



SOLARTECH INTERNATIONAL HOLDINGS LIMITED  
(Incorporated in Bermuda with limited liability)

# INTERIM REPORT

For the year ended 31 March 2005



The Board of Directors (the "Directors") of Solartech International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2005, as follows:–

## Condensed Consolidated Income Statement

For the year ended 31 March 2005

	Notes	For the year ended 31 March	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Audited)
Turnover	4	<b>1,582,974</b>	1,197,100
Cost of sales		<b>(1,452,299)</b>	(1,058,812)
Gross profit		<b>130,675</b>	138,288
Other operating income		<b>21,895</b>	11,304
Interest income		<b>6,495</b>	4,024
General and administrative expenses		<b>(98,417)</b>	(129,527)
Selling and distribution expenses		<b>(19,217)</b>	(18,552)
Profit from operations	5	<b>41,431</b>	5,537
Finance costs		<b>(24,244)</b>	(14,798)
Impairment loss recognised in respect of goodwill	6	–	(63,653)
Share of results of associates		<b>206</b>	(5,726)
Profit (loss) before taxation		<b>17,393</b>	(78,640)
Taxation	7	<b>(9,073)</b>	(8,990)
Profit (loss) before minority interests		<b>8,320</b>	(87,630)
Minority interests		<b>(3,970)</b>	2,445
Profit (loss) for the year		<b>4,350</b>	(85,185)
Earnings (loss) per share – basic	9	<b>1.4 cents</b>	(37.9) cents

## Condensed Consolidated Balance Sheet

At 31 March 2005

	Notes	31 March 2005 HK\$'000 (Unaudited)	31 March 2004 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	10	521,933	458,715
Goodwill		16,212	–
Interests in associates		9,802	9,596
Notes receivable	11	55,000	55,000
Deferred tax assets		1,366	1,366
		<b>604,313</b>	<b>524,677</b>
<b>Current assets</b>			
Inventories		331,540	229,274
Television programmes and sub-licensing rights		1,578	–
Debtors, deposits and prepayments	12	384,595	344,585
Bills receivable		4,157	3,933
Pledged deposits		28,270	23,107
Bank balances and cash		139,195	143,630
		<b>889,335</b>	<b>744,529</b>
<b>Current liabilities</b>			
Creditors and accrued charges	13	153,837	114,760
Bills payable		9,346	20,596
Taxation		12,204	9,196
Obligations under finance leases		2,238	1,786
Borrowings		387,031	291,568
		<b>564,656</b>	<b>437,906</b>
<b>Net current assets</b>		<b>324,679</b>	<b>306,623</b>
<b>Total assets less current liabilities</b>		<b>928,992</b>	<b>831,300</b>

	Notes	31 March 2005 HK\$'000 (Unaudited)	31 March 2004 HK\$'000 (Audited)
<b>Non-current liabilities</b>			
Obligations under finance leases		1,554	2,087
Deferred tax liabilities		13,011	11,809
		<b>14,565</b>	13,896
<b>Minority interests</b>			
		93,959	14,026
		<b>820,468</b>	803,378
<b>Capital and reserves</b>			
Share capital	14	3,270	2,730
Reserves		817,198	800,648
		<b>820,468</b>	803,378

## Condensed Consolidated Statement of Changes in Equity

For the year ended 31 March 2005

	Share capital	Share premium	Asset revaluation reserve	Goodwill reserve	Statutory reserve	Exchange reserve	Contributed surplus	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003	1,896	-	14,190	(63,298)	4,474	(16,141)	587,012	244,705	772,838
Surplus on revaluation of leasehold land and buildings	-	-	7,708	-	-	-	-	-	7,708
Increase in opening deferred tax liability resulting from change in tax rate	-	-	(13)	-	-	-	-	-	(13)
Deferred tax liability arising on revaluation of properties	-	-	(1,557)	-	-	-	-	-	(1,557)
Exchange difference on translation of financial statements of overseas operations	-	-	-	-	-	443	-	-	443
Net gains not recognised in the income statement	-	-	6,138	-	-	443	-	-	6,581
Placement of new shares	834	43,136	-	-	-	-	-	-	43,970
Expenses incurred in relation to the placement of new shares	-	(965)	-	-	-	-	-	-	(965)
Realised on impairment of goodwill	-	-	-	63,653	-	-	-	-	63,653
Minority share of reserve	-	-	2,486	-	-	-	-	-	2,486
Loss for the year	-	-	-	-	-	-	-	(85,185)	(85,185)
At 31 March 2004	2,730	42,171	22,814	355	4,474	(15,698)	587,012	159,520	803,378
Exchange difference on translation of financial statements of overseas operations not recognised in the income statement	-	-	-	-	-	137	-	-	137
Placement of new shares	540	14,040	-	-	-	-	-	-	14,580
Expenses incurred in relation to the placement of new shares	-	(1,977)	-	-	-	-	-	-	(1,977)
Transfer upon partial disposal of a subsidiary	-	-	(1,164)	-	-	-	-	1,164	-
Profit for the year	-	-	-	-	-	-	-	4,350	4,350
At 31 March 2005	3,270	54,234	21,650	355	4,474	(15,561)	587,012	165,034	820,468

