

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).

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, 2004.

CAPITAL STRUCTURE AND USE OF PROCEEDS

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

There was no movement in the share capital of the Company during the period.

Subsequent to the balance sheet date, the Directors put forward a proposal to the shareholders to further increase the authorized share capital of the Company by HK\$100 million by the creation of additional 10,000,000,000 shares for the issuance of Consideration Shares for the acquisition of the copper business, as stated on the "Post Balance Sheet Events" above.

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

	No. of shares Issued '000
Balance at 1st January, 2003 and 30th June, 2003	345,500
Subscription of Shares (<i>Note 1</i>)	86,375
Shares issued under Open Offer (<i>Note 2</i>)	2,159,375
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Balance at 31st December, 2003 and 30th June, 2004	<u>2,591,250</u>

Note 1: On 26th 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 branches of 69,100,000 shares and 17,275,000 shares, which were completed on 10th September, 2003 and 7th October, 2003, respectively.