Management Discussion and Analysis

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BUSINESS REVIEW AND PROSPECTS

The Company is primarily an investment holding company and its investment portfolio includes (i) hotel and real estate investments; (ii) trading, manufacturing and retailing of leather products; and (iii) healthcare and medical-related business.

Hotel Business

During the reviewed period, the Company acquired 40% equity interest of Hotel Golden Dragon (Macao) Company Limited ("Golden Dragon"). Golden Dragon owns a four-star hotel named as Hotel Golden Dragon (the "Hotel") in Macau with approximately 483 guest rooms and facilities, and gaming casino with around 80 gaming tables and 107 slot machines and 6 VIP rooms with around 15 gaming tables. The facilities of the Hotel, such as sauna, night club, restaurants and retail shops are leased to independent third parties for operations, bringing steady rental income for the Hotel. Sociedade de Jogos de Macau, S.A. is responsible for the operations of the gaming casino of the Hotel. A subsidiary which Golden Dragon owned 60% equity interest known as Sunny Tourist & Entertainment Limited ("Sunny Tourist"), is responsible for the marketing and promotion of the gaming casino in the Hotel. Apart from gaining steady rental income from the Hotel, Golden Dragon is expected to share the future operating profits of Sunny Tourist, if any.

The gross profit in main business for the first quarter of 2005 amounted to approximately HK$29 million, which is encouraging as Golden Dragon only commenced its operation since 5 January 2005. If the gaming business, the venue of which is provided by the Hotel, remains favorable, such investment will undoubtly generate considerable returns for our Shareholders.

In view of the performance of the Hotel and also the economy grew of Macau, the Directors have the confidence that the business of the Hotel will grow continuously and enhance the profitability of the Group in the future.

Leather Business

During the period under review, profit margin has been gradually decreasing as a result of the severe competition in the wholesale of leatherware. In addition, leather business has not contributed operating profits to the Group since the whole market trend of using artificial synthetic materials instead of using leather has seriously hampered the Group's leather business. On 12 November 2004, 50% interest of Pathway International Limited, a member of the Group which principally engages in leather business, was disposed by the Company to Mr. Lee Sam Yuen John and all the obligations of the Company over financial guarantees were released. Therefore, the risks to the Group in relation to leather business will be reduced.

Retail Business

During the period under review, the Company entered into a shareholders agreement with Mr. Wong Kwan, Mr. Law Kar Po and Ms. Law Wing Yee Wendy in relation to the establishment of Star Palace Enterprises Limited ("Star Palace") with an intention of operating retail business of leatherware and products made of leatherette in Hong Kong and PRC. The business and turnover of the retail business were not reflected in the financial statement for the year ended 31 March 2005 due to both retail stores were commenced business after the financial year end of this year.

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Currently, Star Palace operates two retail stores in Causeway Bay and Tsimshatsui under the brand name MOCCA, offering a wide selection of branded lady footware from Europe. With the benefits of the "Individual Travel Scheme", the retail business in Hong Kong has been boosted. The Directors and the management of the Company believe that the Group's retail business would also bring steady cash flow into the Group.

Healthcare Business

During the period under review, the Group has diversified into healthcare and medical-related business which has become one of our main operations.

Hifu Centre

The operating management and the service level of medical staff of the Hifu Centre, which is jointly set up by China Hifu Tumor Treatment & Medical Co. Ltd. ("China Hifu"), an indirect wholly-owned subsidiary of the Company, and Haikou People's Hospital in Haikou City, Hainan Province, PRC, have gained high recognition for their ability and effectiveness to help patients with chronic diseases. The monthly leasing fee of the Hifu system generated from the Hifu Centre provides the Group with a stable source of income.