## Condensed Consolidated Cash Flow Statement

For the year ended 31 March 2005

	<b>For the year ended 31 March</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Net cash used in operating activities	<b>(47,357)</b>	(37,289)
Net cash used in investing activities	<b>(25,055)</b>	(33,093)
Net cash from financing activities		
New bank loans raised	<b>205,449</b>	143,287
Repayment of bank loans	<b>(208,290)</b>	(128,801)
New trust receipt loans raised	<b>874,772</b>	544,936
Repayment of trust receipt loans	<b>(777,586)</b>	(485,054)
Other financing cash flows	<b>(26,248)</b>	31,835
	<b>68,097</b>	106,203
Net (decrease) increase in cash and cash equivalents	<b>(4,315)</b>	35,821
Cash and cash equivalents at beginning of the year	<b>143,455</b>	107,378
Effect of foreign exchange rate changes	–	256
Cash and cash equivalents at end of the year	<b>139,140</b>	143,455
Being:		
Bank balances and cash	<b>139,195</b>	143,630
Bank overdrafts	<b>(55)</b>	(175)
	<b>139,140</b>	143,455

## Notes to the Condensed Financial Statements

For the year ended 31 March 2005

### 1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Directors resolved to change the financial year end date of the Company and its subsidiaries (the "Group") from 31 March to 30 June. As a result, the condensed financial statements of the Group for the current period covered the 12 months period ended 31 March 2005 and the comparative period covered the 12 months period ended 31 March 2004. The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. Adoption of Hong Kong Financial Reporting Standards/Changes in Accounting Policies

In 2004, HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Directors resolved to early adopt the following new HKFRSs from 1 April 2004 onwards.

HKFRS 3	Business Combinations
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets

In previous years, under SSAP 30 "Business Combination", goodwill was capitalised and amortised on a straight-line basis over its useful economic life and was assessed for an indication for impairment at each balance sheet date. Negative goodwill was recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets.

HKFRS 3 prohibits the amortisation of goodwill and requires goodwill to be tested for impairment annually and the excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition, after reassessment, to be recognised immediately in the income statement. HKFRS 3 prohibits the recognition of negative goodwill.

The first transaction to which HKFRS 3 has been applied is the acquisition of FT Holdings International Limited ("FT Holdings", subsequently the name was changed to Hua Yi Copper Holdings Limited pursuant to a special resolution passed on 17 September 2004) as detailed in note 15. The major impact has been the recognition of the goodwill of approximately HK\$16,212,000 arising from the acquisition being recognised in the consolidated balance sheet which would have been amortised on a straight-line basis over its useful economic life under SSAP 30. The adoption of HKAS 36 and HKAS 38 had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has also commenced considering the potential impact of the remaining new HKFRSs but is not yet in a position to determine whether these remaining new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These remaining new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

### 3. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of leasehold properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2004 except that the Group has early adopted certain new HKFRSs as stated in paragraph 2 above and adopted a new accounting policy in respect of television programmes and sub-licensing rights arising from its acquisition of FT Holdings in August 2004.

#### TELEVISION PROGRAMMES AND SUB-LICENSING RIGHTS

(i) *Television programmes ("TV programmes")*

TV programmes produced by the Group are stated at cost less amortisation and any identified impairment losses. Costs represent the carrying amount transferred from TV programmes in progress upon completion and are amortised at rates calculated to write off these costs in proportion to the expected revenues from the distribution and the licensing of video and other broadcasting of these TV programmes following their release.

