Management Discussion and Analysis

BUSINESS REVIEW

Development planning advisory service for shopping malls

The Group provides professional development planning advisory services to assist our clients in developing and managing shopping malls. Advisory services offered include feasibility study, market research, market positioning, shopping mall design and decoration, business canvass and image management. During the year, the Group signed advisory service contracts with two shopping malls in Beijing, the PRC.

The rising prosperity in the PRC together with the policies for the relaxation of restrictions on foreign retailers entering the PRC have caused great influx of foreign retailers in the prime cities of the PRC, especially in Beijing and Shanghai. The competition from foreign retailers has posed great threat to the local retailers and consequently boosted the demand of facilities development and management advisory services for the local shopping malls. Furthermore, as a consequence of the increase in citizens' disposable income and consumption power in the PRC, the consumers are not just looking for stores with variety of quality merchandise, but also want to have enjoyable shopping experiences from the one-stop shopping malls, which provide convenience and comfortable environment for them to shop, relax and gather with families and friends. With the maturing of the retail market, it is expected that the demand for better managed retail space will further increase and there will be an increasing needs of development planning advisory services for shopping malls to address the demand from both tenants and end-users.

Advertising and promotion advisory services

The Group renders full advertising and promotion advisory services which include the provision of advices on marketing strategies, brand management, commercials production and graphic designs. Moreover, the Group organizes seasonal promotion activities to increase the customer traffic and stimulate consumer spending of the shopping malls. During the year, successful campaigns such as "夢想中國" co-organized with CCTV and The Beijing News, "校園神話青春之星" co-organized with Mengniu Dairy, "世界杯決戰在身邊" were launched with remarkable consumers' participations.

Operation of department store

The operation of Oriental Kenzo (Beijing) Department Store ceased during the year owing to the early termination of the tenancy agreement by the landlord. The Group was compensated by the landlord for early termination of the tenancy agreement.

In order to capture the benefits of robust growth in the PRC's retail industry and the business opportunities in association with the 2008 Olympic Games in Beijing, the Group has identified several potential locations for the set up of new department store so as to realize its advantages of having a full retail business licence which allows chain store operations throughout the PRC.

Management Discussion and Analysis

FINANCIAL REVIEW

Financial results

For the year ended 31 December 2006, the Group recorded a total revenue of approximately HK$552.2 million (2005: HK$865.6 million), representing a decrease of approximately 36.2% as compared with last year. The net loss for the year was approximately HK$95.4 million, representing an increase of approximately 24.5% as compared with the net loss of approximately HK$76.6 million in last year.

Continuing Operations

The revenue from continuing operations for the year amounted to approximately HK$125.8 million, which accounted for approximately 22.8% of the total revenue of the Group. The revenue from continuing operations for the year were mainly derived from the provision of development planning advisory services for shopping malls, the provision of advertising and promotion advisory services and the operation of department store in the PRC market. When compared with last year, the revenue from continuing operations for the year ended 31 December 2006 has increased by approximately 100%.

The net loss from continuing operations for the year, including the impairment loss in respect of goodwill arose from the acquisition of Oriental Kenzo of approximately HK$144.9 million, was approximately HK$116.2 million (2005:HK$3.4 million).

Discontinued Operation

The discontinued operation contributed a revenue of approximately HK$426.5 million (2005: HK$865.6 million) to the Group for the year ended 31 December 2006, representing a decrease of approximately 50.7% when compared with last year. On the other hand, the net loss from discontinued operation, excluding the gain on disposal of discontinued operations amounting to approximately HK$61.7 million, has decreased by more than 44.1% from approximately HK$73.2 million in 2005 to approximately HK$40.9 million in 2006.

Capital structure, liquidity and financial resources

As at 31 December 2006, the current assets and current liabilities of the Group were approximately HK$532.4 million (2005: HK$456.3 million) and HK$432.8 million (2005: HK$423.0 million) respectively. The liquidity ratio, which is calculated as current assets over current liabilities, was approximately 1.2 times, which showed an improvement when compared with that of 1.1 times at the previous year end. The Group's total assets and total liabilities amounted to approximately HK$612.1 million (2005: HK$931.5 million) and HK$432.8 million (2005: HK$690.7 million) respectively. The debt ratio, which is calculated based on total liabilities over total assets, was 0.7 as at 31 December 2006, which was at similar level of last year.

Management Discussion and Analysis

The cash and cash equivalents as at 31 December 2006 was approximately HK$1.7 million (2005: HK$106.6 million). The decrease was mainly attributable to the disposal of the cash rich retail business during the year.

The bank borrowings as at 31 December 2006 amounted to approximately HK$20.0 million (2005: HK$86.1 million), representing a decrease of approximately 76.8%. The reduction was solely due to the disposal of retail businesses in Hong Kong. All the outstanding borrowings are repayable within one year. As at 31 December 2006, the principal amount of outstanding convertible loan notes amounted to approximately HK$273.2 million (2005: HK$257.2 million). The Group's gearing ratio, calculated as total interest bearing borrowings over total shareholders' funds, was 163.5% as at 31 December 2006 as compared to 142.6% on 31 December 2005.

