loan obtained by the Group on the pledge of the properties in the PRC as collateral and the additional trade financing to deal with the peak production period at the end of year 2003. As at 31 December 2003, the Group's gearing ratio, defined as total borrowing as percentage of total assets, was 42% (2002: 43%).

Total finance costs incurred by the Group in year 2003 was HK$21,600,000 (2002: HK$19,500,000). The increase was due to increase of trade financing activities. 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.

Deferred Tax

With effect from 1 January 2003, the Group adopted a new accounting policy for deferred tax to comply with Hong Kong Statement of Standard Accounting Practice 12 (revised) "Income Taxes" ("Revised SSAP 12"). In previous years, partial provision was made for deferred tax arising from timing differences using the income statement liability method except where those timing differences were not expected to reverse in the foreseeable future. Revised SSAP 12 requires the adoption of a balance sheet liability method, whereby deferred tax liabilities are recognized in full in respect of all temporary differences while deferred tax assets are recognized to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilized.

Revised SSAP 12 has been applied retroactively. This prior year adjustment has resulted in an increase in the Group's deferred tax liability as at 1 January 2003 and 2002 by HK$6,399,000 and HK$4,796,000, respectively.

Management Discussion and Analysis

The cost of goodwill and negative goodwill as at 1 January 2003 have been increased by HK$1,202,000 and reduced by HK$3,241,000, respectively; the accumulated amortisation of goodwill and negative goodwill as at 1 January 2003 have been increased by HK$360,000 and reduced by HK$3,241,000, respectively. These changes in goodwill represent the amounts so arising as a result of the deferred tax balance that would have recognised at the date of the acquisition of a subsidiary group of companies had the rules of the revised standard been applied at that date. The consolidated net loss attributable to shareholders for the year ended 31 December 2002 has been increased by HK$860,000. The consolidated retained profits at 1 January 2003 and 2002 have been reduced by HK$5,271,000 and HK$4,411,000 respectively; and the exchange fluctuation reserves at 1 January 2003 and 2002 have been reduced by HK$286,000 and increased by HK$577,000, respectively.

Capital Expenditure

The Group incurred a total capital expenditure of HK$20,600,000 in year 2003 (2002: HK$41,900,000), which included: HK$1,600,000 (2002: HK$13,300,000) for expanding the manufacturing plants in the PRC, HK$6,400,000 (2002: HK$10,900,000) for acquiring machinery and equipment in the PRC, HK$8,500,000 (2002: HK$10,000,000) for acquiring machinery, office and production equipment in Europe, and HK$4,100,000 (2002: HK$7,700,000) 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 Limited (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 of Hong Kong Limited (the "Stock Exchange") to capitalize as issued capital on 4 July 2003 and 28 August 2003 respectively. The relevant

Management Discussion and Analysis

shares were issued to the relevant parties on 29 August 2003. The proceed has been used for the following purposes:

1. HK$5,460,000 for the repayment of bank borrowings of the Group;

2. HK$3,900,000 for the continuing research and development on the engineering aspects of electronics and electrical components relating to the Group's home and garden decorative products; and

3. HK$2,340,000 as the general working capital of the Group.

Foreign Exchange Exposure

For the year 2003, the Group's major revenue was denominated in the United States dollar and Euro, while banking facilities repayment and purchase were made essentially in the corresponding currencies and Renminbi, thus establishing a natural hedge. During the year 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.

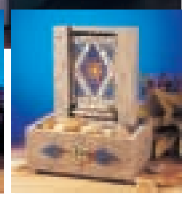
Contingent Liability

As at 31 December 2003, the Group had contingent liability of HK$5,400,000 (2002: HK$6,500,000) for bills discounted with recourse.

Charge on Assets

As at 31 December 2003, certain assets of the Group with aggregate carrying value of HK$260,300,000 (2002: HK$234,800,000) were pledged to secure loan facilities utilized by the Group.

Management Discussion and Analysis



Employees

As at 31 December 2003, the Group had a total of 7,100 (2002: 6,800) employees. Total staff costs incurred during the year 2003 amounted to HK$149,300,000 (2002: HK$ 153,500,000). 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 Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") of the Stock Exchange.

PROSPECTS

As the global economy recovers with lesser uncertainty elements, the Group's turnover for the first quarter of year 2004 was approximately 20% higher than that of the same period in year 2003. Latest market intelligence from customers has further upheld the management's incumbent product and operating strategies and also strengthened the belief that there will be a double-digit growth in order placement and also profit for year 2004.

The Group has entered into procurement contracts with certain raw material suppliers to minimize any risk exposure to price volatility of raw materials. The management will continue to closely monitor the moving trends of raw material prices to ensure prompt adoption of corresponding measures.

In view of overseas sales network, the Group was most encouraged by the performances of the Group's subsidiaries in Germany and Australia. It is expected that these companies will continue to achieve stable growth. The Board has already formulated a definite strategy for loss-making subsidiaries and the management is in the process of actively implementing the Board's multi-faceted restructuring resolution. It is expected that the effectiveness of this strategy will be evident in the short term.