(ii) *Sub-licensing rights*

Licence fees paid to acquire the rights for the sub-licensing of TV programmes produced by third parties in specified geographical areas and time periods are accounted for as sub-licensing rights. Upon the lease of these purchased TV programmes, the relevant portion of the licence fees are charged to the income statement on a systematic basis, with reference to the projected revenue and the underlying licence periods.

#### IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets excluding goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

#### 4. Segment Information

The Group reports its primary segment information based on product categories. Two new segments, life-like plants and television programmes production, distribution and licensing, arising from the acquisition of FT Holdings during the year, is presented in the current year. Turnover and profit from operations for the year ended 31 March 2005 and 2004, analysed by product category, are as follows:

	2005				2004			
	Turnover			Profit (loss) from Total operations	Turnover			Profit (loss) from operations
	External sales	Inter-segment sales	Total sales		External sales	Inter-segment sales	Total sales	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Cables and wires	642,630	10,263	652,893	(4,998)	613,637	8,152	621,789	1,657
Copper products	784,558	186,690	971,248	42,407	472,054	151,691	623,745	28,197
Connectors and terminals	117,901	497	118,398	11,528	102,323	438	102,761	9,816
Life like plants	22,076	-	22,076	(513)	-	-	-	-
Television programmes production, distribution and licensing	2,135	-	2,135	(2,039)	-	-	-	-
Other	13,674	-	13,674	(4,106)	9,086	-	9,086	(4,866)
	<u>1,582,974</u>	<u>197,450</u>	<u>1,780,424</u>	<u>42,279</u>	<u>1,197,100</u>	<u>160,281</u>	<u>1,357,381</u>	<u>34,804</u>
Elimination	-	(197,450)	(197,450)		-	(160,281)	(160,281)	
	<u>1,582,974</u>	<u>-</u>	<u>1,582,974</u>		<u>1,197,100</u>	<u>-</u>	<u>1,197,100</u>	
Unallocated corporate income				4,059				3,772
Unallocated corporate expenses				(4,907)				(33,039)
Profit from operations				<u>41,431</u>				<u>5,537</u>

Inter-segment sales are charged at prevailing market rates.

The Group's turnover for the year ended 31 March 2005 and 2004, analysed by geographical market, is as follows:

	2005			2004		
	External sales HK\$'000	Turnover Inter-segment sales HK\$'000	Total HK\$'000	External sales HK\$'000	Turnover Inter-segment sales HK\$'000	Total HK\$'000
Mainland China	1,136,279	187,187	1,323,466	773,106	152,129	925,235
North America	183,599	–	183,599	201,051	–	201,051
Europe	31,230	–	31,230	39,172	–	39,172
Hong Kong	73,826	–	73,826	40,633	–	40,633
Other Asian regions	158,040	10,263	168,303	143,138	8,152	151,290
	<b>1,582,974</b>	<b>197,450</b>	<b>1,780,424</b>	1,197,100	160,281	1,357,381
Elimination	–	(197,450)	(197,450)	–	(160,281)	(160,281)
	<b>1,582,974</b>	<b>–</b>	<b>1,582,974</b>	<b>1,197,100</b>	<b>–</b>	<b>1,197,100</b>

Inter-segment sales are charged at prevailing market rates.

## 5. Profit from Operations

	For the year ended 31 March	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Audited)
Profit from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>38,599</b>	37,870

## 6. Impairment Loss Recognised in Respect of Goodwill

During the year ended 31 March 2004, the Directors cautiously reviewed the business of an associate of the Group which was engaged in the manufacture and trading of optical fiber cables and related products. Based on expected cash flows, the Directors considered that the related goodwill of this investment was impaired and, accordingly, impairment loss was recognised in the income statement.

## 7. Taxation

	For the year ended 31 March	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Audited)
Hong Kong Profits Tax	1,838	498
Taxation in other jurisdictions	6,034	7,741
Deferred tax	1,201	751
	<u>9,073</u>	<u>8,990</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

Taxation in other jurisdictions, including Mainland China and overseas, is calculated at the rates applicable in the respective jurisdictions.

## 8. Dividend

No dividend was paid during the year ended 31 March 2005 (2004: Nil). The Directors do not recommend the payment of any interim dividend.

