Management Discussion and Analysis

RESULTS

For the year ended 31 December 2003 (the "Period"), the Company and its subsidiaries (collectively referred to as the "Group") recorded a turnover of approximately HK$195 million (2002: HK$153 million) with net loss attributable to shareholders of HK$37 million (2002: HK$28 million). The turnover for the Period had increased by 28% as compared to the previous year and the gross profit margin was 36% for the two years.

BUSINESS REVIEW

Wine business

The result from the wine business of the Group for the Period was satisfactory as a result of the sales promotion activities carried out by the Group in Mainland China. The sales in Mainland China and the Japanese market remained steady.

Post Balance Sheet Events

New management was introduced to the board of directors (the "Board" or "Directors") during the Period. The Board reviewed the operations of the Group and believed that the Group should adopt a new business strategy to diversify its business in order to minimize the risk of single venture. Disposal of the wine business and a series of acquisitions have been made in early 2004 and a more balanced investment portfolio is established.

Dong Feng Shao Xing Wine Co. Ltd. ("Dong Feng") had been the Group's production and distribution arm of its wine business in Mainland China. Despite the fact that the Group was only holding 49% equity interest in Dong Feng, Dong Feng was treated as a subsidiary of the Group since October 1998 based on an agreement with Shao Xing Dong Feng Wine Factory (the "PRC Joint Venture Partner") which held the remaining 51% equity interest in Dong Feng. Pursuant to the agreement, the PRC Joint Venture Partner agreed to vote unconditionally in alliance with the Group in all future shareholders' meeting of Dong Feng. As such, the Group had control over the voting rights of the entire issued shareholding of Dong Feng.

However, the 51% interests in the shareholding of Dong Feng was recently approved by the relevant authority to be transferred by the PRC Joint Venture Partner to Zhejiang China Light & Textile Industrial City Group Co., Ltd. ("Hing Fong"). Hing Fong confirmed that it would no longer vote unconditionally in alliance with the Group in all future shareholders' meeting of Dong Feng with effect from 1 January 2004. As a result, the Group would become a minority shareholder and then would only be able to control 49% of the voting rights in Dong Feng.

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The Group thus disposed of its minority interests in Dong Feng to realise its investment in the wine business so as to allow more resources to expand its other businesses with better control. The Directors believe that the disposal has no significant unfavourable effect to the Group as a whole but it provides a good opportunity to rationalise the Group's business and to allocate its resources for future investment opportunities with higher growth potential.

Skin and health care business

In early January 2004, the Group acquired Profit Team Consultants Limited ("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 centres. Carrying about 20 foreign brands from Europe, Australia and the United States, Profit Team has its retail outlets in different major locations in Hong Kong. Profit Team expects to sign up more brands for distribution and to broaden its retail network by the end of 2004, making it one of the prominent players in the market. The exclusive distributorship or sole agent contracts for Profit Team's existing brands are effective for 2 to 6 years. Currently, Profit Team is conducting a pilot study in entering the Mainland China market. A breakthrough is expected later in the coming financial year.

Jewellery business and property investment

The Group acquired Excel Harvest Corporation Limited ("Excel Harvest") in March 2004. Excel Harvest is principally engaged in the importing and wholesale of diamonds as well as property investment. Excel Harvest concentrates on the trading of medium to low end market of polished diamonds. Following the influx of the tourists from Mainland China and the recovery of the economy, it is expected that the demand for diamond jewellery will increase. In addition, Excel Harvest plans to expand into the Mainland China market. The Group believes that diamond trading will contribute positively to the Groups' turnover.

Currently, the subsidiaries of Excel Harvest together hold seven properties in Hong Kong. One of the seven properties has been contracted to be sold out and the transaction is expected to complete in July 2004. Two of the remaining six properties are leased out and the remaining four properties are intended for sale in the near future.

Other acquisitions

In March 2004, the Group has acquired Jafoon Limited ("Jafoon") and Silver Dragons Limited ("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, general trading and the operation of a beauty academy.

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LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally financed its operations by cash generated from operations, rights issue, other borrowings, banking facilities granted by its principal bankers and advances from a minority shareholder of a subsidiary. These advances from a minority shareholder are unsecured, bear interest at a rate of 5.04% per annum (2002: 5.04% per annum) and have no fixed terms of repayment.

As at 31 December 2003, the Group's gearing ratio was 1.36 (2002: 0.92) (calculated on the basis of total bank and other borrowings over shareholders' funds).

The Group's total borrowings was approximately HK$218.7 million, including short-term bank borrowings of HK$138.7 million and other borrowings of HK$80 million. All borrowings were repayable on demand or within one year. The short-term bank borrowings were secured by a guarantee granted by a minority shareholder of a subsidiary. The other borrowings were secured by a charge over all issued shares and shareholders' loans of certain subsidiaries of the Group.

Since the Group's core operation was in Mainland China and 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 Renminbi or Hong Kong dollars.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2003, the Group employed a work force of 1,057 (2002: 1,080) employees, 1,050 (2002: 1,070) of whom were in Mainland China and 7 (2002: 10) were in Hong Kong. The employee costs (excluding directors' emoluments) amounted to approximately HK$20.7 million (2002: HK$19.1 million). Employee remuneration was in accordance with individual's responsibility and performance. Staff benefits include contribution to Mandatory Provident Fund Scheme, medical allowances and other fringe benefits.

CHARGE OF ASSETS

As at 31 December 2003, the other borrowings of HK$80 million were secured by a charge over all issued shares and shareholders' loans of certain subsidiaries of the Group.

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PROSPECTS

As the general economy of Hong Kong begins to pick up and with the support from the Government of the People's Republic of China, the Group is positive with the retail market of Hong Kong which will benefit the beauty and jewellery industries. Both Profit Team and Excel Harvest plan to tap Mainland China market in the coming year. The Group will give them necessary support and expects a reasonable return from these investments. However, at this early stage of the economic recovery, the Group will still need to be cautious in its business expansion and will also have to keep rein on its cost.

The Group has made sweeping moves in its diversification plan in 2004. The loss of control over the management of Dong Feng was an inexorable incident which resulted in the Group having to realise its investment in the wine business. Business restructure on one hand is inevitable; on the other hand, it allows the Group with more resources to expand into the industries which the Directors believe to be of high potential growth. The Group has broadened its scope of business and developed more income sources. The Directors expect these new members of the Group to meet their performance targets and to contribute to the earnings in the coming years. Looking ahead, the Group will stay open to other opportunities for enhancing the growth of the Group's business and invest in ventures which are believed to have synergy effect on the existing businesses or which are beneficial to the Group as a whole.