

# Management Discussion and Analysis

## OPERATING RESULTS

During the year under review, the Group recorded a total turnover of HK\$124 million, representing a decrease of 15% over the year before. The net profit attributable to the shareholders amounting to HK\$64,000, while a loss of HK\$8.6 million was recorded last year after a prior year adjustment of HK\$15.6 million in respect of impairment of goodwill on purchase of the multi-media and car alarm businesses. The prior year adjustment was made as the Group adopted the SSAP 31 “Impairment of assets” during the year which was applied retrospectively.

The turnover and operating results by business activities are as follows:—

Division	Turnover HK\$'000	Contribution HK\$'000
Sales of life-like plants	91,259	6
Multi-media business	30,262	1,619
Internet sales	2,496	(4,578)
Car alarm system	10	(5,171)
	124,027	(8,124)
Interest income and unallocated gains		8,496
Unallocated expenses		(1,105)
		(733)

## SALES OF LIFE-LIKE PLANTS

Against the background of prolonged economic slowdown and the ever-challenging life-like plants market, especially in the U.S., sales of life-like plants was decreased by 16% when compare to previous year and represented 74% of the Group’s overall turnover in 2001. Sales in this segment continues to be the Group’s major business sector. Although a decrease was noted in the sales volume, its business in the European markets recorded a growth in the past two consecutive years. We also penetrated into a different Christmas tree market sector in the U.S. that we never approached before. In addition, due to the Group’s ability to launch a series of innovative and newly designed products to the market, we are able to maintain a quite stable gross profit margin for the year. All these happened due to a visionary management strategy.

The Group’s patented fiber optic trees recorded a noticeable sales volume, which represented approximately 20% of the sales of the life-like Christmas trees. Apart from the third generation fiber optic trees, the Group is now developing a brand new product which will not only establish a leading position in the PVC tree market but also bring a product revolution to the industry.

The management will stick to planned strategies in developing new and innovative products competing with the other players in the industry on quality instead of price in order to maintain a healthy margin. Despite the challenging market conditions, we see further growth in the market as a result of changing family values in the U.S.. The management believes the life-like Christmas tree market still has a lot of potential for growth.

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## MULTI-MEDIA BUSINESS

In 2001, the Group had successfully distributed 60 hours of TV drama programming, of which 40 hours were self-produced, for our core operation. These programmes were each distributed to over 100 TV stations in the PRC. The Group also commenced the selling of our programmes to overseas markets. Sales in Taiwan, Singapore, U.S. and Canada, and Vietnam have been completed during the year.

The management considers, three factors greatly affected the state of our media business during the year.

- The restructuring and the change of guard at the relevant government departments. For a number of months, before the personnel changes were finalized, most policy and executional decisions were either suspended or delayed. As a result, fewer than normal number of drama series were approved. Most were put on work-in-progress. This greatly reduced the speed with which completed drama programmes can be distributed into the market place.
- All the major TV stations went through a consolidation process. Masterminded by the relevant government departments, this is the government's effort to create higher efficiency among the management of TV stations. It is a good strategic move. Nevertheless, again, during the process, very little decisions got made. In particular, the purchase of programming was put on hold until the selected personnel had settled into their positions.
- PRC saw a very depressed advertising market. While total ad spend dropped slightly, spending by individual clients were dramatically reduced.

As a result, the Group was unable to complete all the projects in the business plan. Very little was achieved in terms of the number of projects completed. What the Group was able to maintain was the margin yielded by each individual project. It was not a very productive year.

Now that the restructuring of the relevant government departments and the consolidation of TV stations have been completed, the management sees a much more active media scene in 2002. The Group is well positioned to capitalize on this turnaround.

## ANTI-THEFT CAR ALARM AND TRACKING SYSTEM

During the year, the Group has devoted a further of HK\$23 million for the building up of the transmission network in the cities of Guangzhou and Xian. The infrastructure has been completed in August and December 2001 in Xian and Guangzhou, respectively and the system was officially launched into the market since then.

Although the operation has no contribution to the Group's results during the year due to the delay in completion of the network installation, the management has sufficient confidence that the investment will have a good return in the coming year.