## 9. Earnings (Loss) Per Share

The calculation of the basic earnings (loss) per share is based on the following data:

	For the year ended 31 March	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Audited)
Results for the year and results for the purpose of basic earnings (loss) per share	<u>4,350</u>	<u>(85,185)</u>
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<u>313,955,184</u>	<u>224,816,029</u>

As there is no potential dilutive ordinary shares in the current year and the exercise of potential dilutive ordinary shares in prior year would result in a reduction in the loss per share in that year, no diluted earnings (loss) per share has been presented for both years.

## 10. Property, Plant and Equipment

During the year ended 31 March 2005, the Group spent HK\$27,186,000 on acquisition of property, plant and equipment.

The net book value of property, plant and equipment of the Group as at 31 March 2005 includes an amount of HK\$4,876,000 in respect of assets held under finance leases.

At 31 March 2005, the Directors considered the carrying amount of the Group's leasehold land and buildings carried at revalued amounts and estimated that the carrying amounts did not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit was recognised in the current year.

## 11. Notes Receivable

The notes are secured by assets owned by the note issuer, carry interest at commercial rates and are wholly repayable in 2007.

## 12. Debtors, Deposits and Prepayments

At 31 March 2005, included in the balance are trade debtors of HK\$267,109,000 (2004: HK\$269,426,000). The Group allows a credit period of 30 days to 90 days to its trade customers.

The aged analysis of trade debtors is as follows:

	<b>31 March 2005 HK\$'000 (Unaudited)</b>	31 March 2004 HK\$'000 (Audited)
Within 30 days	<b>153,869</b>	134,510
31 – 60 days	<b>46,989</b>	69,655
61 – 90 days	<b>37,787</b>	27,706
Over 90 days	<b>28,464</b>	37,555
	<b>267,109</b>	269,426

## 13. Creditors and Accrued Charges

At 31 March 2005, included in the balance are trade creditors of HK\$79,072,000 (2004: HK\$81,445,000).

The aged analysis of trade creditors is as follows:

	<b>31 March 2005 HK\$'000 (Unaudited)</b>	31 March 2004 HK\$'000 (Audited)
Within 30 days	<b>41,735</b>	45,146
31 – 60 days	<b>22,278</b>	26,713
61 – 90 days	<b>9,888</b>	7,801
Over 90 days	<b>5,171</b>	1,785
	<b>79,072</b>	81,445

## 14. Share Capital

	<b>Authorised</b>	
	<b>31 March 2005</b>	31 March 2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Ordinary shares of HK\$0.01 each	<u>300,000</u>	<u>300,000</u>
	<b>Issued and fully paid</b>	
	<b>31 March 2005</b>	31 March 2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Ordinary shares of HK\$0.01 each	<u>3,270</u>	<u>2,730</u>

During the year ended 31 March 2005, pursuant to a subscription agreement entered into between the Company and Chau's Family 1996 Limited, 54,000,000 ordinary shares of HK\$0.01 each in the Company were issued at a price of HK\$0.27 per share. All the new shares issued rank pari passu in all respects with the then existing shares.

## 15. Acquisition of Subsidiaries

In August 2004, the Company subscribed for 8,000,000,000 ordinary shares of HK\$0.01 each of FT Holdings. The consideration was satisfied by injection of the Group's interest in certain companies and other plant and machinery and land and buildings engaging in manufacture and trading of copper rods and related products (the "Copper Group"). Immediately followed by the completion of this transaction, the Group's interest in the Copper Group was reduced by 24.5%. The effect of acquisition is summarised as follows:

	HK\$'000
Net assets acquired	81,826
Goodwill	<u>16,212</u>
Total consideration	<u>98,038</u>
Net cash inflow arising on acquisition:	
Cash paid for expenses related to acquisition	(36,904)
Bank balances and cash acquired	<u>41,546</u>
Net inflow of cash and cash equivalents in respect of the acquisition	<u>4,642</u>

## **16. Contingent Liabilities**

At 31 March 2005, the Company has issued guarantees to the extent of HK\$439,855,000 (2004: HK\$389,718,000) to banks to secure general banking facilities granted to certain subsidiaries, of which, HK\$377,917,000 (31 March 2004: HK\$229,890,000) was utilised.

In addition, the Company has given guarantee to a financial institution amounting to HK\$39,000,000 (31 March 2004: Nil) in respect of commodity trading of copper by certain subsidiaries.

