

### CAPITAL REORGANISATION

Pursuant to an ordinary resolution passed by the shareholders at a special general meeting held on 4 December 2003 (“SGM”), the authorised share capital of the Company has been increased from HK\$50 million divided into 500,000,000 shares of HK\$0.10 each to HK\$100 million by the creation of an additional 500,000,000 unissued shares of HK\$0.10 each.

Following the above, a capital reorganisation scheme was also approved by the shareholders at the SGM as a special resolution. Under the capital reorganisation scheme,

- (a) the nominal value of the issued share of the Company be reduced from HK\$0.10 each to HK\$0.01 each by the cancellation of HK\$0.09 paid up on each issued share (each a “New Share”); and
- (b) each of the authorised but unissued shares of HK\$0.10 each be subdivided into 10 New Share.

As a result of the capital reorganisation, an amount of HK\$38.9 million standing to the credit of the share capital account of the Company was cancelled and credited to the contributed surplus account of the Company which may be utilised in accordance with the bye-laws of the Company and the Companies Act 1981 of Bermuda and had been fully applied to the partial set-off of the accumulated losses brought forward from prior years.

As at the balance sheet date, the authorised share capital of the Company was HK\$100 million divided into 10,000,000,000 New Shares of HK\$0.01 each, of which 2,591,250,000 Shares have been issued.

Subsequent to the balance sheet date, the Board has decided to put forward a proposal to the shareholders to further increase the authorised share capital of the Company by HK\$100 million by the creation of additional 10,000,000,000 New Shares for the issuance of Consideration Shares for the acquisition of the Copper Business as stated on the “Post Balance Sheet Event – Major Transaction” below.

# Management Discussion and Analysis

## CAPITAL STRUCTURE AND USE OF PROCEEDS

The issued share capital of the Company has the following movement during the year:

	<b>No. of Shares Issued</b> <i>'000</i>
Balance at 1 January 2003	345,500
Subscription of Shares ( <i>Note 1</i> )	86,375
Shares issued under Open Offer ( <i>Note 2</i> )	<u>2,159,375</u>
Balance at 31 December 2003	<u>2,591,250</u>

*Note 1:* On 26 August 2003, China Star HK Entertainment Company Limited entered into a subscription agreement with the Company for the subscription of 86,375,000 shares of the Company at par value of HK\$0.10 each for an aggregate amount of HK\$8.6 million. The completion of the subscription was divided into two tranches of 69,100,000 shares and 17,275,000 shares, which were completed on 10 September 2003 and 7 October 2003, respectively.

The Company raised a total of approximately HK\$8.3 million, net of related expenses, from the subscription which had been fully applied to the general working capital.

*Note 2:* In October 2003, the Company proposed an open offer on the basis of 5 offer shares for every existing share held to all shareholders with their registered address, as shown on the register of members, in Hong Kong at HK\$0.04 per share. The open offer was completed on 29 December 2003 with the issuance of 2,159,375,000 New Shares for approximately HK\$79.7 million, net of related expenses. The net proceed has been applied to the followings as of today:

	<i>HK\$'000</i>
Repayment of outstanding loans	19,500
Applied to general working capital	20,200
Set aside in a fixed deposit account for further development of multi-media business	<u>40,000</u>
	<u>79,700</u>

## 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\$20 million as at 31 December 2003, of which approximately, HK\$14 million has been utilized. Certain land and buildings with net book value of approximately HK\$19 million; plant and machinery and motor vehicle with net book value of approximately HK\$7 million; and a fixed deposit of HK\$10 million were pledged to secure the mentioned facilities. The Group had a total long term borrowing of approximately HK\$2 million and shareholders equity of approximately HK\$133 million as at 31 December 2003. The gearing ratio, based on total liabilities and shareholders' equity, was 35% as at 31 December 2003 compared to 66% as at 31 December 2002. Significant improvement was noted as the Company's share capital has been greatly increased by the subscriptions of new shares and open offer as mentioned above.

Total current assets of the Group amounted to approximately HK\$100 million, with cash and bank balances of approximately HK\$63 million, inventories and television programmes and sub-licensing rights of approximately HK\$21 million, trade and other receivables, prepayments and deposits of approximately HK\$16 million while total current liabilities were HK\$45 million. The current ratio was 2.22 (2002: 0.88) and the quick ratio was 1.76 (2002: 0.60).

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 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 utilise any financial instrument for hedging purposes during the period and there are no hedging instruments outstanding as at 31 December 2003.

## CONTINGENT LIABILITIES

- (i) At the balance sheet date, the Group had contingent liabilities not provided for in the financial statements as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Bills discounted with recourse	—	5,271
Possible future long service payments	<b>200</b>	<b>2,321</b>

- (ii) At the balance sheet date, there were unlimited corporate guarantees issued by the Company to certain banks to secure a bank loan and other banking facilities granted to certain subsidiaries of the Company.



# Management Discussion and Analysis

## POST BALANCE SHEET EVENT – MAJOR TRANSACTION

Subsequent to the balance sheet date, the Company entered into an acquisition agreement with Solartech International Holdings Limited (“Solartech”) on 25 March 2004 for the acquisition of the copper business from Solartech at a consideration of HK\$320 million by the issuance of 8,000,000,000 new shares of HK\$0.01 each in the share capital of the Company (the “Consideration Shares”) at HK\$0.04 each.

The acquisition is a major and connected transaction for the Company and is subject to, among other things, the approval of the shareholders at the forthcoming special general meeting and the granting of a Whitewash Waiver by the Executive Director of the Corporate Finance Division of the Securities and Future Commission. Upon completion of the acquisition, Solartech and its concert parties will hold approximately 75.5% of the enlarged issued share capital of the Company. A circular containing details of the transaction and the Whitewash Waiver will be despatched to the shareholders of the Company as soon as practicable.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2003, sales to the Group’s largest and five largest customers accounted for 49% (2002: 40%) and 67% (2002: 64%) of the total turnover, respectively. Purchases from the Group’s largest and five largest suppliers accounted for 11% (2002: 45%) and 40% (2002: 87%) 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.

## EMPLOYEES AND REMUNERATION POLICY

The Group had a total of approximately 320 employees as at 31 December 2003. The Group recognizes 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 with 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.