MANAGEMENT DISCUSSION AND ANALYSIS

During the eighteen months ended 31st December 2006, the Group suffered from the loss from the cruise ship's operation and the disposal of the cruise ship. By strengthening the internal controls especially on tightening cost controls, the placing of new shares and the proceeds from the disposal of All Chance Group, the Group could generate adequate funding for the acquisition of new business, repayment of all outstanding bank loans and improving its working capital. In accordance with the future plan of the Group, we will continue to strengthen its internal consolidation with the newly acquired business through internal restructuring and asset reorganisation in order to form an integrated operational platform, which could enhance the Group's performance and achieve economies of scale.

FINANCIAL RESULTS

The turnover of the Group for the eighteen months ended 31st December 2006 increased to approximately HK$120.4 million (cruise ship and related activities was HK$15.0 million and the department store operation was HK$105.4 million) compared to approximately HK$70.9 million for the last period, an increase of approximately 69.8%. The increase in turnover was mainly attributable to the operation of a department store in Urumqi since May 2006. The decrease of turnover for cruise ship and related activities was approximately 78.8%.

The gross profit of the Group for the eighteen months ended 31st December 2006 decreased to approximately HK$20.8 million (cruise ship and related activities was HK$1.5 million and the department store operation was HK$19.3 million) compared to approximately HK$27.9 million for the last period due to the relatively lower profit margin of the department store industry. The gross profit margin of the Group for the eighteen months ended 31st December 2006 dropped to approximately 17.3% (cruise ship and related activities was 9.7% and the department store operation was 18.3%), compared with approximately 39.4% for the last period.

The operating, general and administrative expenses for the eighteen months ended 31st December 2006 increased to approximately HK$155.0 million (cruise ship and related activities was HK$112.0 million and the department store operation was HK$43.0 million) compared to approximately HK$18.0 million for the last period. The turnover of the cruise and related activities decreased by 78.8% but still kept the same expenses level to last period due to the high repairs and maintenance cost borne by the Company in the regular examination of the cruise ship before disposal and an impairment loss of approximately HK$109.0 million was provided on the cruise ship during the period.

The finance costs for the eighteen months ended 31st December 2006 increased by approximately 284.1% to approximately HK$3.4 million compared to approximately HK$0.9 million for the last period. The rise in the finance costs was mainly attributable to the increase in the borrowing activities during the period and the interest rate hike.

Loss attributable to equity holders of the Company for the eighteen months ended 31st December 2006 was recorded at approximately HK$151.0 million compared with the profit of approximately HK$2.2 million reported in the last period. The loss was mainly attributable to the change of mode of business from operating the cruise ship to licensing it, its temporarily suspension of operation, the loss in revaluation of the cruise ship written off and the disposal of All Chance Group. The profit for the department store operation was approximately HK$2.8 million. The vendors of Ginwa Urumqi have given an irrecoverable undertaking to the Group that the audited net profit before tax of this operation for the financial year ending 31st December 2006 and 31st December 2007 in aggregate be not less than RMB14 million or the Group would decrease the principal sum of the promissory note due to the vendors on a dollar to dollar basis. The Group has made a profit provision on the said guarantee of approximately HK$2.2 million to set off the promissory note.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2006, net current assets and total assets less current liabilities of the Group amounted to approximately HK$11.6 million (30th June 2005: net current liabilities of HK$7.9 million) and approximately HK$86.2 million (30th June 2005: HK$202.7 million) respectively. As at 31st December 2006, the Group had cash and cash equivalents amounted to approximately HK$17.7 million (30th June 2005: HK$1.3 million). The current ratio of the Group as at 31st December 2006 was 1.28 (30th June 2005: 0.74).

On 20th January 2004, the Company issued a US$10,000,000 Secured Guaranteed Floating Rate Notes ("FRN") due in 2006. The FRN carried interest at the rate equivalent to one month LIBOR plus a margin of 1.5% per annum. The FRN was guaranteed by certain executive directors of the Company and secured by certain assets of the Group as listed in note 25 to the financial statements. The Company had settled the entire outstanding amount on 22nd August 2006 and all guarantee and security has been released accordingly.