## **17. Post Balance Sheet Event**

Subsequent to 31 March 2005, Chau's Family 1996 Limited entered into agreements to place and subscribe for new shares in the Company. Pursuant to the agreements, Chau's Family 1996 Limited has agreed to place 65,390,000 ordinary shares of HK\$0.01 each in the Company to independent investors at a price of HK\$0.28 per share and to subscribe for 65,390,000 new ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.28 per share.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Results**

The Directors are pleased to announce that for the year ended 31 March 2005 (the "period under review"), the total sales of the Group amounted to HK\$1,582,974,000, representing an increase of approximately 32.2% over HK\$1,197,100,000 for the corresponding period last year. Profit from operations was HK\$41,431,000, representing an increase of approximately 648.3% over HK\$5,537,000 for the corresponding period last year. Profit attributable to shareholders and earnings per share were approximately HK\$4,350,000 and HK1.4 cents respectively, compared to a loss of HK\$85,185,000 and a loss per share of HK37.9 cents for the corresponding period last year.

### **Interim dividend**

In light of the continuous rapid growth of the Group's business, the Directors resolved not to pay any interim dividend for the year ended 31 March 2005 (2004: Nil).

### **Business review**

During the period under review, the detailed business developments are as follows:

During the period under review, sales of cable and wire products increased 4.7% to HK\$642,630,000, representing 40.6% of the Group's total sales; sales of copper products during the period under review was HK\$784,558,000, representing an increase of 66.2% over the corresponding period last year and contributing 50% to the Group's total sales. Sales of connectors and terminals during the period under review rose 15.2% to HK\$117,901,000, amounting to 7.4% of the Group's total sales, while sales of chemical products and the acquired life-like plants and multi-media businesses were HK\$13,674,000 and HK\$24,211,000 respectively.

During the period under review, total sales and profit from operations recorded increases of 32.2% and 648.3% respectively as compared with the corresponding period last year, while consolidated gross profit margin decreased to 8.3% from 11.6% for the corresponding period last year. This was mainly due to increase in the selling prices of cable and wire products falling short of the increase in the soaring prices of raw materials, which resulted in a drop in profit margin and, hence, a decrease in the consolidated gross profit margin.

In terms of geographical breakdown, sales from Mainland China and Hong Kong markets rose to approximately HK\$1,210,105,000, contributing approximately 76.4% to the Group's turnover and representing an increase of 48.7% compared with the corresponding period last year. Sales from the North America market was HK\$183,599,000, amounting to approximately 11.6% of the Group's turnover. Sales from other markets in Asia increased about 10.4% to approximately HK\$158,040,000, representing approximately 10% of the Group's sales, while sales from the European market recorded about HK\$31,230,000, representing approximately 2% of the Group's turnover.

The period under review was a significant year for the development of the Group.

### **Disposal of interests in copper products business and acquisition of controlling interests of FT Holdings International Limited ("FT Holdings")**

On 25 March 2004, the Group entered into an acquisition agreement with FT Holdings, pursuant to which, the Group agreed to procure the sale, and FT Holdings agreed to procure the purchase of, the Group's copper products business at an agreed total consideration of HK\$320 million. Independent shareholder's approval was obtained by the Company at the special general meeting held on 30 June 2004, while the acquisition of the controlling interests of FT Holdings was duly completed on 11 August 2004. Immediately after the completion, the Company held approximately 74.99% of the issued share capital of FT Holdings as enlarged by the issuance of consideration shares. In October the same year, FT Holdings duly changed its name to Hua Yi Copper Holdings Limited ("Hua Yi Copper").

The Directors believed that the injection of copper products business to another listed company would provide the copper products business with independent financing capabilities. As stated above, the Company had raised proceeds of approximately HK\$23,000,000 by way of top up placement with Hua Yi Copper on 26 April 2005, which were used to purchase machineries and equipment for the new factory in Kunshan, Jiangsu Province, the PRC.

### **Cable and wire products**

During the period under review, save for the increase in sales of cable and wire products arising from Mainland China, Hong Kong and Asia Pacific markets, the business environment of most of the other core markets of the Group during the second half year of the period under review has been difficult. While there was an increase in sales, sales from January to March 2005 have experienced significant decrease compared with the corresponding period last year. This was mainly attributable to the intense competition of cable and wires industry in the region and the soaring prices of raw materials such as plastics and copper, etc. Facing such situation, vendors from different regions hesitated to increase prices and inventories. Under these conditions, the downstream cable and wire manufacturers handled more urgent orders with lower profit margins, which greatly affected the selling costs and gross profits of the Group.