The Group is actively negotiating with certain hospitals in PRC in relation to the cooperation of establishing new Hifu Centre, however, the Group mainly seeking for the partners with certain scale and strong background so that can secure the payment of the monthly leasing fee of the system. According to the principal policy to develop the Hifu Centre is setting up the centres through cooperation with the local hospitals in the PRC and leasing the Hifu system to the relevant centers and in return receiving leasing fee and sharing the net profit of the relevant centres, if any, according to the pre-determined proportion. The management of China Hifu reported that, in the meanwhile, most of the hospitals, who are interested to cooperate with us, requested China Hifu to change the principal cooperation terms. The Board and the management are considering the potential impact on such changes.

Sanjiu TCM Medical Centre

999 E-Tech Inc. is principally engaged in the operations of Sanjiu TCM Medical Centre in Canada and the distribution of 999 Single Chinese Herbal Tea and other products of Sanjiu TCM, including traditional Chinese medical products. Given 999 E-Tech Inc. is an associated company of the Company, the financial statements of which has not been consolidated into the Group. Generally, the operations and business development of these units are stable and optimistic.

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999 E-Tech Inc. is the sole distributor of the medical products of Sanjiu Enterprises Group in Canada. In compliance with the new regulations in Canada, 999 E-Tech Inc. is assisting the Sanjiu Enterprises Group in the registration of Sanjiu medical products in Canada. It is believed that traditional Chinese medical products would be accepted by the main stream of the society in Canada and the sales of such products would surge upon completion of the relevant registration.

Kenitic Therapy Centre

The Kenitic Electromagnetic Therapy Instrument is classified as a household medical healing instrument which is also the first instrument in the world with the combination of four methodologies, namely electrotherapy, magnetotherapy, infrared therapy and heat therapy. In August 2004, Professor Pan Jianye, the inventor of the instruments held press conference in Hong Kong aiming at stimulating the sales of the instruments by enhancing public awareness and understanding of the instrument. Moreover, in order to promote the instruments to people from all walks of life and provide different channels for more consumers to get to know the product, Kenitic, a 51% owned subsidiary of the Company, joined the "5th Premier Home Expo" held in the Hong Kong International Trade and Exhibition Centre in October 2004. It was given a positive response in that exhibition.

However, due to the significant increase of overall retail shops' rental in Hong Kong, the investors of the Kenitic franchise therapy centers in order to cut down their running cost, most of the therapy centres were closed and moved their marketing strategy into direct sales channel. Due to such changes, although Kenitic recorded turnover HK$6,958,566 (2004: HK$5,628,240), representing a increase 23.64% of last year. However due to the changes of marketing strategy, a net loss for the year amounted to HK$3,516,859 (2004: net profit of HK$2,052,891).

In order to meet various needs of consumers, Kenitic has carried out research and developed another new healthcare instrument. At the end of January this year, Kenitic started to cooperate with BioEm International Limited ("BioEm"), an independent third party. Kenitic mainly provided high quality instruments and maintenance services to BioEm which in turn promotes these new products to high-end consumer market. In addition, the promotions to overseas markets in south-east Asia such as Singapore and Malaysia have been launched, the management of Kenitic expected both the turnover and profit margin will be improved in the coming year.

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HUMAN RESOURCES

As at 31 March 2005, the Group employed about 44 full-time staff in Hong Kong, 2 in the PRC. The Group remunerates employees based on their performance, experience and prevailing industry practices. It also offers benefits such as training programme to staff to enhance their sense of loyalty.

FINANCIAL REVIEW

Financial Results

For the financial year ended 31 March 2005, the Group recorded turnover of approximately HK$207,106,540 (2004: HK$207,901,984) representing a decrease of 0.38% of last year. Net loss for the year amounted to HK$108,620,632 (2004: HK$490,906).

Due to the intense price cutting competition from traditional leather product wholesalers, and also because of the unexpected changes in the marketing strategy of a subsidiary in relation to the healthcare business, the loss from operations (not included the finance costs and taxation) for the period under review was HK$14,971.507.

For prudence purpose, a provision for impairment loss on goodwill amounted to HK$71,140,600 has been made for the year ended 31 March 2005.

