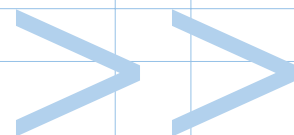


Management Discussion and Analysis



Financial Performance

For the year ended 31 December 2004, Sun Man Tai Holdings Company Limited (the "Company") together with its subsidiaries (the "Group") recorded a turnover of approximately HK\$6,087,000 (2003: HK\$8,662,000), representing a decrease of 29.7% as compared with previous year. Such decrease was mainly due to the Group disposed of an investment properties in Hong Kong which leads to a reduction of approximately 10.9% in rental income as compared with last corresponding financial year of 2003. In addition, interest income derived from funds placing with banks and funds lending also decreased by approximately 52.4% as compared with previous financial year.

Net loss from ordinary activities attributable to shareholders was approximately HK\$284,269,000 (2003: HK\$14,235,000). The loss widened in the current year was mainly due to the impairment loss provided for other investments of approximately HK\$253,466,000 and loss on revaluation of investment properties of approximately HK\$17,800,000. In addition, the Group had disposed of a property in Hong Kong which brought a loss on disposal of approximately HK\$1,845,000 to the Group.

Business Review

The principal activities of the Group are property investments and securities trading. An analysis of the business operation is set out as follows:

Securities Trading

For the year under review, the Group did not resume the securities trading operation as most of the resource has been allocated to its property development project in Xian, the PRC. In addition, the recovery of the Hong Kong securities market is still unclear after the outbreak of Severe Acute Respiratory Syndrome ("SARS") in 2003, the management of the Company considered that the Hong Kong securities market is still high risk and decided not to resume the operation in current year. As a result, there was no turnover or profit derived from the securities trading operation during the year. The management of the Company will closely monitor the market situation in Hong Kong and capture the investment opportunity should it arise.

Property Investments

Hong Kong

For the year ended 31 December 2004, all of the Group's investment properties were located in Hong Kong. During the year under review, the Group's rental income generated from leasing of properties was approximately HK\$4,215,000 (2003: HK\$4,730,000), representing a decrease of 10.9% when compared to the previous year. The decrease in rental income is mainly due to the Group disposed of an investment property during the year which lowered the rental income received as compared with the last corresponding financial year. For the year ended 31 December 2004, the average occupancy rate of the Group's investment properties was approximately 50%. In view of the low occupancy rate and decrease in rental income received, the management of the Company has reviewed the portfolio of the Group's investment properties during the year and noted that most of the tenancy agreements were renewed in the years of 2002 and 2003 which were immediately after the outbreak of SARS, the rental income generated from the investment properties were below the current market rate and

Management Discussion and Analysis

unable to match with the increase in interest rate during the current year. In view of the significant improvement in the Hong Kong property market after the SARS in 2003, the management of the Company has decided to increase the rental income once the current tenancy agreement has been expiry to match with the current property market. Beside the above action will be taken to restructure of the Group's properties investment operation in Hong Kong, the management of the Company also decided to dispose one of the investment properties during the year. The disposed investment property was a heavy interest bearing property recorded the lowest occupancy rate of the Group.

Shanghai, the PRC

During the year under review, the Group has an investment deposit of HK\$58,720,000 in a commercial building construction project in Shanghai, the PRC. Under the terms of the investment agreement, upon completion of the project, the developer would transfer the legal titles of certain numbers of units of the commercial building to the Group and allow the Group to acquire other units at a discount of the market price. The commercial building construction project had been completed in late 2005 and certain numbers of units of the commercial building have been pending to transfer the legal titles to the Group. However, in order to avoid the complex documentation and time consuming for transferring the legal titles, the Group sold the right for those units of the commercial building to independent parties in the first quarter of 2006 of approximately HK\$65 million and recorded a gain of approximately 10% as compared to the cost of investment. The sales proceed of the investment properties of approximately HK\$65 million had been fully received in the first quarter of 2006. Apart from the said commercial building construction project, the Group does not have any project on going in Shanghai.

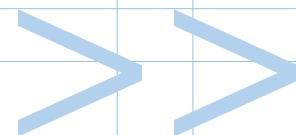
Xian, the PRC

As at 31 December 2004, the Group had two property development projects of high-class villa-type residential district in Xian. The first property development project was worked in a joint venture with a reputable and independent local property developer in Xian. The total investment costs of the project were approximately HK\$47 million. The profit sharing ratio between the Group and the joint venture partner was on a 30:70 basis. With the cooperation of the joint venture partners, the construction progress had been accelerated after the SARS and caught up the construction schedule. In 2005, the property development project has been completed. Subsequent to the completion, the Group's interest in the construction development project has been sold at cost in 2006 and the Group received approximately HK\$47 million for the return of such construction development project.

The second project was commenced in 2002 and ranked as the second key project of Xian by the local government. As at 31 December 2004, the costs of property development project were approximately HK\$159 million. The property development project is a high-class villa-type residential construction project in Xian. The construction progress of the projects was also hit by the outbreak of SARS in 2003, as a result, the construction work were fallen behind the schedule. Nevertheless, with the full cooperation from the local government, the construction progress has been going smoothly and expected to complete in 2007.