Notwithstanding the increasing market competition and the uncertainties in the orders to be received, sales of the Group's cable and wire still recorded growth due to further strengthened sales and marketing of the Group. Evidences have shown that, many local and foreign owned enterprises have adopted long term operational strategies of targeting at both domestic and export sales, and the Yangtze River Delta has gradually become a preferred base for companies seeking to tap into Eastern China and overseas markets. Given our increasingly strong customers base, it is expected that the commencement of the operation of the Group's newly constructed factory for wires and cable in Kun Shan, Jiangsu Province, the PRC at the end of 2005 will capture the vast opportunities in domestic and export sales emerging in the Yangtze River Delta.

### **Copper Business**

During the period under review, the huge demand for copper products worldwide has driven the growth in the demand for copper, especially in the PRC. The rapid growth in the power and electronic industries as well as the real estate industry have been the momentum behind the demand for copper in PRC. The PRC continued to maintain the first place in terms of the global consumption of copper. Meanwhile, there was an undersupply of copper raw materials, but the copper refining output fell short of the consumption.

During the period under review, the Group operated its copper business through its then approximately 75%–owned listed subsidiary, Hua Yi Copper, and the development of the copper business was at a fast pace. Due to the strong demand for copper products and the continuous growing economy in the PRC, sales of copper rods and related products increased approximately 66.2% or HK\$312,504,000 to HK\$784,558,000 as compared with the corresponding period last year. The high value added downstream products attributed 40% to the total sales of the Group. The Group will gradually increase the percentage of its high value added downstream products in its turnover including stranded copper wires, tinsel copper wires, enamelled copper wires and tin coated copper wires.

Driven by the depreciation of US dollars and bids by funds, copper prices continued to surge. Copper prices quoted on the London Metal Exchange ("LME") reached its recorded high for the past 16 years, the average copper price per tonne quoted on LME was US\$3,379 in March 2005; the average price per tonne on LME was US\$3,000.18 from April 2004 to March 2005, an increase of US\$954.25 or 46.6% per tonne as compared with US\$2,045.93 in the corresponding period last year. In accordance with an article published on 20 June 2005, the red copper storage (紅銅庫存), which was under the regulation of LME, fell to a new low since July 1974 with only 36,150 tonnes left, causing the copper price for a three month period to increase by US\$43 to US\$3,435 per tonne to reach a historical high. Despite the high copper prices, the PRC economy continued to grow at a high rate. It is expected that demand for copper will remain strong.

The Group's copper products business mainly involves in processing, so the costs resulted from higher copper prices will be borne by customers. Furthermore, the Group will have a better bargaining position in light of the undersupply, and will be well poised to seek for a higher gross profit margin.

**Connectors and terminals**

The sales and profits of the Group's connectors and terminals based in Penang, Malaysia had been recording sound growth since its establishment in 1999. Sales increased from the initial HK\$9,000,000 to over HK\$117,901,000 for the period under review, an increase of 15.2% as compared with the corresponding period last year. The performance has been encouraging. In order to take a proactive approach to enhance the profits of its connectors and terminals businesses, the Group's additional production lines for connectors and terminals in Qingdao, Shangdong Province, the PRC have been duly installed and operations have commenced, and will provide strong support for the Group's connectors and terminals businesses.

**Life-like plant and multi-media businesses**

The total turnover of the acquired life-like plant and multi-media businesses amounted to HK\$24,211,000, of which sales of the life-like plant products was HK\$22,076,000 and the segment loss was HK\$513,000. Prices of raw materials for its products remained high. Meanwhile, as clients had confirmed the order prices, the Group was not able to transfer the cost increment to the clients, therefore profit margin was under pressure. Sales of the multi-media business amounted to HK\$2,135,000 and the segment loss was HK\$2,039,000. As the Group had adopted aggressive measures to reduce costs and formulated a more efficient production mode, the losses of these businesses were significantly narrowed.

