Management Discussion and Analysis

GROUP OVERVIEW

The Group was principally engaged in the retail business in the PRC including supermarket and chain stores, and investment in financial securities and real estate properties.

During the year under review, the Group recorded turnover and gross profit of approximately HK$431,037,000 and HK$42,307,000 respectively. Profit for the year attributable to equity holders of the Company was HK$2,316,000. Earnings per share was HK0.23 cents (2005: loss per share was HK 2.29 cents). Selling and distribution expenses and general and administrative expenses for the year represented 6.1% and 19.2% of turnover respectively, as compared to 4.8% and 18.5% of last year.

RETAIL BUSINESS

On 4 July 2006, K.P.B. Marketing Limited, the wholly-owned subsidiary of the Company, entered into a sale and purchase agreement for the acquisition of the remaining 49% equity interest in K.P.I. (BVI) Retail Management Company Limited ("KPI Retail Management") at a consideration of HK$93,000,000. The consideration was satisfied by the issuance of a convertible note by the Company. KPI Retail Management is the registered owner of the entire registered capital of 海口港佳貿易有限公司, a company established in the PRC, which in turn is the registered owner of 40% of the registered capital of Hualian GMS Shopping Center Co., Ltd ("GMS"). GMS is principally engaged in large-scale chain hypermarkets in Shanghai and Northeastern PRC. Since its establishment in December 1998, GMS has developed rapidly and earned prestige brand recognition among people in Shanghai.

The acquisition of KPI Retail Management signified the Group's further expansion into the retail business in the PRC. It is the intention of the Group to inject more capital and resources into the retailing business in the PRC to capture the continual growth of the PRC economy. The Group has appointed four directors to sit on the GMS board, the chairman of which is the Vice Chairman of the Group.

Through the significant influence of the Group's representation on the board of GMS, the operational efficiency and profitability of GMS will be further improved.

Progress on the expansion of GMS chain outlets was satisfactory in the year under review. As at 31 December 2006, GMS had about 19 stores, with total business area exceeding 200,000m^2. Taking Shanghai as base, GMS radiated to Jiangsu, Zhejiang and Anhui, with sales reaching RMB1,457 million and employees increasing to over 5,000 in 2006. The Group believes it was a right decision to close down several poorly performed shops of GMS in 2005, which were mainly located in northeastern PRC. Profit of GMS has then been picking up gradually and continuing on an upward trend. The Group has demonstrated its ability to turnaround the performance of a sizable retail chain operator. Turnover of GMS for the year was approximately RMB1,456,980,000, a decrease of approximately 9.6% as compared with the corresponding figure last year. The reduction in turnover was mainly due to the decrease in number of outlets. During the year, the Company shared turnover and net profit of GMS were

Mr Tao Ye, the General Manager of the Group

approximately HK$392,413,000 and HK$463,000 respectively. During the year, the layout of some outlets was refined and consumers were provided with merchandise a wider range to more fully satisfy their requirements. To improve stock turnover, regular reviews on inventory level were performed and various marketing campaigns were launched.

Although the Group believes that the competition in the PRC retail business is still intense, the overall purchasing power of general consumers is growing rapidly. Chain retailers are now competing on differentiation of customers, reduction in operation cost, brand loyalty, optimization of product mix, and upgrade of management and supply chain system. In the long term, the overall operating efficiency of GMS will improve considerably and become a significant growth driver to the Group's turnover and net profit.

In Beijing, our convenience stores project has maintained steady growth. To adopt a prudent expansion approach, the selection of outlet location concentrated on places with high pedestrian flow. Poorly performed stores were closed down and efforts were made to constantly adjust product mix so as to better suit customer preferences. During the year, gross margin improved and the number of outlets reached 115. Looking ahead, the Group believes that the retail business in Beijing still has enormous growth potential and there will be significant enhancement in the profit margins of the stores. 2008 Olympic Games will further stimulate economic development of Beijing city and provide an added advantage to retailing business.