The Group acquired from the other investors the entire share capital in the holding company which operates the network through a PRC joint venture in August 2001. After the acquisition, the Group's effective interest in the project increases from 20% to 70% which enables the Group to formulate its development strategies effectively in accordance with our direction.

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The network has been proved to be one of the most effective system in the market to prevent automobile crime and is officially endorsed by the police bureau and be authorised to use the prefix of “110” in branding of its product. Market research also shows that the product is well accepted by the market. It has approximately 70% market share among the nearly 10 companies operate a similar system in Shenzhen. The figure is encouraging and the management is optimistic in achieving an even better result in Guangzhou and Xian and other cities the Group plans to enter.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group has been maintaining a conservative approach in its funding and treasury policies. The Group’s working capital has been closely monitored to maximize the return on investments and to minimise finance costs.

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

The Group had committed bank and other financing facilities of HK\$60 million as at 31st December, 2001, of which approximately HK\$25 million has been utilised. Certain land and buildings and plant and machinery with net book value of approximately HK\$68 million and HK\$8 million respectively were pledged to secure the mentioned facilities. The Group had a total long term borrowing of approximately HK\$9 million and shareholders equity of approximately HK\$188 million as at 31st December, 2001. The gearing ratio, calculated based on long-term debt and shareholders’ equity, was 4.7% as at 31st December, 2001 comparing to 4.8% as at 31st December, 2000 which was kept at a quite constant level.

Total current assets of the Group amounted to approximately HK\$119 million, with cash and bank balance of approximately HK\$18 million, inventories and television programmes and sub-licensing rights of approximately HK\$21 million, trade and other receivables, prepayments and deposits of approximately HK\$80 million while total current liabilities was HK\$46 million. The current ratio was 2.61 and the quick ratio was 2.15.

The business operations of the Group are mainly transacted in US dollars and Renminbi. Most of the Group’s sales are conducted in the same currency as the corresponding purchase transaction. We do not consider the Group has significant exposure to foreign exchange fluctuations in view of the stability of US dollars and Renminbi. We also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of its bank borrowings. Accordingly, the Group did not engage any financial instrument for hedging purposes during the period and there is no hedging instrument outstanding as at 31st December, 2001.

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## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2001, sales to the Group's largest and five largest customers accounted for 40% (2000: 29%) and 53% (2000: 53%) of the total turnover, respectively. Purchases from the Group's largest and five largest suppliers accounted for 22% (2000: 18%) and 47% (2000: 44%) 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.

## PLACEMENT OF SHARES AND USE OF PROCEEDS

On 11th June, 2001, the Company entered into a top-up Placing and Subscription Agreement with Raffles International Holdings Limited ("Raffles"), the major shareholder of the Company. Pursuant to the agreement, Raffles agreed to place, through a Placing Agent, 58,000,000 existing shares of the Company of HK\$0.10 each to independent investors at a price of HK\$0.30 each and subscribe from the Company 58,000,000 new shares of HK\$0.10 each at the same price of HK\$0.30 each. The placing of 58,000,000 existing shares was completed on 11th June, 2001.

On 2nd August, 2001, the Company entered into a Supplemental Agreement with Raffles and the Placing Agent. Pursuant to the Supplemental Agreement, the number of new shares subscribed by Raffles was reduced from 58,000,000 shares to 54,500,000 shares. The subscription was completed on 4th August, 2001 and a total of 54,500,000 new shares were issued and allotted to Raffles for net proceeds of approximately HK\$15.7 million which had been fully utilised for financing the Group's general working capital requirement during the year.

## CAPITAL STRUCTURE

There had been no change in capital structure of the Company since 31st December, 2000 saved for those disclosed in "Placement of Shares and Use of Proceeds" above. The Company had a total of issued share capital of 345,500,000 shares as at 31st December, 2001.

## EMPLOYEES AND REMUNERATION POLICY

The Group had a total of approximately 850 employees as at 31st December, 2001. The Group recognises the importance of its human resources to its success. The remuneration packages of the Group's employees are maintained at competitive levels based on their performance and experience and are in line the current industry practices. Other staff benefits provided by the Group include the provision of mandatory provident fund, discretionary bonuses and share option scheme. The remuneration policy and packages of the Group's employees are reviewed regularly.