Fund-raising Activities

During the period under review, the Group successfully placed new shares and raised approximately HK$264.17 million. Out of the proceeds from those fund-raising activities, HK$238 million have been used to satisfy the cash portion of the consideration in relation to the acquisition of Golden Dragon, and the remaining balance was used as general working capital of the Group.

Besides, 345 million new shares at a price of HK$0.80 per shares (totally HK$276 million) have been issued as consideration shares being partial payment for the acquisition of Golden Dragon.

Liquidity and Financial Analysis

As at Balance Sheet date, the Group financial position with cash on hand recording at HK12.8 million. Total bank borrowings amounted to HK$8.3 million as at 31 March 2005, with gearing ratio (as calculated by total interest-bearing borrowings dividing by net asset value) recorded at a 0.015 times. Backed by this healthy financial position, the Group is ready to set off and grasp the opportunities ahead.

Contingent Liabilities

At the balance sheet date, there were no guarantees given to banks by the Company in respect of banking facilities extended to the wholly owned subsidiaries amounting to HK$Nil (2004: HK$104.6 million), which were utilized by subsidiaries to the extent of HK$Nil (2004: HK$31.3 million)

Exchange Exposure

The Group's transactions were mainly denominated in Hong Kong dollars and Reminbi. Given that the exchange rate of Hong Kong dollars against the Reminbi has been and is likely remain stable, the Board consider that the Group's risk on foreign exchange will remain minimal. The Group had no foreign exchange rate hedging arrangement during the year.

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PROSPECT OF THE GROUP

The Board and the management of the Company have successfully diversified the Group's business.

The healthcare business is stable in comparison with the leather business. However, due to the constant fluctuation of the market, had eventually cause difficulties to execute our initial strategy plan that is the reason why the target profits cannot be reached. We are doing a market analysis based on the current business environment so as to formulate our new marketing strategy and investment direction.

The expansion of the Group's retail operations under the brand name Mocca, which also forms part of the Group's ordinary and usual course of business. With the benefits of the "Individual Travel Scheme" and the opening of Disney Land in coming September this year, we expected the retail business in Hong Kong will keep on blooming in the coming years. In July, the Company has placed 60 million new shares, the net proceeds from the placing is estimated to be approximately HK$20 million which will be applied to expand "Mocca" business, the ladies shoes retail business of the Group, in particular, in terms of market awareness and the market coverage in Hong Kong and potentially in the PRC.

The Board considers that the management of Mocca has the experience to source and introduce quality, value for money and trendy European designs/brands which are currently not available in Hong Kong and distribute through Mocca, which in turn increase the competitiveness and growth potential of Mocca in Hong Kong and the PRC in the future. Exclusive European brands sold at Mocca include: Lulu Guinness, Monica Garcia, Blueprint, etc. It also has its own in-house label Mocca and handbags by Rabeanco. Beyond Hong Kong and PRC, the Mocca is also eyeing the Macau market, which has been experiencing enormous growth in recent years.

According to statistics, the annual average growth of gross domestic products of Macau was 5.6% from 2000 to 2002 and reached 15.6% in 2003. The growth rate in 2004 was 26.7%. With the effective policy implementation of the Government of the Macau SAR and the support of the Central Government, the economy of Macau grew steadily and swiftly. Tax from the gaming sector grew from MOP6.5 billion in 2001 to MOP14.7 billion in 2004. The number of inbound tourists also increased quickly for consecutive years to exceed 16.6 million in 2004, representing an approximately 40% increase when compared to 2003, and it is expected to reach a new record in 2005. The prosperity of the pillar industries has also benefited the peripheral ones. The prices of properties have increased sharply. The revenues of the food and beverage and the retail sectors have also increased significantly. Investors believe that the economy of Macau will develop in a sustainable manner in the long run. In view of this, the Group will enhance its investments in hotels with gaming business in Macau with the purpose of grasping a greater market share.

The Board and the management of the Company will take advantage of every opportunity and are committed to bring favorable return to the Shareholders.