RESULTS

Turnover of Fortuna International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2005 (the "Year") was approximately HK$25.8 million (2004: HK$144.1 million) and net loss attributable to the shareholders was approximately HK$150.6 million (2004: HK$50.7 million). Turnover for the Year decreased by approximately HK$118.3 million which represented a decrease of 82%. The substantial decrease in turnover was mainly attributable to the deconsolidation of the results of Jafoon Limited and its subsidiaries ("Jafoon Group") from the consolidated financial statements of the Group. Details are stated in the paragraph headed "Trading of steel" below. However the decrease in turnover was partly compensated by the two new businesses set up during the Year. In April 2005, the Group acquired Pacific Glory Holdings Limited, a company which operates a Japanese restaurant and contributed approximately HK$10.1 million during the Year. In October 2005, a new glass eel trading business was set up which contributed approximately HK$8.4 million in just two-months' time during the Year. The increase in net loss attributable to the shareholders of approximately HK$99.9 million was mainly due to the impairment of goodwill of approximately HK$109.3 million.

BUSINESS REVIEW

The business model of the Group was undergoing a structural change during the Year. The Group had commenced reviewing its businesses at the beginning of the Year in a plan to trim and restructure unsatisfactory operations. The Group had taken active steps in down-sizing the unsatisfactory operations, such as the skin and health care business, the artwork design business and the trading of jewellery business. At the same time, the Group had allocated its resources in developing new businesses and seeking for new investments. In light of its new strategic move, the Group had strengthened its board of directors ("Directors" or "the Board") composition by inviting Mr. Wong Tak Chung, Andrew to take up an executive role on 20 September 2005 so as to cater for future expansion and to refine the Group's management, corporate governance and business structure.

Skin and health care business

All retail outlets had been closed down during the Year in order to cut down staff costs and minimise the impact of the inflating rental costs. Despite continuous effort of the Board in restructuring its unsatisfactory operations, the Group's result suffered from the shrinkage of the skin and health care business during the Year. The results of the skin and health care business of the Group was unsatisfactory as the business was bombarded by the increasing numbers of large competing cosmetic chain store outlets. In view of the restructuring of the business, impairment of goodwill for the skin and health care segment of the Group was made during the Year.

Trading of jewellery

The Excel Harvest group is principally engaged in the importing and wholesale of diamonds. Turnover of the jewellery trading of the Excel Harvest group decreased during the Year and a record of turnover of only HK$3.65 million (2004: HK$39 million) was due to the deliberate trimming down of the operation by the Board. The trading of jewellery business had never been satisfactory to the Board due to the keen competition of the industry and the increasing material costs. Although the turnover was big, the profit margin for the jewellery business was small. In order to minimise the loss to the Group attributable to the jewellery business, the Board resolved to trim down the jewellery trading business and allocate its resources to the new glass eel trading business and the restaurant operation of the Group.

Trading of steel

Jafoon Group is 75% owned by the Group and is principally engaged in the trading of steel. Despite turnover attributed to the sale of stainless steel was big (approximately HK$81 million for the year ended 31 December 2004), the operation suffered a loss of approximately HK$1 million. The loss was mainly due to the high cost of sales and expensive operating costs. After reviewing the business, the Board noticed that the business showed no improvement in the first half of the Year. In view of the poor operating environment for stainless steel business, the Board considered that it would not be beneficial for the Group to allocate substantial resources to the operation. Attempts had been made by the Group to seek for potential buyer in order to dispose of Jafoon Group during the second half of the Year. However, due to the poor business environment of the steel trading business, such attempts were not successful. Since then, the Board noticed that there were signs of non-cooperation of the managerial level of Jafoon. For example, for the purpose of reviewing the performance of the business and for the purpose of seeking new strategic partners for the business, the Board had from time to time requested the management of all its subsidiaries to provide updated management accounts for the Board's review. Since December 2005, the management of Jafoon Group had been reluctant in providing the accounts for the Board's review and as such, the Board found it difficult to exercise its decision and administrative power over the business of Jafoon Group. The Board had also experienced failures in attempts of demanding proper accounting records from Jafoon Group in the second half of the Year for the preparation of the annual audit. The Board had tried various ways to assert its influence over the operation and financial of Jafoon Group. Professional parties such as financial and legal advisors were engaged by the Board to investigate the financial records of Jafoon in mid April 2006 and discovered that records were not adequate for audit purpose. During the investigation on the accounting records of Jafoon Group, the Board was suspicious that there might be a change in the management of the daily operation of Jafoon Group during the second half of the Year without the knowledge of the Board. The Board has resolved to set up an investigation committee and will continue to seek for professional advise on this matter. Announcement was made by the Company on 11 April 2006 to inform the public and its shareholders of the situation. Accordingly, the financial statements of Jafoon Group had been excluded from the consolidated financial statements of the Group for the Year.