INVESTMENT BUSINESS

Due to the impressive rally in global equity markets, the Group's investment business performed well during the year under review. Profit on change in fair value, dividend income and disposal of financial assets amounted to approximately HK$3,461,000 (2005 : HK$2,436,000). Investment portfolio comprised listed shares, high yield equity linked notes, bonds and financial derivatives.

On 31 March 2006, K.P.B. Marketing Limited, a wholly-owned subsidiary of the Company, entered into a loan agreement with an independent third party, in relation to

a loan facility of up to RMB60,000,000 of annual interest 15%. This is a rare opportunity for the Group to generate higher return on capital using excess funds. Interest income earned from the loan amounted to approximately HK$5,703,000. Except for this transaction, the Group does not have any intention to develop any money lending business in the future. It is expected the loan would be repaid in the second quarter of 2007.

FUTURE OUTLOOK AND PROSPECTS

There are lucrative opportunities arising from the booming economy in the PRC and its escalating growth in retail business. Leveraging on experience and wisdom from its many years of involvement in the PRC business, the Group has laid down a solid foundation to emerge as one of the leading retail operators in the PRC.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had non-current assets of approximately HK$133,668,000. The non-current assets were mainly comprised plant & equipment of approximately HK$38,314,000, goodwill of approximately HK$13,493,000, intangible assets of approximately HK$58,016,000. Current ratio as defined as current assets over current liabilities was 1.5. As at 31 December 2006, the Group had current assets of approximately HK$421,517,000. Current assets were mainly comprised cash and bank balances amounted to approximately HK$134,477,000, inventory of approximately HK$57,992,000, other receivables, deposits and prepayments amounted to approximately HK$130,082,000 and loan receivables amounted to approximately HK$55,956,000. As at 31 December 2006, the Group had current liabilities of approximately HK$273,282,000. Current liabilities were mainly comprised trade payables, other payables and accrual of approximately HK$197,197,000 and bank borrowings of approximately HK$76,000,000. The convertible note issued is split into liability and equity components at initial recognition. The liability component is subsequently carried at amortized cost. The equity component is recognized in other reserve until the note is converted or redeemed. Non-current liabilities were mainly comprised the liability component of convertible note of amortized value of approximately HK$91,521,000. Gearing ratio was 88.0%, which is calculated on the basis of total borrowings over total equity. As at 31 December 2006, all bank borrowings of the Group were denominated in Renminbi at fixed interest rate basis. The Board is of the opinion that the Group is not subject to any significant interest rate risk. A significant portion of sales and purchases of the Group were either denominated in Hong Kong dollars or Renminbi. Despite the appreciation of Renminbi during 2006, the impact on the Group's operation was minimal. In such, no hedging has been carried out by the Group. The Group will continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

GMS's outlet

PLEDGE OF ASSETS

Approximately HK$23,400,000 bank deposits and a property with fair value of HK$13,200,000 were pledged to secure general banking facilities granted to the Group.

HUMAN RESOURCES MANAGEMENT

As of 31 December 2006, the Group, excluding associated companies and jointly controlled entity, had a total of 16 employee (2005:19). The number of employees of GMS was about 5,000. Total staff costs (including directors' remuneration) for the year were approximately HK$26,575,000. Competitive remuneration packages are structured to commensurate with individual responsibilities, job duties, experience and performance, which are regularly reviewed by the management. The Group also offers other benefits such as allowances and discretionary bonus, provident funds, medical insurances and share options.

MATERIAL ACQUISITION AND DISPOSALS

For the year, a wholly-owned subsidiary of the Company, K.P.B. Marketing Limited entered a sale and purchase agreement for the acquisition of the remaining 49% equity interest in KPI Retail Management at a consideration of HK$93,000,000. KPI Retail Management was indirectly interested in 40% equity interest of GMS, a company established in PRC and is principally engaged in retailing business. Further details of the acquisition are set out in the Company's circular dated 11 August 2006 to its shareholders in connection with the acquisition.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2006.