**Prospect**

In view of China's accession to WTO and the hosting of Olympic Games in 2008 and World Expo in Shanghai in 2010, the market demand for most of the Group's products remains optimistic. Together with the increasing important role of the Yangtze River Delta region, the Group also invested in two new plants in Kunshan, Jiangsu Province, the PRC at the end of last year, in order to expand into cable and wire products and copper wire processing markets in the Yangtze River Delta. One of the two new plants is expected to commence its operations by the end of 2005. Annual production value of the new cable and wire products plant is HK\$250 million. The site area of the plant is 43,000 square metres and its products are mainly cable and wire products for the production of electrical appliances and electronic products. The annual capacity of Hua Yi Copper's other new plant is expected to be 10,000 tonnes of copper wire of different specifications. The plant has an area of 38,000 square metres and will mainly produce high value added downstream copper wire products, including annealed copper wires, tin coated copper wires, stranded copper wires and enamelled copper wires. Besides fulfilling the demand of clients in eastern and northern China, this program was also in line with the Group's strategic move which aims to enhance its production scale.

Looking forward, other than reinforcing the development of copper products business, the Group also planned to further develop vertically integrated production methods, to strive to develop the high value added downstream products and to enhance profitability. With the valuable experience attained from the manufacturing industry, the Group is committed to developing its core business by adopting various measures, including effective cost control, synergies, prompt response to market changes and maintaining strong sales and marketing initiatives, so as to sustain its competitiveness and to satisfy its clients' needs.

Notwithstanding the Group's confidence of its future development, it will continue to adopt a prudent approach so as to capture the business opportunities as they arise and to generate the best returns for its shareholders.

## **EMPLOYEES**

As at 31 March 2005, the Group had approximately 4,500 employees in Hong Kong, the PRC and overseas. Remuneration policy is reviewed periodically and determined by reference to market terms, company performance, and individual qualifications and performance. Staff benefits include medical schemes, Mandatory Provident Fund scheme for Hong Kong employees, and state-sponsored retirement plans for employees in PRC.

## **LIQUIDITY AND FINANCIAL RESOURCES**

During the year ended 31 March 2005, the Group had implemented a prudent financial management policy. As at 31 March 2005, the Group had cash and bank balances (including pledged bank deposits) amounted to approximately HK\$167 million (2004: HK\$166 million) and net current assets value being over HK\$324 million (2004: HK\$306 million). The Group's gearing ratios as at 31 March 2005 was 0.48 (2004: 0.37), being a ratio of total bank borrowings of approximately HK\$390 million (2004: HK\$295 million) to shareholders' funds of approximately HK\$820 million (2004: HK\$803 million).

As at 31 March 2005, the Group pledged certain properties, plant and machinery, fixed deposits and trade debtors with an aggregate net book value of HK\$191 million (2004: HK\$181 million) to secure general banking facilities granted to the Group.

As at 31 March 2005, the Company has issued guarantees to the extent of approximately HK\$439 million (2004: HK\$389 million) to banks to secure general facilities granted to its subsidiaries, of which, approximately HK\$377 million (2004: HK\$229 million) was utilised. In addition, the Company has given guarantee to a financial institution amounting to approximately HK\$39 million (2004: Nil) in respect of commodity trading of copper by certain subsidiaries.

The transactions of the Group are mostly denominated in HK\$, US\$ and RMB. In managing the foreign currency exchange risk, the Group has adopted a prudent hedging policy through booking of forward foreign exchange contracts with the principal banks.

## **PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES**

Pursuant to the placing and subscription agreements dated 17 June 2004, Chau's Family 1996 Limited placed 54,000,000 ordinary shares of HK\$0.01 each in the capital of the Company to independent investors at a price of HK\$0.27 per share and subscribed for 54,000,000 new ordinary shares of HK\$0.01 each in the capital in the Company at a price of HK\$0.27 per share. The Group had applied the net proceeds of approximately HK\$14.2 million from the subscription for purchasing raw materials.

## **CHANGE OF FINANCIAL YEAR END DATE**

On 20 August 2004, the Directors resolved to change the Group's financial year end date from 31 March to 30 June. Accordingly, the financial year end date of the Group for 2005 will be 30 June 2005.

## POST BALANCE SHEET EVENTS

### Top-Up Placing of Existing Shares and Subscription of New Shares of Hua Yi Copper Holdings Limited

On 26 April 2005, Skywalk Assets Management Limited ("Skywalk Assets"), a wholly subsidiary of the Company, entered into the top-up placing agreement and the subscription agreement with a top-up placing agent and Hua Yi Copper Holdings Limited ("Hua Yi Copper") respectively. Pursuant to the top-up placing and subscription agreements dated 26 April 2005, Skywalk Assets placed 25,912,000 ordinary shares of HK\$0.20 each in the capital of Hua Yi Copper to independent investors at a price of HK\$0.93 per share (the "Top-Up Placing") and, upon the completion of the Top-Up Placing, subscribed for 25,912,000 new ordinary shares of HK\$0.20 each in the capital of Hua Yi Copper at a price of HK\$0.93 per share (the "Subscription"). The Top-Up Placing and the Subscription were completed on 28 April 2005 and 6 May 2005 respectively.

