

Management Discussion and Analysis

OPERATING RESULTS

During the year under review, the Group recorded a total turnover of HK\$145.8 million, a growth of 18% over the year before. In the same period of time, the net profit has dropped by 39.1% to HK\$7.0 million.

The increase in turnover is a result of the contribution made by our new multi-media business division which started to operate since March 2000. Their total turnover amounted to HK\$34.1 million, representing 23.4% of the Group's consolidated turnover.

The Group's management points out that the drop in net profit recorded was due to additional provisions being made for the aged debt by some customers. In view of the weakened economy of the United States and a lower buying propensity in the consumer market, the Group's financial management believes that it is to the Group's long term benefit to take prudent measure at this stage.

CORE BUSINESS

Sales of Christmas tree remained stable in the year under review, with a modest increase of 4% when compared to the year before. Total sales of Christmas tree and its peripheral products amounted to HK\$87.6 million, representing 60.1% of the Group's consolidated turnover in 2000.

The Group's management is optimistic of the sales of its Christmas products in 2001 because of the following reasons:

- A more balanced revenue source between the United States and European markets;
- Opening up of new sales channels and expanded customer base;
- New product launch to strengthen market position in the middle to upper price segments; and
- Effective cost control to enter the lower price segment with "good value for money" products while maintaining a healthy profit margin.

Sales of floral and foliated products during the same period of time have dropped when compared to the year before. Total sales of floral and foliated products in year 2000 amounted to HK\$24.1 million, representing 16.5% of the Group's consolidated turnover, while it was 31.7% in 1999.

The loss of business in this category is due to increased competition from the other local manufacturers in China and South East Asian countries. In short, supply has outgrown demand in the last two years and the market is dominated by a few major buyers from the United States and Europe. New designs are easily replicated on a massive scale which in turn shortened the product cycle. As a result, the manufacturers have to lower their profit margins and compete with each other on the price level. Under these circumstances, the Group's management decided to pass up some business opportunities due to a tighter internal credit control especially when the profit generated could not justify the risks involved.

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Despite of the market adversities, the Group's management is fully confident to revitalize the floral and foliated products in the second half of 2001. The Group is experimenting with a new production technology which will substantially increase the current market size. This new technology breakthrough will give the Group a unique competitive edge to rebuild its market share, maintain a healthy profit margin, gain new customers, and strengthen its image and reputation as a market innovator. The new technology will be patented in order to protect the Group's interest.

MULTI-MEDIA BUSINESS

The Group's management is very pleased with the business performance of the multi-media arm ("FTMM") as recorded in the year under review. The management expects the company will continue to grow substantially in 2001 with the launch of new projects and increased production capabilities. FTMM will become a unique one-stop marketing and communications services provider in China with an attractive library of TV programs for a wide range of target audience groups.

The Group's management is confident that the multi-media business will reach its maximum potential within a relatively short time in view of the below factors:

- A strong management team that possess a wide variety of expertise in TV production, programming and consumer marketing;
- The impending entry of China into the World Trade Organisation and increased foreign competition will heighten the growth of product and consumer marketing activities;
- Television will continue to be the dominant medium in China for many years to come. The mushrooming satellite and cable TV markets will lead to a surge of demand for quality TV content; and
- The company's ability to provide creative marketing solutions and understanding of Chinese consumer behavior and the media market will be keys in building up a strong clientele base.

ANTI-THEFT CAR ALARM AND TRACKING SERVICES

The Group has spent approximately HK\$8.4 million in the year under review for building a transmission network in the cities of Xian and Guangzhou. Both networks are still in the process of installation and testing will begin in the second and third quarter of 2001.

