

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND PROSPECTS

During the six months ended 30th June, 2004, the Group's unaudited turnover and loss attributable to shareholders was around HK\$21.9 million (2003: HK\$11.7 million) and HK\$33.7 million (2003: HK\$54.2 million), respectively.

There was a significant improvement in current period's results as last period's amount included HK\$25 million loss recorded by the discontinued anti-thief car alarm and tracking system.

#### Sale of life-like plants

The business volume of the Group's core business was increased from last period's approximately HK\$10.9 million to the current period's HK\$17.8 million. The significant increase in the turnover of the Company was due to a larger portion of the Christmas tree orders were completed and delivered before 30th June, 2004. While due to the outbreak of the SARS in mid 2003, certain appointments with our customers were cancelled and the Group had to defer our production schedules resulting with the cancellation of certain orders in first half of 2003.

The segment loss was approximately HK\$12.5 million as compared to approximately HK\$19.4 million in 2003. Improvement was noted as a larger portion of the business was completed in the first half of the year and there was a substantial reduction in production and administrative expenses due to the taking up of more aggressive measures on cost savings and the adoption of a more efficient and effective production model.

The raw material prices of the Group's products have been increasing since the end of 2003 and there was an average increment of 20 – 25% on the major raw materials of the Group's products. The profit margin was squeezed as it is hard for the Group to transfer the cost increment to our customers who have received price quotations. Despite the management has taken up certain measures to foster the business volume and the profit margin of the Group's products, the results of these measures are yet to be seen. The management will closely monitor on the raw material prices and would make other measures to reduce its impact on the Group's operation. Nevertheless, the Directors consider that the business is still difficult in the second half of the year.

The Group will continue to explore the development opportunities and the possibility of further co-operation with other factories to enrich and support the Group's development of new products with higher profit margins.

**Multi-media business**

In the first half of 2004, the media market in the PRC continued to be weak although substantially improved from the SARS period. Program buying activities by TV stations picked up gradually and has been restored to previous levels by the third quarter of the year. The Group's turnover for the period dropped to approximately HK\$3.7 million. Segment loss before finance cost was increased to approximately HK\$15 million due to larger provisions for aged and doubtful debts and increased in write off of discontinued drama projects during the period.

Given the adverse market situation and limited resources available, management has decided to temporarily suspend the production of any new self-produced drama series. Focus has been made on the sales and distribution of the 30 hours of self-produced drama and 80 hours of purchased programs on hand of which censorship approval was obtained near the end of last year. Sales has been slightly slower than what we anticipated but so far revenue is still in line with our earlier projections.

The second half of 2004 will continue to be difficult for the multi-media division. Sales effort for programs on hand will need to be improved while accounts receivable need to be aggressively pursued and collected. We will continue to control our expenses very tightly and continue to use sales proceeds to reduce our current debt to much healthier level. We will remain cautious and conservative in making any new investments or participating in new drama productions this year.

**Copper business**

Subsequent to the balance sheet date, the acquisition of the copper business from Solartech was completed on 11th August, 2004.

Due to the recovery of the world economy leading to an increase in world copper consumption, there was an undersupply in copper raw material. The growth in global output of refined copper fell behind growth in its consumption. The apparent global supply-demand disequilibrium of copper showed a shortage of copper in output.

Meanwhile, incentives from improvement in the quality of copper and decrease in inventory brought a continual upturn of copper price. In particular, the fourth quarter of 2003 witnessed an accelerating increase in the global copper price.

Since year 2002, the Copper Group keeps on upgrading technologies, advancing its machineries and tapping its potential to improve production capacity. Henceforth, the Copper Group's current annual production capacity is increasing. As such, the significant increase in selling price of copper benefited the Copper Group a great deal in the year to come.

With further increase in the Copper Group's resource supply capacities, production and management standard operation level, together with the full rebound of copper prices, the Directors opines that the Copper Group will have promising development prospects with its potential fully reflected in competition. The management of the Copper Group will strives to bring its advantages if scale of economy, a multi-sourcing of copper and relatively stable costs into full play so as to enable shareholders to fully enjoy the benefits brought by the rapid growth of the Copper Group.

## 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 approximately HK\$12 million as at 30th June, 2004, of which has been fully utilized. Certain land and buildings and plant and machinery and motor vehicle with net book value of approximately HK\$18.7 million and HK\$0.2 million respectively and a fixed deposit of HK\$5 million were pledged to secure the mentioned facilities. The Group had a total long term borrowing of approximately HK\$1.5 million and shareholders equity of approximately HK\$98.5 million as at 30th June, 2004. The gearing ratio, calculated based on total liabilities and shareholders' equity was approximately 43% which was a bit higher than that of 35% as at 31st December, 2003.

Total current assets of the Group amounted to approximately HK\$65.8 million, with cash and bank balance of approximately HK\$44.2 million, inventories and television programmes and sub-licensing rights of approximately HK\$12.8 million, trade and other receivables, prepayments and deposits of approximately HK\$8.8 million while net current liabilities was HK\$40.6 million. The current ratio was 1.62 (31st December, 2003: 2.20) and the quick ratio was 1.30 (31st December, 2003: 1.72).