Prior to the Top-Up Placing and the Subscription, Skywalk Assets had held 397,121,875 shares in Hua Yi Copper, representing approximately 74.99% of the issued share capital of Hua Yi Copper. Upon completion of the Top-Up Placing and the Subscription, Skywalk Assets held 397,121,875 shares in Hua Yi Copper, representing approximately 71.49% of the enlarged issued share capital of Hua Yi Copper.

### Placing of Existing Shares and Subscription of New Shares of the Company

Subsequent to 31 March 2005, Chau's Family 1996 Limited entered into the agreements to place and subscribe for new shares in the Company. Pursuant to the placing and subscription agreements dated 24 May 2005, Chau's Family 1996 Limited placed 65,390,000 ordinary shares of HK\$0.01 each in the capital of the Company to independent investors at a price of HK\$0.28 per share and subscribed for 65,390,000 new ordinary shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.28 per share. The net proceeds of approximately HK\$17.8 million from the subscription were used for purchasing raw materials for production of cables and wires.

## DIRECTORS' INTERESTS IN SECURITIES

### 1. Shares

As at 31 March 2005, the interests of the directors and their associates in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long position in the shares of the Company

Name of director	Number of issued ordinary shares beneficially held	Percentage of the issued share capital of the Company
Mr. Chau Lai Him	81,992,000 (Note)	25.08%

Note: These shares are held by Chau's Family 1996 Limited which is wholly owned by the Chau's Family 1996 Trust, a discretionary trust of which Mr. Chau Lai Him is a discretionary object.

Long position in the shares of Hua Yi Copper, an associated corporation of the Company

<b>Name of director</b>	<b>Number of issued ordinary shares beneficially held</b>	<b>Percentage of the issued share capital of Hua Yi Copper</b>
Mr. Chau Lai Him	50,000	0.01%

## **2. Share options**

On 16 September 2002, the Company adopted a New Share Option Scheme (the "New Share Option Scheme") which replaced the Company's old share option scheme adopted in 1996 (the "Old Share Option Scheme").

During the year ended 31 March 2005, no options were granted under the New Share Option Scheme.

As at 31 March 2005, there were no outstanding share options under the Old Share Option Scheme.

Other than as disclosed above, as at 31 March 2005, none of the directors, nor their associates had any interests or short position in the securities of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than as disclosed above, none of the directors or their associates had any right to subscribe for securities of the Company, or had exercised any such right during the period, and at no time during the period was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contract of significance to which the Company or any its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 March 2005 (the "period") or at any time during the period.

## **SUBSTANTIAL SHAREHOLDERS**

Other than the interests disclosed under the heading "Directors' Interests in Securities" above, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no other person as having an interest of 5% or more in the issued share capital of the Company as at 31 March 2005.

## **DISCLOSURE PURSUANT TO RULE 13.13 OF THE LISTING RULES**

The aggregate trade receivable balance due from Whirlpool Corporation was approximately HK\$12,971,000, representing 8.9% of the market capitalization of the Company and 0.9% of the unaudited total assets of the Company as at 31 March 2005.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2005.

## **CORPORATE GOVERNANCE**

### **Audit Committee**

The Audit Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited financial statements for the year ended 31 March 2005.

### **Compliance with the Code of Best Practice**

In the opinion of the Directors, the Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice as set out in Appendix 14 of The Rules Governing the Listing of Securities of the Stock Exchange except that the independent non-executive directors are not appointed for a specific term.

By order of the board

**Chau Lai Him**

*Chairman and Managing Director*

Hong Kong SAR, 27 June 2005

*As at the date of this report, the executive Directors are Mr. Chau Lai Him, Mr. Zhou Jin Hua, Mr. Lau Man Tak, Mr. Liu Jin Rong and the independent non-executive Directors are Mr. Lo Kao Cheng, Mr. Lo Wai Ming and Mr. Chung Kam Kwong.*