The joint venture company set up in September 2000 to handle the business operation has been put under the direct supervision of the Group's management to ensure a smooth and successful launch in the market. The Group's management believes there will be a strong market demand for this newest system in China because :

- It is affordable and easy to install which will help to encourage customer trials during the initial launch phase;

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- The system has proven to be reliable and effective through numerous test runs in Chinese cities in preventing and stopping car thefts as they happened. Results of which have been widely publicized in Chinese press to heighten customers' awareness and interests towards the newest generation of the system;
- The system has enormous market potentials to incorporate new technology and applications for future adaptations; and
- The annual operational fixed costs are relatively low while the cash flow generated are instant and steady for a long period of time.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its short term funding requirements with cash generated from operations, credit facilities available from suppliers and banking facilities provided by its principal bankers.

As at 31st December, 2000, the Group had net current assets of approximately HK\$69.2 million, with cash on hand and at banks amounting to approximately HK\$18.2 million. Total assets of the Group were approximately HK\$207.5 million, of which land and buildings, plant and machinery and other fixed assets accounted for approximately HK\$107.1 million (of which, land and buildings of HK\$20,240,000, was pledged as security for the Group's banking facilities), deferred development expenditure accounted for approximately HK\$2.8 million, long term investments accounted for approximately HK\$2.3 million, inventories, television programmes and sub-licensing rights accounted for approximately HK\$18.3 million and trade receivables, prepayments, deposits, other receivables and tax recoverable accounted for approximately HK\$58.8 million. The Group's assets were financed by accounts payable and accrued liabilities of approximately HK\$20.8 million, minority interests of approximately HK\$4.1 million, shareholders' equity of approximately HK\$172.2 million, bank loans of approximately HK\$9.6 million, comprising short term portion of approximately HK\$2.1 million and long term portion of approximately HK\$7.5 million and other long-term liabilities of approximately HK\$0.8 million.

Taking into consideration the available unutilised banking facilities of approximately HK\$27.5 million, and the cash and bank balance of approximately HK\$18.2 million as at 31st December, 2000, the Group has sufficient resources to discharge its debts and to finance its operations.

Gearing ratio, calculated based on long term debt and shareholders' equity is 4.8% as at 31st December, 2000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2000, sales to the Group's largest and five largest customers accounted for 29% (1999: 36%) and 53% (1999: 68%) of the total turnover, respectively. Purchases from the Group's largest and five largest suppliers accounted for 18% (1999: 18%) and 44% (1999: 45%) of the total purchases, respectively.

None of the Directors, their respective associates (as defined in the Listing Rules) nor any shareholder of the Company (who or which, to the knowledge of the Directors, owns more than 5% of the issued share capital of the Company) has any interest in any of the Group's five largest customers or suppliers.

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SUBSCRIPTION AND PLACEMENT OF SHARES AND USE OF PROCEEDS

On 15th December, 1999, the Company entered into two subscription agreements with two third parties for the subscription of 11,500,000 new shares at HK\$0.57 each. The completion of each subscription agreement has been divided into two tranches of 5,750,000 new shares each. The issuance of the first tranche of 11,500,000 new shares in total had been completed on 30th December, 1999. The issuance of the second tranche of 5,750,000 new shares each was completed on 22nd February, 2000 and 28th June, 2000, respectively.

On 17th December, 1999, the Company further entered into a placing agreement with a placing agent for the placement of 23,000,000 new shares at a price of HK\$0.57 each. The placement was completed on 30th December, 1999 and a total of 23,000,000 shares were issued.

The Company raised a total of approximately HK\$25 million, net of related expenses, from the above subscription and placement which had been fully applied as follows:

- as to approximately HK\$20 million for establishment and the operation of the multi-media business; and
- as to approximately HK\$5 million for investment in internet related projects.

SHARE TRANSACTION

On 25th August, 2000, the Company, through an indirect wholly owned subsidiary, entered into an acquisition agreement with an independent third party to acquire 28.6% of the issued share capital of a company which indirectly holds a 70.05% equity interest in a joint venture company engaging in the provision of anti-theft car alarm and tracking services in China. The purchase consideration of HK\$10,000,000 was satisfied by the issuance of 15,000,000 new shares of HK\$0.1 each in the share capital of the Company at a price of approximately HK\$0.667 per share. The transaction was completed on 15th September, 2000.