MANAGEMENT DISCUSSION AND ANALYSIS

Business Development

On 7 September 2006, the Company announced that a new venture has been set up to allow the Company to tap the burgeoning television home shopping business in the PRC. Through a series of structured contracts entered with a PRC incorporated entity, Shanghai Seven Star International Shopping Co., Ltd. ("Seven Star (Shanghai)"), the Group will be able to engage in the business of retail, distribution and television shopping business in the PRC.

By virtue of the structured contracts (which are fully described in the Company's announcement dated 7 September 2006), all the economic benefits achieved by Seven Star (Shanghai) will flow through to the Group while its operation and management will also be fully controlled by the Group as from the date of signing the structured contracts on 31 August 2006.

The new venture is owned as to 70% by the Group. It is the intention of the Group that Seven Star (Shanghai) will actively pursue television home shopping business through a country-wide television shopping platform and call centers as well as a distribution network of retail outlets in various provinces in the PRC.

It is also the intention of the Group that its retail and television shopping business will be conducted under the brand name of "七星購物", the trademark of which has been licensed to the Group by its controlling shareholders. The licensing was done at nil consideration for three years and the Group has the sole option to renew it for two further years. To avoid conflict of interests, the controlling shareholders have also undertaken to the Group that they would not be engaged in any business in competition with Seven Star (Shanghai).

The Group expects that the above arrangement will be effected as from 1 October 2006 and this new business will add a substantial revenue stream to the Group and enhance the Group's profitability.

Outlook

The Group is positive about the prospects of the retail and distribution businesses in the PRC. In particular, the Directors believe that Seven Star (Shanghai) will substantially increase the earnings of the Group and bring synergistic benefits to the Group's existing retail and distribution business conducted through Shanghai Pei Lian Trading Company Limited ("Shanghai Pei Lian").

Business and Financial Review

In order to facilitate the review, the segmental information shown in Note 3 to the interim financial statements is reproduced below:

	2006 first half HK$'000	2005 first half HK$'000
Contribution from PRC retail and distribution	**10,543**	(1,416)
Income from property investments	**52**	(322)
	10,595	(1,738)
Unallocated revenue	**65**	58
Gain on disposal of a subsidiary	**6,200**	–
Unallocated corporate expenses	**(4,079)**	(6,624)
Operating profit/(loss)	**12,781**	(8,304)
Finance costs	**(396)**	(38)
Profit/(Loss) before tax	**12,385**	(8,342)
Taxation	**(2,385)**	–
Profit/(Loss) for the period	**10,000**	(8,342)
Minority interest	**20**	398
Profit/(Loss) attributable to equity holders of the Company	**10,020**	(7,944)

Profit attributable to equity holders of the Company

Profits attributable to equity holders of the Company amounted to HK$10,020,000 in the current period as opposed to a loss of HK$7,944,000 for the six months ended 30 June 2005. Such a change reflected a complete turnaround of the Group's operational profitability and is primarily due to the contribution from the Group's retail and distribution business in the PRC.

PRC Retail and Distribution

The first half of 2006 saw strong improvement in the contribution from the PRC retail and distribution segment from a loss of HK$1,416,000 (for the six months ended 30 June 2005) to a gain of HK$10,543,000 as a result of the contribution from Top Pro Limited ("Top Pro"), whose main asset is its investment in Shanghai Pei Lian, a company engaged in the sales and distribution of consumer products through media and call centres.

Shanghai Pei Lian was acquired by the Group in November 2005. It derives its income from two main sources, namely:

(1) Provision of comprehensive solution and media management services to corporate customers who wish to sell consumer products through television media and call centres; and

(2) Sourcing and wholesaling of consumer products to corporate customers.

Going forward, it is expected that Shanghai Pei Lian will derive substantial synergistic benefits from Seven Star (Shanghai).

The manufacture and sale of health products, which formed the sole source of income in the corresponding period in 2005, has continually been wound down as scheduled and its contribution to the current period under review has become negligible.

Income from Property Investments

The Group's property investments have also continually been wound down intentionally. During the period under review, an investment property under development project held by a Group's subsidiary was disposed of, resulting in a gain of HK$6.2 million.

