

Management Discussion and Analysis

INDUSTRY AND ECONOMIC REVIEW

2006 saw the third consecutive year of robust economic expansion in Hong Kong with GDP growth reaching 6.8% in real terms. The seasonally adjusted unemployment rate edged down to 4.3% at the end of the year, the lowest level in over eight and a half years. This, in turn, drove private consumption expenditure to grow by 5.1%, a much faster rise than the 3.3% increase in 2005.

The Hong Kong stock market set a number of new records during 2006 and the wealth effect was prevalent. In terms of market capitalisation, it reached HK\$13,399 billion on 28 December. Total capital raised on new issues amounted to HK\$333 billion. The Industrial and Commercial Bank of China raised HK\$125 billion from the largest IPO ever in the world. The Hong Kong new issue market surpassed those of Toronto and New York and became the second largest fund raising centre in 2006. On the back of these market records, continued influx of liquidity, and strong investors' sentiment, average daily market turnover reached HK\$34 billion, an 85% increase compared to the same period last year. The Hang Seng index reached 19,964, a 34% increase from 2005.

The consumer market saw total retail sales increase by 7.3% in value over 2005, the third consecutive year of growth since the SARS epidemic. Polarisation of consumption became more apparent. Luxury goods such as motor vehicles, jewellery, and alcoholic drinks saw double-digit growth during 2006. However, the local property market was still pedestrian, with both primary and secondary market transactions dropping by double digits. Total sales of furniture and fixtures grew by 3.2%, while electrical goods and photographic equipment rose by just 1.2%.

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BUSINESS REVIEW AND OUTLOOK

Financial Services – CASH Financial Services Group

Throughout 2006, CFSG continued to emphasise, as a key component of our development strategy, the diversification of product offerings and revenue sources both with a view to better service our clients as well as to minimise the impact on business performance across market cycles. CFSG remained on course on the strategy as we continue our pursuit of establishing ourselves as the financial services house of the choice for our clients.

Securities Broking

The market share of CFSG by turnover improved handsomely during the year due partly to the general market strength, and partly to our previous efforts to improve CFSG's delivery channels and execution platforms. The enhanced sales platforms that were put in place to deliver better execution have allowed CFSG to successfully expand our clientele to include institutional clients. Over the year, the division grew its number of sales agents by an encouraging double-digit. Despite the strong pick-up in the market activity, intense competition in the local brokerage industry continued to drive down brokerage commission rates, squeezing CFSG's operating profit margins. This trend will likely to sustain as an increasing number of banks are entering the securities broking business. Part of CFSG's new strategic direction is to focus on the high turnover business as a way to compensate for the impact of reduced commission on the industry.

Asset Management

The asset management business, launched two years ago to capture opportunities inherent in the high-net-worth market and to complement CFSG's strategy of providing a full suite of services to our clients, has proven to be an effective strategy. A portion of the assets under management provides CFSG with a growing opportunity to increase our base income with considerable incentive revenues earned when we achieve higher returns for our clients. The business experienced healthy and steady growth in assets over the year.

Wealth Management

Despite a fast growing financial planning industry, CFSG's wealth management division, while encountering fierce competition, experienced a slowdown in growth rate during 2006. To solidify and expand its market share in the increasingly competitive environment, the division will review its remuneration packages to attract industry professions and to strengthen cross-selling synergy with the house-served brokerage clients.

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Investment Banking Group

At the beginning of the year, CFSG successfully sponsored the listing of Lingbao Gold, a high profile H-share, on the Hong Kong stock exchange. The listing drew good publicity and attention from the financial services industry. It also enhanced CFSG's credentials among potential listing candidates. During the year, the investment banking division continued to focus its efforts on emerging Chinese private and state-owned enterprises, which were listing candidates. The division was very active in broadening and deepening client relationships with these medium-sized companies and has received positive feedback. They are working on finalising a number of transactions initiated earlier and continuing to lay ground for the growing deal pipeline in the coming year.

Information Technology

As a technology leader and a client-focused service provider, CFSG constantly reviews and upgrades its system to ensure compatibility and its ease of use. After the implementation of a series of system enhancements for the online trading system in 2005, CFSG launched an advanced clients trading platform with multiple trading functionalities and features to enhance their trading experience past year. The new platform can be custom-made to fit the needs of institutional clients. In addition, it has enabled CFSG to stretch our reach geographically. This new platform will not only enable CFSG to better serve our existing self-served, technology-savvy clients, but also place CFSG in an advantageous position to compete in the premium mass-market segment.