As at 31 December 2006, the authorized share capital of the Company was HK$60 million divided into 3,000,000,000 shares of HK$0.02 each and the issued share capital of the Company was approximately HK$21.9 million divided into 1,092,526,145 shares of HK$0.02 each.

On 9 February 2007, Fit Top Investments Limited ("Fit Top"), a substantial shareholder of the Company which is wholly-owned by a Director of the Company, entered into a placing agreement and a top-up subscription agreement with a placing agent and the Company respectively. Pursuant to the placing agreement, Fit Top placed through the placing agent an aggregate of 100 million existing shares in the Company to the placees, who and whose ultimate beneficial owner(s) are independent third parties of the Company and its connected persons, at a price of HK$0.28 per share. Pursuant to the top-up subscription agreement, Fit Top subscribed for an aggregate of 100 million shares in the Company at a price of HK$0.28 per share.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions are mainly denominated in Hong Kong dollar and Renminbi ("RMB"). Therefore, the Group is exposed to Renminbi exchange risk. The Group has not implemented any foreign currency hedging policy at the moment. However, continuous monitoring on the foreign exchange exposure is carried out by the management and the management will consider to hedge the foreign exchange exposure if it is significant to the Group.

CONTINGENT LIABILITIES AND CHARGES ON THE GROUP'S ASSETS

As at 31 December 2006, there were no material contingent liabilities or charges on the Group's assets.

Management Discussion and Analysis

EMPLOYEE INFORMATION

As at 31 December 2006, the Group had a total of 60 employees. The employees of the Group are remunerated in accordance with their working experience and performance, and their salaries and benefits are kept at market level. For the year ended 31 December 2006, the total staff costs of the Group was approximately HK$62.7 million (2005: HK$98.6 million), representing a decrease of approximately 36.4% over the previous year. The decrease in staff costs was mainly attributable to the disposal of retail businesses in Hong Kong.

Apart from the basic salaries and employer's contribution to Mandatory Provident Fund scheme, staff benefits also include discretionary performance-based bonus, medical schemes, share options and sales commission.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES

On 20 February 2006, the Group entered into an agreement to dispose of its entire equity interest in CASH Retail Management (HK) Limited, whose subsidiaries are engaged in retail business in Hong Kong with brand names of Pricerite, 3C Digital and LifeZtore, to a wholly-owned subsidiary of Celestial Asia Securities Holdings Limited, the Company's former holding company at a consideration of approximately HK$130.6 million. The disposal was completed on 30 June 2006.

Save for the aforementioned, no significant investments and material acquisitions or disposals of subsidiaries or affiliated companies which had material impact on the financial results of the Group were made during the year ended 31 December 2006.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 14 April 2007, two wholly-owned subsidiaries of the Company entered into two respective sale and purchase agreements with an independent third party to acquire the entire equity interest in each of Fortune International Business Limited and Sunny Sky Properties Limited and their respective shareholder's loans at a total consideration of HK$1.6 billion, which shall be satisfied by cash consideration of HK$1.456 billion and the issue of 400,000,000 new shares of the Company at an issue price of HK$0.36 each. This constituted a very substantial acquisition under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

Fortune International Business Limited and Sunny Sky Properties Limited are investment holding companies and their respective subsidiaries are principally engaged in property investment and development and real estate management. Major assets owned by the acquired groups of Fortune International Business Limited and Sunny Sky Properties Limited include two commercial and residential complexes, namely Oriental Kenzo Plaza (東方銀座廣場) and Shilibao (十里堡), in Beijing, the PRC. The proposed acquisition is subject to shareholders' approval at the forthcoming special general meeting and the fulfillment or waive of the conditions precedent.

Management Discussion and Analysis

PROSPECTS

The Directors consider that the strong growth and structural changes underway throughout the economy as well as the expectation of the further RMB appreciation will fuel investment interest for quality properties in the PRC and keep the medium-term to long-term prospects of the property market in the PRC remain positive. Therefore, for the year ahead, the Group will expand its business scope to property investment and real estate management while continuing its efforts on further developing retail business in the PRC. Given the promising market potential in the PRC property market, the Directors expect that the commercial and residential complexes to be acquired in Beijing will contribute steady rental income as well as upside potential gain for asset appreciation to the Group in the future.

The Board anticipates that the 2008 Olympics and the 2010 World Expo shall underpin the strong growth in the PRC retail market in the coming years. Therefore, the Group will take active pursuit in building its department store operations and related advisory services for retail business in the PRC. Meanwhile, the Group will also seek for new business opportunities that may increase the Group's profitability and shareholders' value.