

16. POST BALANCE SHEET EVENTS

- (a) Pursuant to a placing agreement and a subscription agreement both dated 6 July 2004, Ample Glory Limited, a substantial shareholder of the Company, agreed to place 1,000,000,000 ordinary shares of the Company through a placing agent to independent investors at HK\$0.011 per share and, at the same time, to subscribe for 1,000,000,000 new shares in the Company at the same price ("Top-up Placement"). Net proceeds of the subscription after deducting expenses is approximately HK\$10.64 million. The Top-up Placement was completed on 20 July 2004.

Details of the above are set out in the Company's announcement dated 8 July 2004.

- (b) On 23 July 2004, the Group entered into a conditional sale and purchase agreement with independent third parties for the acquisition of 100% equity interest in the share capital of Daiwah Company Limited ("Daiwah") at a consideration of HK\$28,500,000. Daiwah and its subsidiaries are principally engaged in the provision of total solution in digital output like artwork production and graphic design for advertising, decoration and window dressing. The consideration was settled by the allotment and issue of an aggregate of 455,000,000 ordinary shares in the Company at an issue price of HK\$0.011 per share and by cash of HK\$23,495,000 to the vendors. The acquisition was completed on 13 August 2004.

The acquisition constituted a discloseable transaction, details of which are set out in the Company's circular dated 16 August 2004.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with current period's presentation.

18. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved by the board of directors on 24 September 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the Period, the Group recorded a turnover of approximately HK\$54.4 million (2003: HK\$96.4 million) with net loss attributable to shareholders of approximately HK\$11.4 million (2003: HK\$29.1 million). The turnover for the Period decreased by 44% as compared to the six months ended 30 June 2003 (the "Previous Period") while net loss has cut down by more than 60%. The turnover and net loss for the Previous Period come from the wine business which the Group has disposed most of it in early 2004. To broaden the income base of the Group, the Group has diversified its business since the end of 2003. The Group has acquired several new businesses in the Period and only the post acquisition accounts are reviewed in this report.

Business review

Wine business

In April 2004, the Group disposed of its entire interests in All Paramount which was the holding company of 49% interests in Dong Feng. Dong Feng was principally engaged in the production and distribution of Shao Xing wine in the PRC and ceased to become a subsidiary of the Group after 1 January 2004 as a result of the termination of a voting alliance agreement between the Group and the other shareholder of Dong Feng. Attributable to the fact that the Group has become a minority shareholder of Dong Feng's business, the Group decided to dispose of its interests in the wine business under Dong Feng and diversified its business to other different markets so as to broaden the income base of the Group.

Skin and health care business

In early January 2004, the Group acquired Profit Team which is principally engaged in the sales and marketing of international branded products for skin care and cosmetics as well as in the operation of beauty treatment centers. Having faced severe market competition in the cosmetics and skin care retail sector, the performance of Profit Team was not satisfactory and loss was recorded during the Period. The management has restructured the business of Profit Team by launching its cosmetics and skin care wholesale business in Hong Kong and the PRC while trimming down its business in the retail sector as the market competition at the wholesale level is relatively less keen and less overhead is required to support the wholesale business. The management expects its business performance will improve by then.

Business review (continued)*Jewellery business and property investment*

The Group acquired 25% interest in Excel Harvest in January 2004 and the remaining 75% interest in April 2004, making it a wholly-owned subsidiary of the Group. Excel Harvest and its subsidiaries ("Excel Harvest Group") are principally engaged in the importing and wholesale of diamonds as well as property investment. Excel Harvest Group contributed HK\$16.6 million of turnover and approximately HK\$0.86 million profit after its acquisition. The management will continue to look for business opportunities for expansion as it considers appropriate.

Trading of steel and other products

In April 2004, the Group acquired the majority interests in Jafoon and Silver Dragons. Jafoon is principally engaged in the import and export trading of stainless steel while Silver Dragons is principally engaged in advertising, property investment and general trading. They together contributed HK\$27.8 million of turnover and approximately HK\$0.87 million profit. The profit margin of trading business remains low as competition is keen. The management will monitor closely on the changes of the market conditions and take due actions to these changes.

Prospects

Diversification provides the Group with broader income base and enables the Group in balancing its exposure to risks in different markets. However, the management will continue to review the Group's businesses and will propose restructuring, if necessary, to streamline the organization structure and control costs.

Financial information

The Group generally financed its operations by cash generated from operations, proceeds from the exercise of share options, and banking facilities granted by its principal bankers.

As at 30 June 2004, the Group's gearing ratio was 0.89 (as at 31 December 2003: 1.36) (calculated on the basis of total bank and other borrowings over shareholders' funds).

The Group's total bank and other borrowings was approximately HK\$166.8 million, including bank borrowing of HK\$166 million and other unsecured borrowings of HK\$0.8 million. The bank borrowings are secured by investment properties, time deposits, investment fund, guarantees granted by directors of certain subsidiaries and third party and properties owned by directors of certain subsidiaries.

Since the Group's core operation was in Hong Kong, it was expected that the Group had limited exposure to the fluctuation in exchange rates. Bank balances and borrowings were mainly denominated in Hong Kong dollars.

Employees and remuneration policy

At the balance sheet date, the Group employed a work force of 40 (2003: 700) employees. The employee costs (excluding directors' emoluments) amounted to approximately HK\$6 million (2003: HK\$10 million). Employee remuneration was in accordance with individual's responsibility and performance. Staff benefits include contribution to Mandatory Provident Fund Scheme, share option scheme, medical allowances and other fringe benefits.

Contingent liability

The Group did not have any significant contingent liability at the balance sheet date.

Charge of assets

As at 30 June 2004, the Group's investment properties of HK\$79.5 million, bank deposits of HK\$10.7 million, and investment fund of HK\$5.7 million were pledged as security for banking facilities.