

Since collection of aged receivables continue to create a problem for us, our cash flow continue to be tight. We are controlling our expenses very tightly and are very cautious and conservative in making any investments in new project or producing new TV dramas this year.

We will remain focused on our core business and despite high finance cost, we are still confident of maintaining a solid business with a reasonable return.

#### ***Anti-theft car alarm and tracking system***

The performance of the operation in the anti-theft car alarm and tracking system was still poor during the period under review. Since positive cash inflow was not expected to be generated by the project in the near future, the Directors became more conservative in further financing its operation. The management of the project was also required to secure its own funding from the market to support its operation.

In view of the extreme poor performance of the project which was out of the original schedule and expectation, a full provision for impairment on the set up cost of the system had been made in the current period, resulting in the record of a loss of HK\$25 million (2002: HK\$4 million) for this division.

#### ***Liquidity And Financial Resources***

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\$38.5 million as at 30th June, 2003, of which, HK\$37 million has been utilized. Certain land and buildings and plant and machinery and motor vehicle with net book value of approximately HK\$65.7 million and HK\$7.2 million respectively were pledged to secure the mentioned facilities. The Group had a total long term borrowing of approximately HK\$3.2 million and shareholders equity of approximately HK\$53.6 million as at 30th June, 2003. The gearing ratio, calculated based on total liabilities and shareholders' equity was 160% (31st December, 2002: 67%).

Total current assets of the Group amounted to approximately HK\$55.6 million, with cash and bank balance of approximately HK\$2.8 million, inventories and television programmes and sub-licensing rights of approximately HK\$27 million, trade and other receivables, prepayments and deposits of approximately HK\$25.8 million while net current liabilities was HK\$82.4 million. The current ratio was 0.67 (31st December, 2002: 0.88) and the quick ratio was 0.35 (31st December, 2002: 0.60).

The Group's financial ratio was deteriorating due to decrease in shareholders' equity and tight cash flow position. In view of which, the Group had further secured a new banking facilities of HK\$15 million from a new banker and raised approximately HK\$8.3 million by placing of 86,375,000 new shares of the Company subsequent to the balance sheet date.

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. The Directors do not consider that the Group has significant exposure to foreign exchange fluctuations in view of the stability of US dollars and Renminbi. The Directors 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 30th June, 2003.

### *Capital Structure*

Subsequent to the balance sheet date, on 26th August, 2003 the Company entered into a subscription agreement with a wholly owned subsidiary of China Star Entertainment Limited for the subscription of 86,375,000 new shares of the Company at par value of HK\$0.10 each for an aggregate amount of HK\$8,637,500. The completion of the subscription agreement has been divided into two tranches of 69,100,000 and 17,275,000 new shares respectively. The issuance of the first tranche of 69,100,000 shares was completed on 10th September, 2003. The second tranche of shares is expected to be completed on or before 10th October, 2003.

The net proceed of approximately HK\$8,300,000 is expected to be raised from the subscription which will be applied as the general working capital of the Group. As at the date of this report, HK\$6,910,000 was received from the completion of the first tranche of the subscription.

The movement in the share capital of the Company is as follows:-

	<b>Number of shares issued</b>
At 1st January, 2003 and 30th June, 2003	345,500,000
Allotment of shares as detailed above on 10th September, 2003	69,100,000
At the date of this report	414,600,000