

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the subsidiaries comprise: (1) design, manufacture and sale of life-like plants; (2) production, acquisition and distribution of television programmes and the provision of related multi-media services; (3) sale of festival gift products through an internet portal; and (4) provision of anti-theft car alarm and tracking services. Except for the discontinuation of the operation of the anti-theft car alarm and tracking system, there were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 68.

The directors do not recommend the payment of any dividend in respect of the year.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	<b>81,771</b>	122,692	124,027	145,827	123,553
Profit/(loss) attributable to shareholders	<b>(63,903)</b>	(82,335)	64	(8,577)	11,514
	As at 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TOTAL ASSETS	<b>179,593</b>	180,469	244,281	207,539	182,675
TOTAL LIABILITIES	<b>(47,402)</b>	(72,673)	(54,432)	(32,366)	(15,409)
MINORITY INTERESTS	–	–	(1,536)	(2,938)	–
	<b>132,191</b>	107,796	188,313	172,235	167,266

## Report of the Directors

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options are set out in notes 27 and 28 to the financial statements respectively.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

### DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's did not have reserves available for cash distribution and/or distribution in specie. The Company's share premium account, in the amount of HK\$117,126,000, may be distributed in the form of fully paid bonus shares.

### MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, the Group's largest customer and the five largest customers accounted for 49% and 67% of the Group's total sales, respectively. The Group's largest supplier and five largest suppliers accounted for 11% and 40% of the Group's total purchases, respectively.

As far as the directors are aware, neither the directors, nor their associates, nor any shareholder (which, to the best knowledge of the directors, own more than 5% of the Company's share capital) had an interest in any of the customers and suppliers of the Group during the year.

### DIRECTORS

The directors of the Company during the year were:

#### Executive Directors

Ng Tak Chak, Nelson	(Appointed on 5 December 2003)
Chu Yuk Kuen	(Appointed on 7 April 2003)
Lam Kwan Sing	(Appointed on 18 June 2003)
Lei Hong Wai	(Appointed on 10 September 2003)
Yip Kwok Cheung	(Appointed on 5 December 2003)
Leung Mei Yee	(Resigned on 5 December 2003)
Lai Kam Wing, Jimmy	(Resigned on 28 July 2003)
Ma Yuk Wah, Monita	(Resigned on 17 June 2003)

#### Independent Non-executive Directors

Chun Jay	(Appointed on 22 August 2003)
Lo Miu Sheung, Betty	(Appointed on 22 August 2003)
Sir Gordon Macwhinnie	(Resigned on 21 August 2003)
Wu Wing Kit	(Resigned on 21 August 2003)

In accordance with the Company's bye-laws, Mr. Ng Tak Chak, Nelson, Mr. Lei Hong Wai, Mr. Yip Kwok Cheung, Mr. Chun Jay and Ms. Lo Miu Sheung, Betty will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 14 of the Annual Report.

### DIRECTORS' SERVICE CONTRACTS

No director has a service contract with the Company which is not determinable by the Company within one year without the payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance by the business of the Company to which the Company or any of its subsidiaries was a party during the year.

### **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES**

At 31 December 2003, none of the directors and chief executive of the Company had interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Companies.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the heading “Director’s and chief executive’s interests and short positions in shares and underlying shares and debentures” above and in the share option scheme disclosures in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the following persons had interests or short positions in the shares and underlying shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Long positions:

	Number of Shares held			Total	Percentage of holding
	Corporate Interest	Personal Interest	Spouse Interest		
China Star Entertainment Limited	518,250,000 <sup>(1)</sup>			518,250,000	20.00%
China Star HK Entertainment Company Limited	518,250,000 <sup>(1)</sup>			518,250,000	20.00%
Ma Siu Fong	149,514,000 <sup>(2)</sup>		88,656,000 <sup>(3)</sup>	238,170,000	9.19%
Lee Wai Man		88,656,000 <sup>(3)</sup>	149,514,000 <sup>(2)</sup>	238,170,000	9.19%
Chu Yuet Wah	149,514,000 <sup>(2)</sup>			149,514,000	5.77%
Kingston Finance Limited	149,514,000 <sup>(2)</sup>			149,514,000	5.77%
Mak Tai Wo		135,960,000		135,960,000	5.25%

Notes:

- (1) These shares are beneficially owned by China Star HK Entertainment Company Limited, the issued shares of which are wholly and beneficially owned by China Star Entertainment Limited. Accordingly, China Star Entertainment Limited is deemed to be interested in these shares.
- (2) These shares represent the security interests held by Kingston Finance Limited which is owned as to 49% by Ma Siu Fong and as to 51% by Chu Yuet Wah. Accordingly, Ma Siu Fong and Chu Yuet Wah are deemed to be interested in these shares. Lee Wai Man is also deemed to be interested in these shares as he is the spouse of Ma Siu Fong.
- (3) These shares are beneficially owned by Lee Wai Man, who is the spouse of Ma Siu Fong. Accordingly, Ma Siu Fong is deemed to be interested in these shares.

Save as disclosed above, no persons had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

# Report of the Directors

## SHARE OPTION SCHEME

The detailed disclosures relating to the Company's share option scheme are printed on note 28 to the financial statements.

## CONNECTED TRANSACTIONS

During the year, the Group had the following transaction which constitute "connected transactions" as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

Pursuant to an agreement dated 9 February 2000, FT Strategic Investments Limited ("FT Strategic"), a wholly-owned subsidiary of the Group, agreed to advance loans from time to time in the aggregate amount of HK\$10 million to FT Multi-Media Limited ("FT Multi-media"), a 60%-owned subsidiary of the Group. The loans bear interest at the rate of 10% per annum.

As at 31 December 2003, FT Strategic had an amount due from FT Multi-media of HK\$15,798,000, which comprised a loan amount of HK\$11,371,000 and interest receivable of HK\$4,427,000. During the year, FT Strategic has received interest of approximately HK\$1,330,000 from FT Multi-media.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's articles of association.

## AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

### AUDITORS

Ernst & Young resigned as the auditors of the Company on 24 December 2003. Charles Chan, Ip & Fung CPA Ltd. have been appointed as auditors of the Company in the special general meeting held on 20 January 2004.

Charles Chan, Ip & Fung CPA Ltd. retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Ng Tak Chak, Nelson**

*Chairman*

Hong Kong

26 April 2004