

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the year ended 31 December 2004, the Group's turnover was approximately HK\$142 million, representing an increase of 57% as compared to HK\$90 million in last year. Such increase was mainly due to improved performance of the manufacturing and selling of watches business. The Group's loss attributable to shareholders was approximately HK\$11,092,000 for the year (2003: HK\$144,000), and loss per share for the year was HK0.14 cents (2003: HK0.009 cents).

DIVIDENDS

The Board of Directors has resolved not to recommend any dividend for the financial year ended 31 December 2004 (2003: Nil).

BUSINESS REVIEW

Manufacturing and trading of watches and watches components

For the year ended 31 December 2004, turnover of the watches business recorded HK\$126.2 million, representing 89% of the Group's total turnover, and representing a 48% increase as compared to HK\$85.3 million of last year. Despite increase in sales, the Group experienced severe price pressure due to keen competition. During the year, cost of raw materials also increased which further affected the margin of the Group. Loss for the watches business was approximately HK\$4.6 million (2003: profit of HK\$3.3 million).

Hong Kong, Middle East and South America are still the Group's primary markets. The performance of these primary markets improved significantly, of which turnover of South America continued to grow owing to acquisition of new clients with significant orders increased. Turnover of South America alone accounted for 53% of the total turnover of the watches business.

Energy Saving Business

As the Group is strategically diversified into the hotel business in Macau, the Group has entered into a sale and purchase agreement on 10 January 2005 to dispose of the investment in the energy saving business and the consideration from which will be preserved for the acquisition or development of the Group's hotel business.

PROSPECTS

The Group is principally engaged in the manufacturing and trading of watches and watch components, the provision of electroplating services, investment holding, property holding and hotel business.

Manufacturing and trading of watches and watches components

The Group will continue to focus on the markets of South America, Middle East as well as Hong Kong. Cost control policy will remain in place with the aim to further minimize the cost and improve the efficiency of the business.

Hotel business

In 2004, the economy of Hong Kong has experienced upward improvement from which most of the business has benefited. At the same time, economy of Macau has also been booming. With the introduction of Individual Traveller's Scheme by the PRC government and the opening of more casinos, the number of tourists, especially those from the PRC, to Macau has been significantly increased. Their consumption in Macau stimulates enormous business opportunity and growth potentials in the tourism industry and the situation is expected to sustain in the future.

The directors believe that the Group is able to capture the results of the economic boom in Macau through active investment in the hotel business with gaming entertainment in the territory. The strategic diversification of the Group into the hotel business will enhance the Group's profitability and maximize returns for its shareholders.

In late November 2004, the Group proposed to acquire Grandview Hotel and the transaction was completed by end March 2005. In January 2005, the Group proposed to acquire Hotel Casa Real through the acquisition of Hang Huo Hotel Company Limited and the transaction is still subject to approval by shareholders in May this year. Both are four star hotels with casino facilities. As gaming entertainment is one of the most popular activities for tourists in Macau, the Group will further expand the casinos in the hotels with the aim to attract and retain more tourists staying at the hotels.

Grandview Hotel

The hotel is located at Taipa and it takes approximately 5 minutes traveling to the Macau International Airport and 10 minutes traveling to the New Macau Maritime Ferry Terminal. It has a total of 407 guest rooms and facilities including spa, outdoor swimming pool, fitness center, children care room and the casino. There are also Chinese and western restaurants and lobby lounge. Given the proximity to major transportation terminals in Macau, the management believes that the occupancy rate of Grandview hotel will increase in line with the overall growth in the tourism industry in the region. The Group has started renovation immediately subsequent to the completion of the acquisition by end March 2005 and will expand the casino and launch various promotion activities to further promote the hotel.

Hotel Casa Real

The hotel is located at Macau, approximately 5 minutes traveling to the Macau Ferry Terminal. It has a total of about 381 guest rooms and facilities including swimming pool, fitness center, retail shop and a casino with both slot machines and gaming tables. There are also Chinese and western restaurants and a coffee shop.

Similar to Grandview Hotel, the Group will undertake various refurbishment works and marketing activity once the transaction is completed in order to further promote the hotel and improve the occupancy rate accordingly.

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The directors are confident that the diversification into the hotel business with gaming entertainment in Macau will enhance the earnings base of the Group which in turn will maximize the shareholder's return in the future. The management will continue to look for potential investment projects in Macau as well as elsewhere with the aim to further leverage the resources of the Group and strive to achieve a satisfactory result in near future.

Employees

As at 31 December 2004, the Group employed a total workforce of approximately 2,000 people (2003: 2000) among which 25 people (2003: 30) were working in Hong Kong. The staff costs for the year amounted to approximately HK\$28.8 million (2003: HK\$25.6 million). The employees' remuneration, promotion and salary increment are assessed based on their work performance, working and professional experiences and the prevailing market practice.

Pledge of Assets

The Group's leasehold land and buildings in the PRC with a market value of approximately HK\$21.5 million (2003: HK\$21.5 million) were pledged to a bank for banking facilities granted to the Group amounted to approximately HK\$8.9 million (2003: HK\$12 million).

Contingent Liability

As at 31 December 2004, the Group had no material contingent liability.

Foreign exchange and interest rate exposure

As the Group's sales are mostly base on United States dollar ("USD"), having considered the exchange rate of USD is fairly stable, no foreign exchange and interest rate risk management or related hedges were made at present. Proper policy will be in place when the Board considers appropriate.