As at 30 June 2006, the carrying value of the remaining investment property held for resale amounted to HK$9.7 million. This property is currently being leased out at a yield of approximately 5.6%. The Board expects to dispose of this property at an opportune time in the future.

Corporate Expenses

As a result of the reduction in the amortised amount of share option expenses from HK$3.4 million for the first half of 2005 to HK$514,000 for the first half of this year, unallocated corporate expenses decreased by approximately 38% to HK$4.1 million as compared to HK$6.6 million for the corresponding period in 2005.

Finance Costs

Finance costs for the period under review were increased to HK$396,000 (for the six months ended 30 June 2005: HK$38,000) as a result of a shareholder loan required for general working capital purposes.

Financial Resources and Liquidity

Issuance of shares

On 19 April 2006, the Company placed a total of 438,250,000 new shares to institutional and professional investors at a gross price of HK$0.118 per share. During the period under review, 70,000,000 share options were also exercised.

As a result, the Company received net proceeds (after fund-raising related expenses) in the aggregate amount of approximately HK$58 million.

Borrowings

Total borrowings (largely comprised of shareholder's loans) of the Group amounted to HK$21,236,000 at 30 June 2006 as compared with HK$19,603,000 as at 31 December 2005. The Group had heavily relied on the borrowings from its controlling shareholders during the period to sustain its business expansion. As a result, total borrowings from shareholder's loans increased from HK$5.8 million as at 31 December 2005 to a maximum of HK$30.8 million during the period and was gradually reduced to approximately HK$21 million as at 30 June 2006, of which HK$20 million was related to the acquisition of the new retail and media management business in the PRC in November 2005.

Following the share placement described above, the Board expects that the reliance on controlling shareholders will be lessened in future. The existing shareholders loan will largely be due in October this year and may be extended for another twelve months with the consent of the lenders.

Pledge of assets

As at 30 June 2006, the Group's property held for resale had a carrying value of HK$9,700,000 and the bank loan associated with this property had been fully repaid in previous years. However, the Company is in dispute with the management company of the property concerned regarding certain outstanding management fees amounting to HK$2.2 million. For prudence, such an amount had been fully provided for in the income statement in previous years. Due to the unsettled management fee, the property remains pledged to the relevant bank. The Company expects to reach a settlement agreement with the management company soon.

Current Ratio

Cash and bank balances increased substantially from HK$4,003,000 at 31 December 2005 to HK$48,939,000 at 30 June 2006. The current ratio, as a result, was improved from 0.61 as at 31 December 2005 to 1.90 at 30 June 2006.

Taking into account the turnaround of the operations and the strong performance of the retail and media management business, the Directors are of the opinion that there is sufficient working capital to meet its current investment plan and all financial obligations when they fall due.

Exchange rate exposure

As at 30 June 2006, Renminbi and Hong Kong dollars accounted for 13.5% and 86.5% of the Group's total cash and bank balances respectively. As the majority of sales, purchases, assets and liabilities committed by the PRC retail and distribution business are mainly denominated in Renminbi, the Group is subject to a certain level of exchange rate exposure. However, as the exchange rate of Renminbi to HK dollar has been relatively stable and there has not been any material conversion issue, the Board considers the Group's exposure to foreign exchange risk to be relatively low.

Staff and Remuneration Policy

The number of employees (including Directors) as at 30 June 2006 was increased to 51 (30 June 2005: 17) as a result of the acquisition of the new retail and media management business. The Group recruits and promotes individuals based on merits and their development potential for the positions offered. Remuneration package is determined with reference to their performance and the prevailing salary levels in the market. In addition, the Group operates a share option scheme for eligible employees (including directors) to provide incentives to the participants for their contributions and continuing efforts to promote the interests of the Group.

Appreciation

The Board expresses its highest regard to the Group's ex-Managing Director, Mr. Ha Shu Tong, who resigned during the period, for his valuable contribution to the Group. The Board also owes its gratitude to the Group's bankers, creditors, management and staff for their continuing support.

On behalf of the Board
Ni Xinguang
Chairman

Hong Kong, 20 September 2006