# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

For the six months ended 30 June 2004, the Group's unaudited turnover was HK$519,400,000, representing an increase of 25.7% when compared with the corresponding period in the previous year of HK$413,200,000. The increase in turnover was mainly attributed to the significant growth in the U.S. market. With the successful launching of new water gardening products in the early 2004, the Group has achieved a growth of 79.1% in the U.S. market.

Following the substantial growth in turnover, net profit from ordinary activities attributable to shareholders for the six months ended 30 June 2004 increased by 505.6% to HK$10,900,000 (six months ended 30 June 2003: HK$1,800,000).

During the period under review, the U.S. and Europe remained the Group's largest selling markets and accounted for 50.7% (six months ended 30 June 2003: 35.6%) and 39.4% (six months ended 30 June 2003: 53.2%) 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 for HK$85,700,000 (six months ended 30 June 2003: HK$74,000,000), representing 16.5% (six months ended 30 June 2003: 17.9%) of total turnover and an increase of 15.8% when compared with the corresponding period last year. The increase in total selling expenses was due to the increase in total turnover, leading to the increase in direct selling costs, e.g. freight and commission expenses.

During the period under review, the Group incurred total general and administrative expenses for HK$72,900,000 (six months ended 30 June 2003: HK$68,300,000), representing 14.0% (six months ended 30 June 2003: 16.5%) of total turnover and an increase of 6.7% when compared with the corresponding period last year. The slight increase in total general and administrative expenses was mainly due to a larger operation in US subsidiaries in response to more transaction volume.

During the period under review, the Group incurred other operating expenses for HK$1,500,000 (six months ended 30 June 2003: HK$6,100,000), representing 0.3% (six months ended 30 June 2003: 1.5%) of total turnover and a decrease of 75.4% when compared with the corresponding period last year respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Liquidity, Financial Resources and Finance Costs

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 30 June 2004, the Group had aggregate available banking facilities of HK$406,200,000 (31 December 2003: HK$357,500,000), of which HK$313,300,000 (31 December 2003: HK$ 295,900,000) was utilized and subject to floating market rates. The Group's cash and bank balances at that date amounted to HK$52,300,000 (31 December 2003: HK$33,700,000), 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 2004, the Group's current ratio and quick ratio were 93.1% (31 December 2003: 91.3%) and 46.8% (31 December 2003: 47.5%) respectively. At that date, the Group's total borrowing amounted to HK$318,700,000 (31 December 2003: HK$302,500,000), which included short-term borrowing and long-term borrowing of HK$252,200,000 (31 December 2003: HK$221,700,000) and HK$66,500,000 (31 December 2003: HK$80,800,000) respectively. Total borrowing amount increased due to an increase of trade financing as a result of higher turnover. As at 30 June 2004, the Group's gearing ratio, defined as total borrowing as percentage of total assets, was 41.9% (31 December 2003: 42.1%).

Total financial costs incurred by the Group for the six months ended 30 June 2004 was HK$10,500,000 (six months ended 30 June 2003: HK$9,900,000). 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.

### Capital Expenditure

The Group incurred a total capital expenditure of HK$13,300,000 (six months ended 30 June 2003: HK$12,900,000) for six months ended 30 June 2004, which included: HK$2,200,000 (six months ended 30 June 2003: HK$5,900,000) for expanding the manufacturing plants and acquiring machinery and equipment in the PRC, HK3,000,000 (six months ended 30 June 2003: HK$4,300,000) for acquiring machinery, office and production equipment in Europe, HK$8,100,000 (six months ended 30 June 2003: HK$2,700,000) for acquiring other fixed assets.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### 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 2004, the Group had contingent liability of HK$7,500,000 (31 December 2003: HK$5,400,000) for bills discounted with recourse.

### Charges on Assets

As at 30 June 2004, certain assets of the Group with aggregate carrying value of HK$278,900,000 (31 December 2003: HK$260,300,000) were pledged to secure loan facilities utilized by the Group.

### Employees

As at 30 June 2004, the Group had a total of 7,302 employees (30 June 2003: 6,344 employees). Total staff costs incurred during the six months ended 30 June 2004 amounted approximately HK$79,000,000 (six months ended 30 June 2003: HK$77,200,000). 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 Chapter 17 of the Listing Rules.

### Business Review

After spending years of efforts on research and developments and enhancing the distribution networks, the Group has successfully achieved a substantial growth of 25.7% on turnover during the period under review. In the U.S. market, the Group has obtained continuous orders from the huge chain stores, such as Lowe's Companies, Inc., Target Corporation, Office Depot, Inc.. After the recent business meetings with the major customers, the management is confident that the growth could be sustained in the future.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

**Business Review** (continued)

During the period under review, the gross profit margin of the Group was 33.5% (six months ended 30 June 2003: 37.0%). The decrease in the gross profit margin was mainly due to: 1. The Group's market segment has been changed. During the period under review, the sales to U.S. market, a lower margin market has increased, representing 50.7% (six months ended 30 June 2003: 35.6%) of the total turnover; 2. In view of the increasing prices of crude oil and other raw materials, the Group's materials costs have been increased by 20%.

The Group has adopted new pricing in order to compensate the increasing material prices. Recently the management has held business meetings with the major customers to discuss the price increases, and the preliminary response is positive.

**Business Prospects and Outlook**

The Group's production facilities have been utilized for over 95%, and the existing production capacity could not meet the upcoming large amounts of orders for the water gardening business in the coming peak production season in the next few months. Therefore, the Group has started to construct two new production facilities in Shanwei City, Guangdong Province, in PRC, and the management expects to complete the construction of both facilities by November 2004. With the new production facilities, the Group's production capacity will be largely increased and be able to fulfill the orders.

The Group continues to revamp the non-performing subsidiaries and has made significant achievements in the reorganization.

Finally, the latest feedback from the customers and successful launching of new products into the markets has further secured the Group's confidence on the growth and profitability. The management forecasted that the total turnover for year 2004 would record a growth of at least 25% as compared with that of year 2003. With that high growth, the management is confident to achieve satisfactory results in this year.