The financial statements of the Group for the Year was prepared on the basis that Jafoon Group's result for the Year was excluded from the consolidated financial statements of the Group with effect from 1 January 2005. The Company has excluded all inadequate and deficient financial information of Jafoon Group of the Year and only presented those financials which are fully supported by proper documentation. The Board considers that for the sake of demonstrating to the public the impact of Jafoon Group's business on the Group's result and to allow the public to have a fair judgment on the performance of the Group, the presentation of the results on a deconsolidated basis is appropriate in the circumstances.

Restaurant operation

Pacific Glory Holdings Limited, which was acquired by the Group in April 2005, operates a Japanese restaurant and had a turnover of approximately HK$10.1 million and a net profit of approximately HK$480,000 for the Year. The acquisition of Pacific Glory Holdings Limited during the Year was a strategic move of the Group to diversify its business into an industry with growth potential. Due to the recovery of the general economic condition and the increasing spending power of tourists and local people in Hong Kong, the Group considered that the restaurant business would continue to provide profits to the Group.

Artwork design

The operation of the Group's provision of advertising services was restructured and scaled down during the Year as a result of a change of the key personnel of the management of the Daiwah Company Limited and its subsidiaries. The Group had been actively seeking for new management as well as business partners and alliances in the market during the Year in order to strengthen the business. However, such attempts were not successful and as a result, the business was hindered by the lack of new managerial staff and new investment opportunities.

Trading of glass eel

In October 2005, the Group has set up a new line for its trading business namely the wholesale of quality glass eel which is of higher profit margin and which requires less capital outlay. The setting up of the eel trading business during the Year was to take advantage from the "Malachite Green" incident which affected the prospect of the industry but resulted in low setting up costs for the business. The new eel trading business had started only for two months and already recorded a turnover of approximately HK$8.4 million and a net profit of approximately HK$400,000 for the Year.

The Group will source unaffected glass eel from Europe. Overseas demand for glass eel products is still high and therefore the Group expects that the new business will provide a stable income and profits to the Group.

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 Year, 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

Apart from setting up the new glass eel trading business and the acquisition of Pacific Glory Holdings Limited during the Year, the Company had entered into an agreement on 23 December 2005 to acquire the entire interests in State Empire Limited at a consideration of approximately HK$101 million. State Empire Limited is an investment holding company holding the entire interest in Right Emperor Commercial Building. Right Emperor Commercial Building is a 24-storey commercial building situated in Central, which is one of the major commercial hub in Hong Kong. The acquisition was approved by the shareholders of the Company on 27 February 2006 and the Directors envisage that completion will be in June 2006. The Group believes that the acquisition will be able to bring about a stable rental income for the Group in the future and to improve the quality of the asset portfolio of the Group.

Another strategic move of the Group is the fund raising exercise by way of open offer in April 2006. The net proceeds from the open offer will be used to finance the acquisition of State Empire Limited instead of incurring substantial amount of mortgage loans. As such, the Group will not become a debt laden company as a result of the acquisition.