Other Investments

In 2002 and 2003, the Group made investment of approximately HK\$308 million in four companies in view of capturing the rapid economic growth in Shanghai and seeking return from those investee



companies. Unfortunately, the recoverability of those investments were in doubt as the Group was unable to contact with those investee companies and no return from those investee companies has been obtained. In view of the recoverability of those investee companies, the Group disposed of two of the investee companies to an independent third party of approximately HK\$55 million in 2006 and recorded a loss of approximately HK\$68 million. For prudence purpose, the Group further made full provision on the cost of the remaining two investee companies. As a result, a total of approximately HK\$253 million provision on the four investee companies have been made during the year.

During the year under review, the Group made an investment of approximately HK\$32 million to a pharmaceutical manufacturing company in the PRC. In order to ensure the profitability of the investment in the investee company, the management of the Company has carefully reviewed the operation and the future prospects of the investee company and obtained an independent business valuation report to ensure the fair value of the investee company. The result of the review is promising and the Group is expected positive return of this investee company in the future.

Prospects

Subsequent to the SARS sage in 2003 and the prolonged constraint brought about by the Macro Economic Controls adopted by the Government of the PRC, the Group must expand its business scope and geographical coverage to better equip itself for future events. It is expected that the PRC will continue to implement the Marco Economic Controls especially in real estates sector for the coming years. The Group intends to look for low risks investment and acquisition opportunities to diversify the Group's operations. In 2005, the Group successfully bade the tender of two building management contracts in Shanghai which generated new sources of income for the Group.

The board of directors (the "Directors" or the "Board") are of the view that the PRC is poised to become a strong country in the world, and its economy is expected to continue its robust growth momentum. The average annual Gross Domestic Product of the PRC is generally expected to grow continuously. The Group will closely monitor the projects on hand and carefully capture the economic boom of the PRC and to accelerate the profit generating power of the Group. The Board is confident that the Group will enter into the period of harvest in the forthcoming years.

Dividends

The Directors has resolved not to recommend any final dividend for the year ended 31 December 2004 (2003: Nil).

Liquidity and Financial Resources

The Group generally finances its operation with internally generated cash flow. During the year under review, the Group recorded a net cash outflow of approximately HK\$29,684,000 (2003: HK\$1,041,000). In the opinion of the Board, the cash outflow for the year did not have material effect on the Group's liquidity position.

The Group expressed its gearing ratio as a percentage of bank borrowing over total shareholders' equity. As at 31 December 2004, the gearing ratio was 0.12 (2003: 0.08).

Management Discussion and Analysis

The Group is of good liquidity and sufficient solvent ability. Current ratio decreased from 6.55 in 2003 to 2.06 for the year ended 31 December 2004. Despite the decrease of current ratio, the Directors are of the opinion that the Group maintains strong liquidity position and is able to meet its liabilities when they fall due.

The debt to equity ratio was 0.17 while it was 0.10 in 2003. The ratio was calculated by dividing the total liabilities of approximately HK\$68,633,000 (2003: HK\$71,959,000) by the total shareholders' equity of approximately HK\$399,937,000 (2003: HK\$684,199,000).

The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

Capital Structure, Funding and Treasury Policies

As at 31 December 2004, shareholders' funds of the Group amounted to approximately HK\$399,937,000 (2003: HK\$684,199,000). Current assets amounted to approximately HK\$113,046,000 (2003: HK\$200,967,000), of which approximately HK\$4,595,000 was cash and bank balances. Current liabilities of approximately HK\$54,817,000 (2003: HK\$30,704,000) mainly comprised of bank borrowings, amount due to ultimate holding company and other payables.

During the year ended 31 December 2004, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. The Directors do not consider that the Group is significantly exposed to any foreign currency exchange risk. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. For the year ended 31 December 2004, the Group did not employ any financial instruments for hedging purposes and did not engage in foreign currency speculative activities.

Borrowings and Banking Facilities

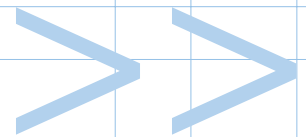
The total bank borrowing of the Group as at 31 December 2004 was approximately HK\$49,738,000 (2003: HK\$55,161,000) which was denominated in Hong Kong dollars. The bank borrowing mainly consisted of mortgage loan granted for the purpose of facilitating the investment projects of the Group. The mortgage loan is not at fixed interest rates and is secured by the investment properties of the Group.

Contingent Liabilities and Capital Commitments

As at 31 December 2004, the Group had no material contingent liabilities (2003: Nil) and capital commitments. (2003: HK\$24,950,000).

Pledge and Charges of Group Assets

As at 31 December 2004, properties with net book value of approximately HK\$80,000,000 (2003: HK\$102,620,000) had been pledged to secure the mortgage loan of the Group.



Material Acquisitions/Disposal of Subsidiaries and Associated Companies

The Group had no material acquisitions/disposal of subsidiaries and associated corporation during the year under review.

Human Resources

As at 31 December 2004, the Group employed 54 full time employees (2003: 85 employees) in Hong Kong and the PRC. Employee remuneration packages are structured and reviewed by reference to the nature of the jobs, market condition and individual merits. The Group also provides other employee benefits which include year end double pay, mandatory provident fund and medical insurance. Total staff costs for the year ended 31 December 2004 were approximately HK\$3,648,000 (2003: HK\$7,223,000).

Events after the Balance Sheet Date

Details of event after the balance sheet date are set out in note 37 to the financial statements.