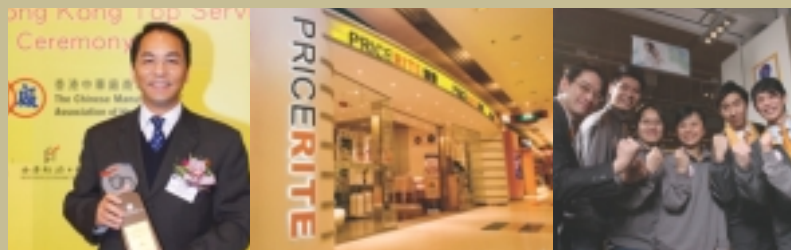
Major Shareholders

The second largest shareholder of CFSG is one of Saudi Arabian's top ten investment groups, the ARTAR Group. CFSG also has an Austrian company, AvW Invest AG, listed in Vienna, as a strategic investor. The alliance with these two partners has broadened the shareholding base of CFSG from Asia to Middle East and Europe, raising our international recognition. More importantly, the alliance will assist CFSG in making inroads into the Middle East and European market to explore cross-selling and development opportunities.

Looking ahead into 2007, our strategy is to stay focused and our objective is to enhance profitability and increase market share through organic growth completed with acquisitions. We will, nevertheless, continue to grow CFSG's core business by enhancing online trading platform capability, strengthening cross-selling synergies within the Group, and expanding product offerings. With our commitment to excellence, dedication to servicing clients, and determination to create customer and shareholder value, we are confident that we will become the financial services house of choice for our clients through value-added services and enhanced client experience.



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Mass Retail – Pricerite

Pricerite had a rewarding year in 2006. Re-engineering successfully turned the company around and also resulted in numerous awards over the year.

Service awards included a Certificate of Merit in the Hong Kong Awards for Industries Customer Service category, organised by the Hong Kong Retail Management Association, and the Customer Relationship Excellence Awards in the annual regional awards event organised by the Asia Pacific Customer Service Consortium. Pricerite's staff members continued to excel in the Hong Kong Management Association's Distinguished Salesperson Awards in 2006, the third consecutive year that Pricerite staff gained such recognition.

Pricerite also obtained Top Service Brand accreditation from the Hong Kong Brand Development Council and the Chinese Manufacturers' Association of Hong Kong, a Best Potential Brand Enterprise Award from the Hong Kong Productivity Council, a Hong Kong and Macau Merchants of Integrity Award from the Guangzhou Daily, and Superbrands accreditation from the Superbrands organisation.

In addition to our relentless effort to enhance our service standard, we also upgraded Pricerite's supply chain platform to include a sourcing centre in the Yangtze River Delta in addition to the existing one in the Pearl River Delta. The new sourcing centre will allow the company to expand its sourcing reach, increase sourcing flexibility and boost control on quality and costs. Pricerite also strengthened product development to further expand the company's private-label products. We believe that these measures will help to increase our gross margin, deliver products with higher value and quality, and enhance flexibility in order to better meet customers' expectations.

In the coming year, Pricerite is looking at growth and expansion, both in terms of market share and profit margin. We will further consolidate our “neat and clean” position by growing the relevant product range, continuously enhancing our operating platform to accommodate more marketing initiatives in order to better serve customers' needs, and strengthening our presence in new residential districts by redesigning our store network. In this regard, rocketing rentals remain our prime concern and the major constraint on network development.



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Lifestyle – LZ LifeZtore and 3C Digital

Our lifestyle businesses LZ LifeZtore and 3C Digital progressed well and achieved business targets.

The solid growth of LZ LifeZtore during 2006 was built on (1) our commitment to customer service, and (2) our distinctive brand, which provides customers with a unique shopping experience through a “FUNctional” approach and inspirational “ORlwest” design ideas. During its first year of operation, LZ LifeZtore gained industry recognition by winning several prominent awards, including 2006 Service and Courtesy Awards (across all levels in the furniture category) from the Hong Kong Retail Management Association, the Distinguished Salesperson Awards from the Hong Kong Management Association, and Superbrands accreditation from the Superbrands organisation.

With the middle class growing in number and wealth in both Hong Kong and the Mainland, we are confident that business is promising in the region. Our first LZ LifeZtore shop in China opened at the end of 2006 in Shanghai to capitalise on the booming lifestyle market in the Mainland, followed by the opening of the second flagship store in early 2007 in another high-customer traffic district of Shanghai. We are expecting to open more shops in Shanghai and other affluent cities to cater for the rising middle class in the Mainland.

