

Executive Director's Statement

BUSINESS REVIEW

It was a difficult year for the Hong Kong economy in 2003. In the first half of the year, the weak economy was further aggravated by the outbreak of Severe Acute Respiratory Syndrome. Both retail and consumer markets experienced significant downturn and our jewellery business inevitably was adversely affected. In view of the continued poor performance of the consumer market in Hong Kong, the Directors had to accelerate the strategic plan to develop the coal business for the purpose of diversifying the business portfolio and broadening the income base of the Group. Meanwhile, we had continued to implement stringent measures to control our operating costs during such unfavorable period and succeeded in reducing the loss attributable to shareholders to HK\$2,805,000 for 2003. After excluding the one-off pre-operating expenses incurred by the associates, the Group recorded net operating loss of HK\$1,504,000 for the year ended 31 December 2003.

As announced by the Company on 30 July 2003, the Sino-foreign joint venture (the "Joint Venture"), which was proposed to principally engage in the production and sale of coking coal products and side products, was duly established in May 2003 and the registered capital of RMB100 million has been contributed by the relevant shareholders. The establishment of the Joint Venture marked a milestone for the Group to tap into the coal market in China, which is expected to complement its existing coal business. The Joint Venture, which 45% equity interest is held by a wholly owned subsidiary of the Company, has completed the infrastructure works and is prepared for the construction of factory buildings and installation of equipments. Following the production which is expected to commence in the 4th quarter of 2004 or the beginning in 2005, the Group will poise to advance further in developing its business and increasing its exposure in the energy resources industry in China.

China economy, as anticipated, has an outstanding performance in year 2003 by achieving a GDP of 9.1%. As the overall economy in China is expected to sustain a high growth, demand of energy resources has become a critical issue. According to the International Energy Agency reports, China had turned out to be the world's second largest oil consumption nation with an average consumption rate of 5.46 million barrels per day. China has to resort to oil import in bulk quantity for supporting its dynamic growth. However, in the fourth quarter of 2003, China reassessed its measurements on resources strategies, which resulted in reducing coal export in order to support the domestic usage and economic growth. Australia, another key player in the region, had also planned to reduce their coal production volume. As the source of supply became tightened, coal price has been remaining at a high level in both domestic and the commodity markets. To capture the opportunity in the coal market and to leverage on the management expertise and position of the Joint Venture in the coal market, the Joint Venture is exploring the feasibility of integrating its business upstream into coal mining. The business integration, if materialized, will benefit the Joint Venture by securing stable and quality supply of raw coal as well as broadening its income base. The management of the Joint Venture has been making efforts in exploring and evaluating such business opportunity.

In conclusion, the Directors have made the right business judgment and succeeded to implement their investment strategies in an appropriate way in year 2003. By way of the diversification into coal business, the Group has reduced its sole reliance on jewellery trading and succeeded in cutting down its operating loss. The sufficient cash flow position of the Group will facilitate the implementation of our investment strategy of capturing the business opportunities in the energy resources industry in China.

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FINANCIAL POSITION

Charges on Assets

At 31 December 2003, none of the Group's assets was charged or subject to any encumbrance.

Contingent Liabilities

At 31 December 2003, the Group was not liable to any borrowings or guarantees given to any banks or financial institutions.

Gearing Ratio

At 31 December 2003, the gearing ratio of the Group was nil.

Liquidity and Financial Resources

The Group's cash and bank deposits at 31 December 2003 amounted to HK\$53.8 million. The significant decrease in the balance when compared to that of the last year end was mainly due to the capital injection of approximately HK\$42.5 million to an associate for its equity interest of 45% during the year.

Staff

The Group had 8 employees at 31 December 2003 with remuneration package to be reviewed annually. A mandatory provident fund scheme (Note 15 on the financial statements) and share option scheme which was adopted on 20 June 2003 (Note 17 on the financial statements) are in place. There were no share option granted to any employee during the year.

DIVIDEND

The Directors do not recommend the payment of dividend in respect of the year ended 31 December 2003.

FUTURE PROSPECTS

The recent measures, including the Closer Economic Partnership Arrangement and the relaxation of travel restrictions, as introduced by the China government have benefited the market sentiment and boosted the market recovery since the fourth quarter of 2003. However, the avian flu has emerged and has been widely spreading out within Asia since the beginning of year 2004. As an election year for most of the wealthy countries in 2004, their economic policies may vary due to political concern. All of these will increase the market volatility in this year. In fact, jewellery sales are extremely sensitive to the market changes and are easily affected. The Directors, riding on last year's experience, will continue to evaluate the risk profile and tune the business strategies of the Group accordingly.



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The economic environment of Mainland China becomes more visible and predictable as a result of continued formulation of investment and other policies. The consumption of electricity has been increasing rapidly due to high economic growth rates and the steel market will continue to enjoy strong demand from various industries such as infrastructure, properties and automobiles. All these factors directly drive up the demand of coal. In fact, coal is the key component of energy resources and is classified as a consumable commodity. Besides China, the global consumption of coal will increase in accordance with worldwide economic growth. On the other hand, coal industry is less susceptible to economic uncertainties when compared with the consumer market. The Directors believe that the engagement in the coal business will certainly facilitate the Group in defining long-term investment strategies more accurately as well as securing stable recurring incomes. The Group is planning to increase the coal sales not just within China, but also to other countries such as Japan and Korea through the commodity market. Such business strategy is expected to open up a new channel for the growth of the Group, especially in terms of establishing a stable and reliable revenue module in the long run.

The Hong Kong economy in 2004 is believed to be optimistic compared to that of the previous year but in view of the issues mentioned, the year ahead remains challenging. We, however, will take advantages of the dynamic market situation in China and the improvement of global economic climate by moving our core business into the field of coal and energy resources and establishing a foothold in the China and regional markets. In achieving our goal of developing a business model characterized with a stable income in nature and the ability to capture the vast opportunities in the robust energy resources market, the Directors are assessing the possibilities of increasing our investments in the Joint Venture for the purpose of consolidating our position to capture any market growth arising from high oil and commodity prices as a result of global recovery.

On behalf of the Company, I would express my thanks to my fellow Directors and the colleagues for their concern, dedication and performance in the year of challenge.

SO Kwok Hoo

Executive Director

Hong Kong, 14 April 2004