

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group recorded for the Period a turnover of approximately HK\$95.0 million (2004: HK\$54.4 million) with net loss attributable to shareholders of approximately HK\$56.8 million (2004: HK\$11.4 million). Turnover was increased by 74.6% as compared to that of the six months ended 30 June 2004 and such increase was mainly attributable to the increase in the trading volume of steel. Due to the adoption of new accounting standard, the management had carried out an extensive review on the Group's business and its policy on impairment of goodwill. The loss for the Period was mainly due to the impairment loss of goodwill of subsidiaries.

Business review

Skin and health care business

The year 2005 so far is a difficult year for the skin and health care business of the Group as the business was bombarded by the increasing numbers of large cosmetic chain store outlets. The management reviewed the business from time to time and active steps have been taken during the Period to trim down the retail operation in order to cut down the expenses. As the retail section of the skin and health care business of the Group gradually phased out during the Period, which the management considered as a prompt response to the increasing competition of the beauty and health care industry in Hong Kong, the management turned to focus on developing the wholesale business. In view of the restructuring of the business, impairment of goodwill for the skin and health care segment of the Group was made for the Period.

Trading of jewellery and property investment

The Excel Harvest group is principally engaged in the importing and wholesale of diamonds as well as property investment. The turnover of the jewellery trading of the Excel Harvest group decreased during the Period and recorded a turnover of only HK\$3.7 million (2004: HK\$16.6 million) due to seasonal fluctuation and keen competition of the industry. However, in view of the current improved property market, the Excel Harvest group had concentrated its resources in seeking good opportunities for the Group to realize its investment at attractive prices and brought in a contribution of HK\$3.2 million profit (2004: Nil) driven by sales of investment property for the Period.

Trading of steel and other products

Turnover attributed to the sale of stainless steel was approximately HK\$86.6 million (2004: HK\$15.4 million) while net profit reached HK\$1.6 million (2004: HK\$181,000). The improvement was mainly due to the sales strategy of small profits, quick returns adopted by the management in view of the increased competition which cut down the unit price of the products.

Prior to the acquisition by the Group in April 2004 of Silver Dragon group, which principally engaged in property investment and general trading, there was an employment dispute between the previous owners and the then employees of the Silver Dragon group. After the acquisition, the existing management of the Group had been cooperating with the relevant authorities in the investigation of the dispute. Despite such investigation, the Group had taken active steps (including seeking legal advice) to prevent such dispute to bring about any adverse effect to the existing operation of the Silver Dragon group and to protect the interest of the Group as a whole.

Restaurant operation

Pacific Glory Holdings Limited, which was acquired by the Group in December 2004 and operated a Japanese restaurant, had a turnover of approximately HK\$2.5 million and net profit of HK\$201,000.

Artwork design

The advertising and artwork design business of the Group was restructured and scaled down during the Period as a result of a change of the key personnel of the management of the Daiwah Company Limited and its subsidiaries. In view that the business would require some time to pick up as a result of the change of management, impairment of goodwill for the artwork design segment of the Group was made for the Period. The Group has been actively seeking for new management as well as business partners and alliances in the market and hoping that the business would be strengthened thereon.

Others

On 28 June 2005, the acquisition of upmarket ladies shoes operation in Mainland China was called off and the consideration of HK\$1.36 million was refunded to the Company accordingly.

Profit guarantees

As stated in the annual report of the Company for the year ended 31 December 2004, the Directors were reviewing all means to recover compensation from the vendors whom had given profit guarantees for the business acquired by the Group. During the Period, legal advisors had been appointed and negotiations had been carried out with respective vendors. Advice was carefully studied by the Directors and necessary steps had been taken out by the Directors. The Directors would exploit all means, including settlements, negotiations or legal action against the vendors if necessary so as to protect the interest of the Group.

Prospects

The Group had commenced reviewing its business in a plan to trim and restructure unsatisfactory operations. Meanwhile, The Group would carefully look for business opportunities for diversification. At present, the Group is in view of setting up a new line for its trading business and is now identifying new products which are of higher profit margin and which require less capital outlay in order to increase the competitiveness of the Group. As such, the Group had taken active steps in strengthening the management of its subsidiaries and the members of the Board so as to cater for future expansion. With the appointment of Mr. Wong Tak Chung, Andrew as an executive director of the Company on 20 September 2005 and engagement of professionals and consultants, the Group endeavors to exploit the valuable experience of Mr. Wong and the professionals in business development and corporate restructuring so as to refine the Group's management, corporate governance and its business structure.

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 2005, the Group's gearing ratio was 0.53 (as at 31 December 2004: 0.47) (calculated on the basis of total bank and other borrowings over shareholders' funds).

The Group's total bank borrowings was approximately HK\$66 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 57 (2004: 40) employees. The employee costs (excluding directors' emoluments) amounted to approximately HK\$4.7 million (2004: HK\$6 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.

Pending litigation

As at the balance sheet date, there were claims for payments of printing charges, finance lease payments, rental payments and commission with an aggregate amount of approximately HK\$1,847,000 brought by various parties against certain subsidiaries of the Group. In the opinion of the Directors, adequate provision had been made by the Group in respect of all the above claims in the Group's financial statements.

Charge of assets

As at 30 June 2005, the Group's investment properties of HK\$24 million, bank deposits of HK\$3.0 million, and investment fund of HK\$3.2 million were pledged as security for banking facilities.

INTERIM DIVIDEND

The Directors did not recommend the payment of an interim dividend for the Period (2004: Nil).

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the Period was the Company, or any of its subsidiaries a party to any arrangement whose objects were to enable a Director or his respective spouse or minor children to acquire benefits by means of acquisition of shares of the Company or any other body corporate, or were any such rights exercised by them.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Name of director	Nature of interests	Number of shares entitled	Percentage holding
Mr. Yu Won Kong, Dennis	Beneficial	50,000,000	0.38%

Save as disclosed above, as at 30 June 2005, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the Stock Exchange.