



Bankee P KWAN
Chairman

Management Discussion and Analysis

Industry Review

In 2005, Hong Kong's economy continued its solid upturn, with gross domestic product (GDP) growing 7.3%. According to the HKSAR Government, fixed asset investment and consumer spending also continued to rise. Asset prices strengthened further and the financial situation of many families and individuals in Hong Kong improved.

Consolidating the brighter economic picture, Hong Kong's unemployment rate fell from a peak of 8.6% in mid-2003 to a four-year low of 5.2% at the end of 2005, with wages moving up steadily. The retail sector also reported strong growth with total sales recording a 6.8% rise in 2005, despite the previous year's high comparison base.

However, the situation for the furniture and household markets was not so encouraging, with the furniture and fixtures sector recording negative growth of 0.5% for total retail sales in 2005. The Composite Consumer Price Index (Composite CPI) for durable goods also faltered in 2005 – recording a year-on-year 2.4% fall in December – despite a general Composite CPI increase of 1.1% for 2005 as a whole.

Business Review

With the economy gradually recovering, consumption spending appeared strongest among the younger generation. With this in mind, the Group repositioned our Pricerite Stores (PSL), developed 3C Digital and created LifeZtore over the year to target the trendier and higher-spending younger generation of consumers.

In 2005, the Group was also renamed CRMG to fully reflect our current business and future development as a leading retail services and management group.



BOARD OF DIRECTORS (Left to right)

Raymond Kung Chit NG *Group General Manager*

James Siu Pong LEUNG *Executive Director*

James Tang Fai LAW *Deputy CEO*

Elaine Lai Ling KWOK *COO*



Management Discussion and Analysis

Pricerite Stores (PSL) – Repositioned for Future Growth

Research has shown PSL to be a market leader in “neat and clean” products – items which facilitate hygiene and storage. During 2005, PSL was further repositioned to become a “neat and clean” specialist as we continued to strengthen provision in these product categories. In line with this move, PSL launched a “neat and clean” promotional campaign, including a series of advertisements and new brand spokespeople. Our stores also underwent layout and design renovations to reflect the new positioning. The redesign brought the added benefit of improved sales per square foot, increasing the efficiency of store usage.

Provision of electrical appliances was also enhanced. A year-on-year double-digit growth in sales saw PSL become one of the market leaders in this category, with one solely distributed 32” LCD TV named the bestseller in an independent survey at the end of 2005. We will continue to consolidate our leadership position in this area and to form strategic alliances with key suppliers, such as Haier, the world’s second-largest supplier of electrical appliances in terms of turnover.

Meanwhile, a review of profit and costing structures and rationalisation of our network saw the closure of stores that did not meet internal key performance indicators (KPIs). By the end of the year under review, all of the 30 stores were contributing positively to the Group.

In relation to supply chain management, we boosted efficiency through infrastructure changes to PSL’s household and furniture sections following an operations and systems review. We also produced an operations manual for management and staff. These efforts were rewarded by a remarkable improvement in KPIs. Compared to 2004, PSL excess stock dropped 4.9%, vendors’ delivery lead-time was reduced by 25%, while the out-of-stock rate was maintained at below 5%.

PSL is now in a good position to look at growth and expansion. We will continue to leverage on our strong supply chain network to develop more private-label products. We will also focus on expanding the depth of our “neat and clean” products in order to become the “neat and clean” specialist of first choice. In the coming year, we plan to strengthen the PSL network to further penetrate the market and boost PSL’s presence in new residential areas. In this regard, high rental costs remain the Group’s prime concern and the major constraint on network development.





BOARD OF DIRECTORS (Left to right)

Elaine Lai Ling KWOK	<i>COO</i>
Eden Wai Leung LAU	<i>Deputy Managing Director</i>
Thomas Yuen Cheuk LI	<i>Deputy Managing Director</i>
Raymond Kung Chit NG	<i>Group General Manager</i>



Management Discussion and Analysis

3C Digital – Capitalising on the Digital Boom

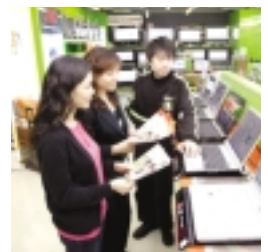
The year under review saw strong demand for 3C Digital's trendy digital products, with its items proving popular with both local customers and tourists. This situation was enhanced by 6.9% year-on-year growth for electrical goods and photographic equipment, as shown in the HKSAR Government's total retail sales figures for 2005.

3C Digital focuses on innovative products and personalised services, which cater for the needs of our consumers. Since 3C Digital's launch at the end of 2004, our high service standards have been recognised with Quality Tourism Service Accreditation and through membership of the "No Fakes" Pledge Scheme. In 2005, 3C Digital further strengthened our top service provision with the launch of an online shopping option and a personalised, two-hour delivery service.

We also extended the depth of our core product offerings, such as notebook computers and mobile phones, in response to a continuous increase in demand. We will continue to provide popular products by forming strategic alliances with key suppliers who hold dominant market positions.