LIQUIDITY AND CAPITAL RESOURCES

Borrowings

As at 31 December 2004, the Group had total borrowings amounted to approximately HK\$9 million, as compared to approximately HK\$12.3 million at last financial year end, of which HK\$0.1 million (2003: HK\$0.2 million) represents obligations under finance leases and hire purchase contracts and the remaining balance of HK\$8.9 million (2003: HK\$12 million) represents a bank loan which is due on 7 June 2005 and secured by the Group's leasehold land and buildings. As at 31 December 2004, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' fund, was 1.25%, as compared with 89.8% in last financial year end.

On 29 October 2004, the Company issued convertible notes to independent investors in an aggregate principal amount of HK\$20 million at a conversion price of HK\$0.02 per conversion share. The convertible notes have been fully converted into 1,000,000,000 shares of the Company subsequent to the balance sheet date.

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As at 31 December 2004, the Group recorded net current assets of approximately HK\$668.8 million (2003: net current liabilities 9.4 million) and shareholders' funds of HK\$723.6 million (2003: HK\$13.7 million). The financial position of the Group has been significantly strengthened by the subscription, and top-up subscription of new shares.

Subsequent to the balance sheet date, the Group obtained a mortgage loan of HK\$200 million. The mortgage loan is repayable in 3 years with a floating interest with reference to HIBOR per annum and is secured by the Group's asset – the Grandview Hotel.

Capital Investments and commitments

During the year under review, the Group has utilised HK\$50 million for the acquisition of 35% interest in Starway Management Limited whose principal business, together with its subsidiaries, is engaged in energy saving business.

In November, the Group had entered into agreement with Grand View Hotel Investment S.A. for the acquisition of the Grandview Hotel ("Grandview Acquisition"). The total consideration of the Grandview Acquisition is HK\$500 million, of which HK\$400 million is settled by cash, and the remaining HK\$100 million is settled by issue of 500,000,000 new shares of the Company at HK\$0.2 each. The Grandview Acquisition has been completed subsequent to the year end date on 31 March 2005.

Save for the abovementioned acquisitions, the Group did not incur or commit any material investment or capital expenditure during the year.

Capital Structure

As at 31 December 2004, the Group had total assets of approximately HK\$796.4 million (2003: HK\$63.3 million). Current assets were approximately HK\$721.6 million (2003: HK\$39.5 million), while current liabilities were approximately HK\$52.8 million (2003: 48.9 million).

The Company had gone through a Capital Reorganisation in April 2004 to consolidate every 3 issued shares of HK\$0.01 each into one consolidated share of nominal value HK\$0.03 each, then reduce the nominal value of all the issued consolidated shares from HK\$0.03 each to HK\$0.01 each by way of capital reduction, and the credit amount arisen from the capital reduction of approximately HK\$32.3 million was applied to against the accumulated losses of the Company.

Following the completion of the Capital Reorganisation, the Company has issued 5,000,000,000 shares of HK\$0.01 each to Perfect View Development Limited ("Perfect View") pursuant to the subscription agreement entered into between Perfect View and the Company in December 2003, and Perfect View subsequently placed 543,700,000 shares to independent investors in April 2004.

On 29 October 2004, the Company issued convertible notes to independent investors in an aggregate principal amount of HK\$20 million at a conversion price of HK\$0.02 per conversion share. The convertible notes had been fully converted into 1,000,000,000 shares of the Company subsequent to the balance sheet date.

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During the year under review, the Company had raised in an aggregate amount of approximately HK\$692 million through three top-up placing.

- (i) In November 2004, Perfect View placed 992,300,000 shares of the Company to independent investors, and top-up subscribed the same amount of shares of the Company at HK\$0.095 each ("1st Top-Up Subscription");
- (ii) In December 2004, Perfect View placed 330,800,000 shares of the Company to independent investors, and top-up subscribed the same amount of shares of the Company at HK\$0.175 each ("2nd Top-Up Subscription"); and
- (iii) In December 2004, Perfect View placed 1,587,700,000 shares of the Company to independent investors, and top-up subscribed the same amount of shares of the Company at HK\$0.34 each ("3rd Top-Up Subscription").

To accommodate the rapid expansion and to facilitate the fund raising exercises of the Group, on 17 December 2004, the Company has increased its authorised share capital from HK\$100,000,000 divided into 10,000,000,000 shares to HK\$300,000,000 divided into 30,000,000,000 shares by creation of 20,000,000,000 new shares, and refreshed the general mandate ("New General Mandate"). The New General Mandate had almost been utilised to issue the subscription shares for the 3rd Top-Up Subscription, as such the Company had, subsequent to the balance sheet date, refreshed the general mandate again on 3 February 2005.

During the year under review, 661,000,000 share option with an exercise price of HK\$0.151 has been granted, and 661,000,000 shares will be issued if fully exercised.

Subsequent to the balance sheet date, the Company has issued 500,000,000 new shares of the Company at HK\$0.2 each as the share consideration for the Grandview Acquisition, and the Company had granted 800,000,000 warrants conferring rights to subscribe up to HK\$200,000,000 in aggregate in cash for 800,000,000 new shares at an initial subscription price of HK\$0.25 per share to Sure Expert Limited.

CHEUNG Yu Shum, Jenkin

Chairman

Hong Kong, 27 April 2005