BUSINESS REVIEW

With the introduction of another series of austerity measures by the PRC government which include, among others, "The Opinions on Regulating Market Entry and Administration of Foreign Investment in Real Estate Market" (《關於規範房地產市場外資準入和管理的意見》) issued and promulgated by the PRC government and the introduction of new individual income tax provisions on property transfer and other related measures in the second half of 2006 together with other measures implemented in the first half of 2006, the overheated property market in PRC over the past few years has been cooled down and the Group experienced a challenging year of 2006.

As a result of the austerity measures, the Group became more cautious in the selection of property agency and consultancy projects in the second half of 2006. In the year of 2006, the Group had generated commission revenue from 28 (2005: 46) comprehensive property consultancy and agency projects and approximately 0.5 million square metres (2005: 0.7 million square metres) of gross floor areas of the relevant underlying properties under these comprehensive property consultancy and agency projects were sold through the Group. As such, the revenue generated from the comprehensive property consultancy and agency projects decreased by approximately 33.0% to approximately RMB74.8 million in 2006 from approximately RMB111.6 million in 2005. For the same reason, the Group recorded the turnover of approximately RMB74.8 million for the year ended 31 December 2006, representing a decrease of approximately 35.5% as compared to approximately RMB115.9 million in 2005.

In the second half of 2006, the Group placed more effort on agency business over commercial property sector as compared with the first half of 2006 which was considered to have a strong demand, especially in metropolitan cities like Shanghai. As such, there was an improvement in performance in the second half of 2006.

The gross profit margin of the Group in 2006 was approximately 55.5% which is slightly less than 57.8% as achieved during the corresponding period in 2005. The profit attributable to shareholders decreased by approximately 53.2% to approximately RMB19.2 million as compared with approximately RMB41.0 million in 2005. Such decrease was principally due to the decrease in the turnover as mentioned above.

Property consultancy and agency business

The Group continued to focus on the provision of comprehensive property consultancy and agency services for the primary property market in the PRC during the year. In 2006, the Group has generated commission revenue from 28 (2005: 46) comprehensive property consultancy and agency projects and approximately 0.5 million square metres (2005: 0.7 million square metres) of gross floor areas of the relevant underlying properties under these comprehensive property consultancy and agency projects were sold through the Group. The total revenue generated from these comprehensive property consultancy and agency projects was approximately RMB74.8 million, accounting for approximately 99.93% of the total turnover of the Group of RMB74.8 million in 2006.

As at 31 December 2006, the Group had 37 comprehensive property consultancy and agency projects on hand with total of approximately 3.3 million square metres of unsold gross floor areas. Among these 37 projects, the sales of the underlying properties of 9 projects have not yet been commenced as at 31 December 2006.

FUTURE PROSPECTS

The Directors are of the belief that it is the objective of the austerity measures to help the development of the PRC property market in a healthier and stable way, and will be beneficial to the PRC property market in mid to long term in view of the continuance of strong demand of self-use property in the coming future under the existing demographic structure in the PRC. With the continuing growth in economic development in the PRC, increasing rate of urbanisation and strong national income growth together with 2008 Olympic in Beijing and 2010 Shanghai Expo, the PRC property market will have a steady development in the future.

Given the growing trend in the economic and property development in the PRC, apart from the Group's focus in developing Shanghai market, the Group will also aim to put effort in expanding its presence in other regions of the PRC with growth potential such as Ningbo, Suzhou, Nantong, Nanjing, Hefei, Jiu Jiang, Shandong, Tianjin and Wuhan in the PRC. The Group will consider setting up its network branches in respective appropriate areas as and when appropriate.

Furthermore, in line with the directions of the austerity measures, the Group will target to engage in more property consultancy and agency projects with low to mid-priced and small to medium sized residential properties which are expected to have a stronger demand under the prevailing property policy of the PRC government. Besides, commercial property market will also be another area which the Group will develop proactively.

Apart from the agency and consultancy business from primary property market, the Group plans to diversify revenue streams by rendering other real-estate related services and business, including but not limited to, commercial property management, leasing and property advisory and agency for property investment, which will enable the Group to broaden the customer base and the revenue sources of the Group.

The Group will continue to focus on staff training in order to continuously render services of high quality to customers under the existing market conditions and thereby enabling the Group to maintain its reputation in the industry and become more competitive in exploring new business opportunities and securing new property consultancy and agency projects.

LIQUIDITY AND FINANCIAL RESOURCES

In 2006, the Group's resource of funds was mainly from cash generated from operation and the proceeds from the successful issue of new shares ("New Issue") of the Company at its listing on the main board of the Stock Exchange on the Listing Date.

As at 31 December 2006, the Group had net current assets of approximately RMB133.4 million, total assets of RMB166.0 million and shareholders' equity of approximately RMB138.9 million.

As at 31 December 2006, the cash balance of the Group was approximately RMB67.2 million.

BANK AND OTHER BORROWINGS

The Group had no borrowing as at 31 December 2006 while the total borrowing as at 31 December 2005 amounted to HK$25 million in the form of convertible bonds ("Bond"). On 10 June 2006, the Bond in the principal amount of HK$25 million was converted into 361,888 shares in the share capital of the Company.

On 3 February 2007, one of the subsidiaries of the Company entered into a loan agreement with a bank in respect of a RMB15 million facility. The loan facilities are secured by the deposits of RMB15 million of the Company. As at the date of this report, the loan facilities have not yet been utilised.

ACQUISITION

SinoCity was incorporated as a wholly foreign owned enterprise on 26 September 2005 in the PRC. As at 31 December 2005, its registered and fully paid capital amounted to US$200,000 and was owned as to 45% by Millstone, a wholly owned subsidiary of the Company. In May 2006, Shanghai Fortune Sun acquired the remaining 55% equity interest in SinoCity at a cash consideration of RMB819,000 and since then, SinoCity became wholly owned by the Group.

FOREIGN EXCHANGE RISKS

All the Group's revenue and most of operating costs were denominated in Renminbi. As the proceeds from the New Issue were received in Hong Kong dollars, the Group is exposed to foreign exchange risks. The Group did not enter into any foreign exchange hedging arrangements as at 31 December 2006.

STAFF

As at 31 December 2006, the Group had a total of 229 staff, whose remuneration and benefits are determined based on market rates, state policies and individual performance.

INVESTMENT

For the year ended 31 December 2006, apart from investment properties held by the Group as set out in the section headed "Summary of Major Properties" of this report, no other significant investment has been made by the Group.

CONTINGENT LIABILITIES

Pursuant to a comprehensive property consultancy and agency contract for one property project in Shanghai entered into by the Group in 2006, if the Group is not able to fulfil the committed sales target pursuant to the relevent terms as stipulated in the contract, the Group is obliged to arrange a third party to purchase the unsold properties at a price stipulated in the contract. As at 31 December 2006, the aggregate price of the related unsold properties according to the contract amounted to approximately RMB5 million. Save as disclosed herein, the Group had no material contingent liabilities as at 31 December 2006.

CAPITAL COMMITMENT

As at 31 December 2006, the Group had no significant capital commitments.