

Management Discussion and Analysis

RESULTS

Turnover of the Company and its subsidiaries (collectively “the Group”) for the year ended 31 December 2004 (the “Year”) was approximately HK\$144.1 million (2003: HK\$195.5 million) and net loss from ordinary activities attributable to the shareholders was approximately HK\$50.7 million (2003: HK\$36.7 million). The turnover for the Year decreased by approximately HK\$51.4 million, representing a decrease of 26.3%. The decrease in turnover was mainly related to the disposal of Dong Feng Shao Xing Wine Co., Ltd. which accounted for 100% of the Group’s turnover in 2003. However, the decrease in turnover was partly compensated by the newly acquired operations which contributed approximately HK\$139.5 million to turnover in the Year. The increase in net loss from ordinary activities attributable to shareholders of approximately HK\$14.0 million was mainly due to the amortisation of goodwill and the increase in provision for bad and doubtful debts of approximately HK\$22.3 million and HK\$9.7 million respectively.

BUSINESS REVIEW

During the Year, the Group focused on business in Hong Kong with the aim to widen its business activities and expand its income base.

Skin and health care business

Profit Team Consultants Limited and its subsidiaries (“Profit Team Group”) were acquired in January 2004. Profit Team Group was principally engaged in the distribution of international branded skin care and cosmetics products and involved in beauty treatment centres operations. Its turnover was approximately HK\$11.9 million. Due to the increase in operating costs of the retail counters and the beauty treatment centres, the profit margin has been shrinking substantially. The net operating loss for Profit Team Group was approximately HK\$16.1 million. As the competition at wholesale level was not so keen as the retail level, the Group would phase out all its retail counters and beauty treatment centres and concentrate on the wholesale sector. This change in policy will probably result in more cost savings.

Jewellery business

Upon the acquisition of 25% equity interest in January 2004 and followed by the acquisition of the other 75% equity interest of Excel Harvest Corporation Limited and its subsidiaries (“Excel Harvest Group”) in April 2004, Excel Harvest Group became 100% indirectly owned subsidiaries of the Company. Excel Harvest Group was engaged in the import and wholesale of diamonds as well as property investment. Its turnover was approximately HK\$39.1 million. The gross profit was approximately HK\$1.7 million.

Trading of steel

The Group acquired a 75% interest in Jafoon Limited and its subsidiaries (“Jafoon Group”) in April 2004. Jafoon Group was principally engaged in the import and export trading of stainless steel. The turnover of Jafoon Group was about HK\$81.1 million. Jafoon Group contributed a profit of HK\$1.7 million to the Group.

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General trading

In April 2004, the Group acquired 80% interest in Silver Dragons Limited and its subsidiaries ("Silver Dragons Group"). Silver Dragons Group was mainly engaged in advertising, property investment and general trading. The performance of this division was well below the expectation of the Group as it recorded a net loss of approximately HK\$13.6 million in 2004, primarily because of the provision for bad and doubtful debts made against its receivables. Appropriate actions will be taken by the directors of the Company ("Directors") to recover all outstanding doubtful debts after consultation with the Company's legal advisers.

Profit guarantees

Pursuant to the sale and purchase agreements regarding the acquisitions of the above-mentioned operations, the Group is entitled to the short-fall amount times a multiple if the gross profit or the net profit of the acquired operations are less than the amounts stipulated in the relevant agreements. The Directors are seeking legal advice and taking necessary steps to recover the compensation from the respective vendors.

PROSPECTS

Continuous effort has been made by the Group to restructure its existing business. Periodic reviews on the operations have been carried out by the Directors in order to achieve a more cost-effective business structure and to ensure smooth business operation. While the Group is streamlining its existing operations, the Group has been actively seeking new business opportunities with the ultimate aim to broaden its business base in order to provide stable income to the Group. The Group has been diversifying its business into the entertainment, leisure and lifestyle related industries.

In December 2004, the Group entered into a conditional agreement to acquire 75% equity interest in Pacific Glory Holdings Limited which is principally engaged in the operation of an upmarket Japanese restaurant situated in Tsim Sha Tsui. The acquisition was completed on 25 April 2005.