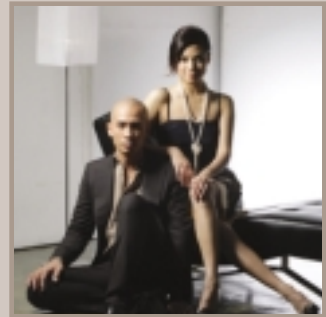
In line with our aim to reach the younger generation, 3C Digital's location strategy focused on high-traffic malls in key shopping areas, such as Times Square in Causeway Bay, apm in Kwun Tong, and New Town Plaza in Shatin. In addition, we launched an aggressive marketing campaign to build a unique brand image by using a young pop star as our brand spokesperson to appeal to our target customers.

In our first year of business, 3C Digital has become a major player in the sector and a market leader in certain categories, such as flat panel LCD TVs. This encouraging market response thus lays a good foundation for further expansion of the 3C Digital network.





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Raymond Kung Chit NG *Group General Manager*
Daryl Wai Kwong LAI *Executive Director*
Eden Wai Leung LAU *Deputy CEO*
Elaine Lai Ling KWOK *COO*



Management Discussion and Analysis

LifeZtore – Born To Be a New Force

Economic restructuring is moving Hong Kong up the value chain, creating more high-salaried jobs, according to the HKSAR Government research. This shows the total number of full-time employees with a monthly income of HK\$15,000 or above rose from 470,000 in 1995 to 790,000 in 2005, or from 21% to nearly one-third of the total number of full-time employees in Hong Kong.

Moreover, as the burden of negative equity eases and employment prospects stabilise in Hong Kong, the middle class has regained its willingness and ability to spend. Most are also showing that spending on improvements in their living conditions, including their home environment and lifestyle, is a priority.

This change in the economic outlook was the main driver behind the launch of LifeZtore at the end of 2005, with three stores opening in Hong Kong.

LifeZtore is a contemporary lifestyle concept retailer that provides authentic design items at affordable prices and an inspiring shopping environment for people with a passion for quality. Leveraging on CRMG's well-developed operating platform (human resources, administration, information technology, logistics and other back office support), LifeZtore focuses on contemporary furniture and houseware, created by an international design team and backed by merchandising expertise.



Management Discussion and Analysis

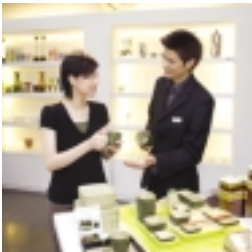
Building Strength in Mainland China



We have been testing the Mainland mass market by opening pilot PSL shops in the Guangdong area but have now opted out of this operational route as the pattern of mass market consumption in the Mainland differs from the current PSL business model. We are now consolidating our experience and re-modelling our Mainland business plan. As the Mainland gradually migrates from an export-driven economy to a consumption-driven economy, we believe there is great potential in its consumer market.



During the year under review, the Group acquired the Oriental Kenzo Department Store in Beijing to kick start retail operations in northern China. This acquisition also brings a full retail business licence, which allows chain store operations throughout the PRC.



The year also saw our Shenzhen support centre become fully operational, providing efficient back-office functions for the Group. These functions include merchandising, inventory management, accounting, IT, human resources, staff training and development, and logistics. Since the establishment of the support centre, operating costs have been reduced and operating efficiency increased. The support centre has also improved our sourcing capabilities in the Mainland, which has further enhanced the efficiency of our supply chain management system.

Management Discussion and Analysis

The Winning Team

People are central to the Group, be they customers, employees, suppliers, or shareholders.

The Group's mission states "our customers' interests always come first" and we give top priority to customer satisfaction. As our employees are the most important bridge to our customers, we therefore place great emphasis on improving our employees' approach to customer service, leadership and management skills; building internal cohesion; and cultivating a strong culture of professional sales and quality service.

During 2005, intensive customer service training and team building exercises were carried out, together with a restructuring of our senior management team.

The success of our approach to customer service and satisfaction was further recognised when two PSL staff members received Outstanding Young Salesperson Awards from the Hong Kong Management Association. A PSL staff member also gained the Service and Courtesy Award from the Hong Kong Retail Management Association during 2005.

We will continue to enhance our service standards and quality of employees through staff training and service culture development.



Management Discussion and Analysis

Future Prospects

Looking ahead, we are cautiously optimistic about the retail industry in Hong Kong. The gradual economic recovery has presented opportunities for the Group to build on its solid foundation, well-built infrastructure and cohesive staff team. Nonetheless, the high price of rent, labour, utilities and other operating costs in Hong Kong continues to make the operating environment a challenging one. The Group is confident that through our single operating platform, a blend of improved operating efficiencies, better use of technology and human resources, we shall move forward with increased momentum.

As such, in February 2006, it was proposed that CRMG focuses its resources and well-established infrastructure on developing our retail business in the Mainland, while our holding company, CASH, takes up our Hong Kong retail business so as to better delineate resources for parallel growth and development.