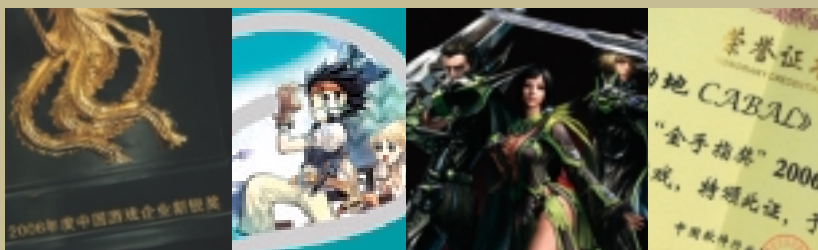
During 2006, 3C Digital successfully established a strong brand image in the trendy digital product sector with its younger generation target customers through a series of high-profile co-marketing campaigns, including World Cup television sponsorship. 3C Digital is known for its innovative and personalised services and it was the first digital specialist in Hong Kong to obtain Hong Kong Q-Mark Service Scheme certification. 3C Digital opened its first island store in Causeway Bay to capture the trendy youth and thriving tourist markets. We will continue to broaden 3C Digital's customer base through offering more innovative and personalised services.

CABAL

ONLINE
THE NEVARETH CHRONICLE



Management Discussion and Analysis



Entertainment Portal – Moli Group

Moli Group, our online game business, achieved strategic targets as set by the board of directors. During 2006, our award-winning, in-house developed massively multiplayer online role-playing game (MMORPG) King of Pirate (KOP) was successfully launched in Taiwan, Hong Kong, Singapore and Malaysia in three different language types. Given the positive market reception in these markets, distributors from other markets have been in contact to discuss licensing KOP in their respective countries. Moli expects that KOP will have a positive reception in more overseas markets in 2007.

Moli also launched a self-developed casual game Dragon Tiger Gate (DTG). DTG characters and settings are based on the popular comic and motion picture of the same name. DTG was the result of Moli's effort to integrate content from different media into online games.

In 2006 Moli secured exclusive distribution of the Korean-produced game CABAL Online, covering the Mainland, Taiwan and Hong Kong. CABAL was launched in Taiwan in the fourth quarter and rapidly topped the chart of the most popular MMORPG titles. The open beta version of CABAL launched in the Mainland in December received an enthusiastic reception from the market.

Over the year, Moli has developed into a fully-fledged provider of online entertainment content with research and development capabilities, proper management structure, a national distribution and promotion network, comprehensive payment channels, and international distribution power.

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Corporate Citizenship

In addition to enhancing shareholder value and providing quality products and services to our customers, the CASH Group dedicates significant resources to fulfilling our social responsibilities as a good corporate citizen.

The CASH Group makes both human and financial resources available for charitable activities in the wider community.

Locally, our endeavours in 2006 culminated in “Building • Power”, a community project involving Pricerite, 3C Digital, Hong Kong Christian Service and The Hong Kong Institute of Architects. The project set out to improve the living conditions of needy families by carrying out interior renovations and replacing or providing furniture and electrical appliances where appropriate. In addition to cash and furniture sponsorships, we arranged for employee volunteers to assist with deliveries and renovations. This innovative and meaningful project resulted in an Outstanding Partnership Project Award from the Hong Kong Council of Social Service. In 2006, all CASH companies also obtained the Caring Company Logo, with Pricerite accredited for the second time.

Further afield, we carried on with our assistance to UNICEF to support relief work in the wake of the 2004 Indian Ocean tsunami.

The CASH Group has always been a firm believer in education. During the year, we continued to provide scholarships to both local and Mainland students at leading universities in Hong Kong and the PRC, such as the CASH Group Scholarship for the New Asia College, the Chinese University of Hong Kong, and the CASH Education Fund for the Open University of Hong Kong. In addition, we initiated a Storybook Recycling Scheme enabling employees to donate books in good condition to charities and families in need.

The Group is highly aware of the threat posed by pollution and further deterioration of the environment, and we are committed to assisting in environmental protection by raising the awareness of our stakeholders, including employees and customers. During the year, we continued to participate in the World Environment programme, organised by the Environmental Protection Department, and the Green Student Council's “No Plastic Bag Day” programme. We also maintained our collection of recyclable toner cartridges, ink-jet bottles and paper, which were then sent to recycling agents for further processing.