The Company issued HK$10 million 1% interest per annum convertible bond with maturity date of 3rd May 2008 that can be converted on or after 16th May 2007 @HK$0.624 per share and a HK$30 million 2% interest per annum promissory note due and payable on 3rd May 2008 for the consideration on the acquisition of Silver Light Group Limited ("Silver Light"), its direct wholly-owned subsidiary, Century Ginwa Urumqi Shopping Mall (H.K.) Limited and its indirect wholly-owned subsidiary, Century Ginwa Urumqi Shopping Mall Company Limited ("Ginwa Urumqi").

The Company issued 73,660,000 new shares through placing arrangement on 27th April 2006. The net proceeds raised from the placement were approximately HK$33,170,000. From the proceeds, HK$15 million was used for the partial repayment in respect of the promissory note of HK$30 million issued as part of the consideration for the acquisition of Silver Light and the balance used for the general working capital.

The Company issued 8,184,450 new shares based on the share options exercised on 3rd May 2006 and raised HK$2,946,402 for general working capital of the Group.

The Company has received HK$18 million in cash from the disposal of All Chance Group. HK$10 million is allocated for the acquisition of Xian Hi-Tech business assets and the working capital required for the operation of department store after the completion of this acquisition. The balance of the proceeds is used for the working capital of the Company.

The gearing ratio, being the bank loan divided by the shareholders' equity, as at 31st December 2006 was nil (30th June 2005: 9.4%).

BUSINESS REVIEW

In the last period, the Group was principally engaged in operation of its cruise ship "Ming Fai Princess". Due to the change of operating environment, the Group has granted a licence to a third party at a licence fee for two years commencing June 2005 in respect of the whole operations of the cruise ship on a new route in Hong Kong waters and the international waters nearby Hong Kong. The turnover in the period comprises the licence fee for the operations of the cruise ship. Since May 2006, the operations of the cruise ship have been suspended temporarily for conducting regular examination, repairs and maintenance. The Group agreed on 24th August 2006 to waive the 3 months licence income (May to July 2006) from the operators which amounted to HK$4.5 million. In addition, All Chance Group also entered into an agreement with the operator of the cruise ship in August 2006 for sharing the mentioned repair and maintenance expenses. The expenses already incurred in the period amounted to approximately HK$3.6 million. The exact amount of the requisite maintenance expenses could only be finalised after the whole process is completed. In view of the uncertainties and difficulties in the cruise ship operation, the Group decided to change its business strategy by engaging new business.

Disposal of subsidiaries – Cruise Ship's Operation

Given the uncertainty on the revenue generating capability of the cruise ship aged 34 years old, the potential huge repair and maintenance cost to be incurred, the Company considered it necessary to dispose the business of cruise operations. The Company thus entered into a Sale & Purchase Agreement on 25th September 2006 to dispose of All Chance Group, which holds the cruise ship and related business to an independent third party for HK$18 million in cash, which incurred a net loss of approximately HK$43.9 million after recording the loss of revaluation on the Cruise Ship for approximately HK$109.0 million.

Change in Business Strategy

As mentioned in the 2005 Annual Report, the Group would continue to explore other business opportunities so as to diversify our business interests. With a huge population, the PRC has a large consumer base which provides tremendous opportunities for distributors of consumer goods. According to the information of the National Bureau of Statistics in PRC, retail sales in PRC increased from approximately RMB2,361 billion in 1995 to approximately RMB6,718 billion in 2005, representing a compound annual growth rate of 11%, while the GDP for the same period has achieved a compound annual growth rate of approximately 11.7%. According to Euromonitor International, department store business sales value in PRC is forecasted to increase from approximately RMB348 billion in 2004 to approximately RMB685 billion in 2010, representing an increase of approximately 96.8%, or representing an average annual growth rate of approximately 32.8%. Moreover, in terms of department stores in recent years, the number has increased to 3,438 stores in 2005, increased by approximately 14% over the previous year.

