



BUSINESS REVIEW

The Group recorded a satisfactory growth in turnover for the six months ended 30th September, 2001. Turnover rose to HK\$805.6 million, representing a growth of 19.7%. Profit attributable to shareholders increased by 10.0% to HK\$160.7 million. Basic earnings per share increased to HK4.72 cents, as compared with HK4.33 cents for the corresponding period of last year.

The U.S. remained as the Group's largest market accounting for 76.6% of total turnover, followed with the U.K. & Continental Europe at 13.5% of total turnover. Despite the lackluster performance of the U.S. economy, Christmas trees and seasonal decorative accessories experienced better than expected sales growth during the period under review. Major customers in the U.S. are expecting consumers to have more discretionary income to spend during the holiday season, due to the receipt of tax rebate cheques, lower gasoline prices, and reduced lending rates reflected by unprecedented consecutive interest rate cuts by the Federal Reserve.

According to projections in a recent survey conducted by the International Mass Retail Association, consumers in the U.S. will spend in the 2001 Christmas approximately 4.4% more than they did a year ago, as they are likely to remain at home during the holidays. Consumers were to spend at least as much as, if not more than last year, as stated in another survey in November by the Consumer Federation of America. The 11th September 2001 terrorist attacks had not resulted in cancellation of orders for Christmas merchandise but, on the contrary, catalyzed consumers to look towards the holidays as a means of escape from the emotional aftermath of the tragedy. This has, in turn, helped propel demand for the Group's festive products.

During the period under review, average costs for petroleum-based raw materials like PVC powder dropped by approximately 20% as compared with the same period of last year. This, however, was offset by higher production costs for the pre-lit and fiber-optic Christmas trees, where the electrical parts had been outsourced, resulting in the Group achieving a gross profit margin of approximately 40.1%, as compared with 40.6% for the corresponding period of last year.

The Group's strategy to produce leisure furniture by utilizing the production facilities for artificial Christmas trees during its low season, and thus generating synergy with its core business, has proven to be a success. In fact, since the establishment of this business division, leisure furniture sales had enjoyed a high level of growth, which in turn has secured the Group with an increased revenue stream.

Since participating in the digital entertainment industry through its investment in Imagi Production Limited ("Imagi"), a cutting-edge three-dimensional ("3D") computer graphics animations producer, the Group had been in negotiations with distributors, television networks, toy companies, and sales agencies from around the world for the licensing rights of the current production of the television cartoon series. In September of this year, the Group received positive responses during its marketing roadshow in Japan for Imagi's creation, and was equally well-received during its participation in MIPCOM 2001 held at Cannes, France, in early October. The Group at present is having advanced discussions with an European multi-media broadcaster for release of Zentrix, a 26-episode, 3D animation television cartoon series to Europe, the Middle East and Africa. Furthermore, a local distributor for Asia (excluding Japan and the People's Republic of China) has also indicated interest, whilst the Group is seeking to arrive at agreements for the North American, Japanese, Australian, South American and the PRC markets in the near future.



Christmas Festive Products

During the period under review, artificial Christmas trees and festive accessories remained as the Group's largest revenue contributor, of which sales increased by 19.7% to HK\$780.6 million, representing 96.9% of the Group's total revenue. Even with initial indications that the U.S. economy is experiencing a slow down, there have been signs showing the sales of Christmas festive products at discount retailers, including the Group's top customers such as: Kmart, Wal-Mart and Target, are gaining momentum since Thanksgiving. The Board as a result expects sales growth for Christmas tree to be maintained. Moreover, it is believed that the availability of a large selection of high quality artificial Christmas trees will place the Group in a strong position to capture added growth as consumers continue to follow an environmentally conscious mentality which avoids the use of live trees. As well, the need for replacement of obsolete trees will also help to fuel added growth.

Leisure Furniture

Leisure furniture continued to experience encouraging growth for the first half of the fiscal year. Sales increased to HK\$25 million, representing a rise in growth of 20.5%. Its contribution to the total turnover for the period was around 3.1%. However, as peak season for leisure furniture production runs from October to March of next year, the contribution from leisure furniture in the second half of the fiscal year will be much greater.

Technology Investments

The Group has established a foothold in the digital entertainment industry by acquiring a 65% interest in Imagi in October 2000. In May 2001, the Group increased its shareholding to 82.5%. The Board is confident in its ability to reap ample returns from this investment by way of multiple revenue sources, such as revenues from 3D computer graphics production services, trademark licensing, broadcasting fees, as well as royalty fees arising from sales and distribution of toys, publications, VC-, VCD-, DVD- or LD-format home viewing programs, as well as a wide range of merchandise.

In an effort to strengthen customer relations, the Group will also maintain and upgrade its website DrFestive.com, an infotainment portal which aims at strengthening relations with end consumers while building brand recognition globally. Moreover, the website was also regarded as an effective tool for generating market intelligence, which can then be utilized for developing future products.