In January 2005, the Group entered into a conditional agreement to acquire about 30% interest in Macau Hotel business. Due diligence review is still in progress. The Group has engaged legal advisers to look into the documentation and information of the target company and will ensure any uncertainty on technical problems be resolved amicably and to the satisfaction of all relevant parties. The Group expects that after completion of acquiring the Macau Hotel business, the Company will be able to benefit from the flourishing tourist industry in Macau.

After acquiring the business of retailing international branded skin care and cosmetic products and the jewellery business, the Group continues to develop itself into a conglomerate which focused on lifestyle-products. In late April 2005, the Group entered into an agreement with an independent third party to acquire an operation specialized in the production of upmarket ladies shoes in Mainland China. The acquisition has yet to be completed. The acquisition will help to widen the product range of the Group to include upmarket ladies shoes targeting the high-end customers.

Apart from developing its entertainment, leisure and lifestyle related businesses, the Group has been engaged in securities trading during the Year. At present, the securities trading business is not a core business of the Group and was not classified as a business segment of the Group for the Year. In view of the improving market condition of the world-wide economy, the Group will continue to engage in securities trading as its business and will consider to increase the securities trading activities in future in order to strengthen the profitability of the Group.

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FINANCIAL INFORMATION

The Group financed its operations by cash generated from operations, proceeds from the exercise of share options, private placements of Company's shares and banking facilities granted by its principal bankers to its subsidiaries.

As at 31 December 2004, the Group's gearing ratio was 0.47 (2003: 1.36) (calculated on the basis of total bank and other borrowings over shareholders' fund).

The Group's total bank and other borrowings amounted to approximately HK\$84.7 million (2003: HK\$218.7 million) as at 31 December 2004. The bank and other borrowings are mainly secured by investment properties, time deposits, long term investment, and guarantees granted by directors of certain subsidiaries.

The Group's core operation was in Hong Kong and had limited exposure to the fluctuations in exchange rates. Bank balances and borrowings were mainly denominated in Hong Kong dollars.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2004, the Group has 34 employees (2003: 1,057). Total staff costs were approximately HK\$14.2 million (2003: HK\$20.7 million). Employee remuneration was determined in accordance with individual's responsibility, performance and experience. Staff benefits include contributions 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.

CAPITAL STRUCTURE

On 12 January 2004 and 21 April 2004, 720,000,000 and 900,000,000 ordinary shares were issued at the agreed prices of HK\$0.012 and HK\$0.02 per share respectively and recorded at prices of HK\$0.018 and HK\$0.015 per share respectively (which were the closing prices quoted on the Stock Exchange at the date of completion of acquisitions) as part of the consideration for the acquisition of subsidiaries.

On 9 August 2004, another 455,000,000 ordinary shares were issued at HK\$0.011 per share as part of the consideration for the acquisition of subsidiaries.

On 11 February 2004 and 13 February 2004, 85,000,000 and 170,000,000 ordinary shares respectively were issued at the price of HK\$0.0198 per share and on 12 May 2004, 465,000,000 ordinary shares were issued at the price of HK\$0.0144 per share for total cash consideration of HK\$11,745,000 upon the exercise of share options granted to the staff, directors of the Company and business partner of the Group.

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 (the "Top-up Placement"). The net proceeds from the subscription after deducting expenses amounted to approximately HK\$10.64 million. The Top-up Placement was completed on 20 July 2004. The net proceeds were utilised by the Group as general working capital and for acquisition of subsidiaries.

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On 29 November 2004, Ample Glory Limited entered into a placing agreement and a subscription agreement for the placing of 1,170,000,000 ordinary shares of the Company at the price of HK\$0.015 per share and the subscription of 1,170,000,000 new shares of the Company at a subscription price of HK\$0.015 per share (the "Second Top-Up Placement"). The net proceeds from the Second Top-Up Placement amounted to approximately HK\$17.1 million, which were used for general working capital of the Group and as an investment funding to the Group for possible future acquisitions.

On 30 December 2004, 50,000,000 ordinary shares were issued at the price of HK0.0198 per share for a total cash consideration of HK\$990,000 upon the exercise of share options granted to a director of the Company.

CHARGE OF ASSETS

As at 31 December 2004, the Group's investment properties of HK\$55.3 million, bank deposits of HK\$3.0 million and investment securities of HK\$3.2 million were pledged as security for banking facilities for certain subsidiaries.