Having considered the rapid growth in PRC consumption power, the Group decided to take up the business of operating department stores, starting with acquiring one "Century Ginwa" branded department store in Urumqi from the Ginwa Group in May 2006. The Group also entered into a Share Acquisition Agreement with Best Mineral Resources Limited ("BMRL") to acquire another "Century Ginwa" branded department store in Xian, PRC, from Ginwa Group on 13th June 2006. The Group has obtained full support from its shareholders in the SGM held on 29th August 2006. Although the transaction lapsed on 30th September 2006 because the Company could not reach agreement with potential investors on the final placing price, the Company decided to start its own operations of department store on the same shopping floors by acquiring the certain selected assets and simultaneously applied to the relevant authorities for approval to conduct department store business itself. The transaction was approved in the SGM held on 18th December 2006.

Merger & Acquisition

On 16th February 2006, the Company as purchaser entered into an agreement with two vendors, one of whom is an associate of a director of the Company in respect of purchase of the entire issued shares of Silver Light at an aggregate consideration of approximately HK$40 million, which will be satisfied: (a) as to HK$30 million by way of a promissory note due and payable two years after the completion date; (b) as to HK$10 million by way of a convertible bond. Silver Light has an indirect wholly-owned subsidiary, Ginwa Urumqi, which is principally engaged in the operation of "Century Ginwa" branded department store in Urumqi, the PRC. The Company completed the whole major acquisition and connected transaction under the Listing Rules on 4th May 2006.

Century Ginwa

Since the commencement of business in Year 1998, "Century Ginwa" branded department store has established its unique style in the operation of department stores. With the vision "By maintaining a Simple Structure and High Efficiency in operation, and stimulating Team Spirits and Staff Morale, we can deliver the Best Quality of Services to our Customers", Century Ginwa mainly focuses on five strategies:

MANAGEMENT DISCUSSION AND ANALYSIS

a) Stronger Customer Relationship Management
b) Chain Store Development and Expansion
c) Larger Variety of Services
d) Emphasis on Creditability
e) Better Market Positioning

In October 2006, the flagship department store operated by Century Ginwa Joint Stock Company Limited under Ginwa Group, namely Century Ginwa Zhong Lou Shopping Centre ("Zhong Lou") in Xian, was awarded as one of the 14 金鼎百貨店精品店 by Ministry of Commerce of the PRC ("MOFCOM"). MOFCOM had chosen 223 sizeable department stores and branded boutiques in Beijing, Tianjin, Shanghai, Xian, Qingdao, Chongqing, Dalian, Nanjing and Changsha, and further selected the award holders in terms of their standard of management control, quality of service and decorations of the stores. This award not only represents the effectiveness of the business strategies of Century Ginwa, but also its market status in the department stores industry.

BANKING FACILITIES

As at 31st December 2006, the Group had no outstanding banking facilities (2005: nil).

FOREIGN EXCHANGE EXPOSURE

During the period, the Group's operation of department stores earned revenue and incurred costs in Renminbi. Renminbi was relatively stable although there was an appreciation pressure during the period. The Directors considered that the Group's exposure to fluctuations in foreign exchange rate was minimal, and accordingly, the Group did not employ any financial instruments for hedging purpose.

SEASONAL OR CYCLICAL FACTORS

During the period, the Group's business operations were not significantly affected by any seasonal and cyclical factors.

CONTINGENT LIABILITIES

As at 31st December 2006, the Group and the Company did not have any material contingent liabilities (30th June 2005: Nil).

HUMAN RESOURCES

As at 31st December 2006, the Group employed 354 (2005: 8) full time employees including management and administrative staff. Most of the employees are employed in Mnainland China. The headcount of the Group increases significantly as the Group has acquired operations of department stores in the PRC.

The employees' remuneration, promotion and salary increments are assessed based on both individual's and Company's performance, professional and working experience and by reference to prevailing market practice and standards. Apart from the general remuneration package, the Group also granted share options and discretionary bonus to the eligible staff based on their performance and contribution to the Group. The Group regards quality staff as one of the key factors to corporate success.