The Group is now under a transitional period of which the Board is actively cleaning up those poorly performed business and uncooperative subsidiaries. The Board admits that the Group's result for the Year had been affected by such actions taken by the Board and may continue to affect the future performance when the restructuring is still under progress. However, the Board believes that, with the devotion of the Directors, the addition of a new member to the Board and the synergy effect brought about by the new businesses, the Group will be able to step out of the currently poorly performed situation in the near future. The Board believes that the acquisition of the State Empire Limited and the setting up of the glass eel trading business are milestone of the Company which enable the Group to loosen the burden of its existing poorly performed business.

FINANCIAL INFORMATION

The Group financed its operations by cash generated from operations, proceeds from the exercise of share options, private placements of Company's shares and banking facilities granted by its principal bankers to its subsidiaries.

As at 31 December 2005, the Group's gearing ratio was 0.51 (2004: 0.47) (calculated on the basis of total bank and other borrowings over shareholders' fund).

The Group's total bank and other borrowings amounted to approximately HK$18 million (2004: HK$84.7 million) as at 31 December 2005. The bank and other borrowings are mainly secured by investment properties, time deposits, long term investment, and guarantees granted by directors of certain subsidiaries.

The Group's core operation was in Hong Kong and had limited exposure to the fluctuations in exchange rates. Bank balances and borrowings were mainly denominated in Hong Kong dollars.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2005, the Group has 59 employees (2004: 34). Total staff costs were approximately HK$9.7 million (2004: HK$14.2 million). Employee remuneration was determined in accordance with individual's responsibility, performance and experience. Staff benefits include contributions to Mandatory Provident Fund Scheme, share option scheme, medical allowances and other fringe benefits.

CONTINGENT LIABILITY

The Group did not have any significant contingent liability at the balance sheet date.

CAPITAL STRUCTURE

(a) On 7 January 2005, 100,000,000 ordinary shares of HK$0.01 each were issued at the price of HK$0.0198 per share for a total cash consideration of HK$1,980,000 upon the exercise of share options granted to staff and business partners of the Group.

(b) On 13 October 2005, 500,000,000 ordinary shares of HK$0.01 each were issued at the price of HK$0.0112 per share for a total cash consideration of HK$5,600,000 upon the exercise of share options granted to business partners of the Group.

(c) By a special resolution passed by the shareholders of the Company on 20 March 2006, the share capital of the Company reorganised as follows:

(i) cancelling paid up capital to the extent of HK$0.0099 on each ordinary share of the Company so that the nominal value of each issued share will be reduced from HK$0.01 to HK$0.0001 and each issued share in the capital of the Company shall be treated as one fully paid up ordinary share of HK$0.0001 each in the capital of the Company ("Capital Reduction");

(ii) subdivide each of the authorised but unissued share of HK$0.01 into 100 ordinary shares of nominal value of HK$0.0001 each;

(iii) subdivide each of the authorised but unissued convertible preference share of the Company of HK$1,000,000 each into 100 convertible preference shares of nominal value of HK$10,000 each;

(iv) cancelling the entire amount standing to the credit of the share premium account of the Company as at 20 March 2006 ("Share Premium Reduction");

(v) the transfer of the credit arising from the Share Premium Reduction and the Capital Reduction to the contributed surplus account of the Company and the application of the amount therein to set off against the entire accumulated losses of the Company as from time to time and be dealt with in accordance with the applicable laws, including the laws of Bermuda and the bye-laws of the Company.

(d) By an ordinary resolution passed by the shareholders of the Company on 20 March 2006, every 10 of the ordinary shares of the Company (both issued and unissued) of HK$0.0001 each be consolidated into one new share of HK$0.001 each and every 10 of the convertible preference shares of the Company of HK$10,000 each be consolidated into one new convertible perference share of HK$100,000 each.

(e) By an ordinary resolution passed by the shareholders of the Company on 20 March 2006, the issue by way of open offer of 2,720,363,644 offer shares of HK$0.001 each to the shareholders of the Company was approved.

CHARGE OF ASSETS

As at 31 December 2005, the Group's investment properties of HK$22 million were pledged as security for banking facilities for certain subsidiaries.