

Management Discussion and Analysis

FINANCIAL PERFORMANCE

For the year ended 31 December 2005, the Group recorded a turnover of approximately HK\$9,722,000 (2004: HK\$6,087,000), representing an increase of 59.7% as compared with last year. The increase is mainly due to the Group commenced its property management operation in the People's Republic of China (the "PRC") during the year. The turnover derived from the property management operation amounted to approximately HK\$6,399,000 (2004: Nil). Apart from this, the Group recorded a decrease in rental income. The decrease in rental income is mainly due to the disposal of an investment property in Hong Kong by the Group which results in a reduction of approximately 67.4% in rental income as compared with last year. Net loss from ordinary activities attributable to equity holders of the Company was approximately HK\$4,692,000 (2004: HK\$284,269,000).

BUSINESS REVIEW

The principal activities of the Group are property investment, development and management. An analysis of the business operation is set out as follows:

Property Investment

Hong Kong

During the year under review, all of the Group's investment properties were located in Hong Kong. During the year, the Group's rental income generated from leasing of properties was approximately HK\$1,375,000 (2004: HK\$4,215,000), representing a decrease of 67.4% when compared with last year. The average occupancy rate of the Group's investment properties was similar to the year ended 31 December 2004, which was approximately 50%. The decrease in rental income is mainly due to the disposal of an investment property by the Group in January 2005, details of which were disclosed in the Circular issued by the Company on 20 April 2006.

Shanghai, the PRC

As at 31 December 2005, 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 number 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 but certain numbers of units of the commercial building have been pending for transferring the legal titles to the Group. In order to avoid the complex documentation and time consuming for transferring the legal title, the Group sold the right for those units of commercial building to the independent parties in the first quarter of 2006 at approximately HK\$65,000,000 and recorded a gain of approximately 10% as compared to the cost of investment. The sales proceed of the investment properties of approximately HK\$65,000,000 had been fully received in the first quarter of 2006.

Xian, the PRC

As at 31 December 2005, 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\$46,768,000. The profit sharing ratio between the Group and the joint venture partner was on a 30:70 basis. The property development project was completed in 2005 and sold in early 2006. The Group received approximately HK\$46,768,000 from the sale 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 2005, the costs of this property development project were approximately HK\$161,000,000. The property development project is a high-class villa-type residential construction project in Xian and is expected to be completed in 2007.

Property Management

During the year ended 31 December 2005, the Group successfully bade the tender of two building management contracts in Shanghai which expand the revenue source of the Group. For the year ended 31 December 2005, turnover generated from the property management operation was approximately HK\$6,399,000 (2004: Nil).

Management Discussion and Analysis *(Continued)*

BUSINESS REVIEW *(Continued)*

Available-for-sale Financial Assets

During the previous financial year, the Group made an investment of approximately HK\$32,000,000 to a pharmaceutical manufacturing company in the PRC. The Group is confident and expecting a future return from this investee company.

PROSPECTS

The Group has acquired a resort project in Minhang District of Shanghai, PRC in 2006. Subject to the completion of the acquisition, the resort is expected to commence business by early 2007. The Board has confidence on the development of resort business in Shanghai and expects that the resort project will generate another source of income for the Group.

The Group will continue to look for investment opportunities which would maximize returns to our shareholders.

DIVIDENDS

The Board has resolved not to recommend any final dividend for the year ended 31 December 2005 (2004: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation with internally generated cash flow and remaining portion of the net proceeds from funds raising activities. During the year under review, the Group recorded a net cash inflow of approximately HK\$9,537,000 (2004: net cash outflow of HK\$29,684,000).

The Group expressed its gearing ratio as a percentage of bank borrowing over total shareholders' equity. As at 31 December 2005, the gearing ratio was 0.04 (2004: 0.12).

The Group is of good liquidity and sufficient solvent ability. Current ratio increase from 2.06 in 2004 to 8.2 for the year ended 31 December 2005.

The debt to equity ratio was 0.1 while it was 0.17 in 2004. The ratio was calculated by dividing the total liabilities of approximately HK\$40,763,000 (2004: HK\$68,633,000) by the total shareholders' equity of approximately HK\$394,915,000 (2004: HK\$399,937,000).

The Board believes 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 2005, shareholders' funds of the Group amounted to approximately HK\$394,915,000 (2004: HK\$399,937,000). Current assets amounted to approximately HK\$213,704,000 (2004: HK\$113,046,000), of which approximately HK\$6,664,000 (2004: HK\$4,595,000) was cash and bank balances. Current liabilities of approximately HK\$26,056,000 (2004: HK\$54,817,000) mainly comprised of tax payable, amount due to ultimate holding company and other payables.

During the year ended 31 December 2005, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. The Board does 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 2005, the Group did not employ any financial instruments for hedging purposes and did not engage in foreign currency speculative activities.

Management Discussion and Analysis *(Continued)*

BORROWINGS AND BANKING FACILITIES

The total bank borrowing of the Group as at 31 December 2005 was approximately HK\$15,442,000 (2004: HK\$49,738,000) 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 decrease in bank borrowing of approximately 69% is mainly due to the disposal of an investment property of the Group during the year. 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 2005, the Group had no material contingent liabilities (2004: Nil) and capital commitments (2004: Nil).

PLEDGE AND CHARGES OF GROUP ASSETS

As at 31 December 2005, properties with net book value of approximately HK\$47,700,000 (2004: HK\$80,000,000) 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 companies during the year under review.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2005, the Group employed 58 full time employees (2004: 54 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 2005 were approximately HK\$3,198,000 (2004: HK\$3,648,000).

EVENTS AFTER THE BALANCE SHEET DATE

- (a) On 27 February 2006, Great Luck Property Limited and Silver Place Limited, being wholly owned subsidiaries of the Company, entered into a sale and purchase agreement with an independent third party to dispose of part of their available-for-sale financial assets of the Group at a total consideration of RMB57,200,000 (approximately HK\$55,000,000). As at 31 December 2005, the carrying value of the respective available-for-sale financial assets was approximately HK\$55,000,000.
- (b) On 15 February 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of their investment deposits in relation to the right of purchasing certain units of a commercial building (the "Investment Deposits") at a total consideration of approximately HK\$65,000,000. As at 31 December 2005, the carrying value of the Investment Deposits was approximately HK\$58,720,000.
- (c) On 22 March 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of the interest in joint venture at a total consideration of approximately HK\$46,768,000. As at 31 December 2005, the carrying value of the interest in joint venture was approximately HK\$46,768,000.
- (d) On 26 June 2006, Sun Man Tai International Architectural Decoration Design Co., Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party to acquire the entire equity interest of Shanghai Minhang Weixing Horticultural Land (the "Acquisition") at a consideration of RMB85,984,000 (equivalent to approximately HK\$83,480,000). The consideration of the Acquisition was financed by the internal resources of the Group.